# SOLANO COMMUNITY COLLEGE DISTRICT

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## ANNUAL FINANCIAL REPORT

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**JUNE 30, 2013**

# SOLANO COMMUNITY COLLEGE DISTRICT

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# JUNE 30, 2013

# *FINANCIAL SECTION*

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants



# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Solano Community College District
Fairfield, California

We have audited the accompanying financial statements of the business-type activities of Solano Community College District (the District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statement statements, as listed in the Table of Contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2013 and 2012, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Changes in Accounting Principles

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 62 for the year ended June 30, 2013. These changes require a restatement of the beginning net position of the District as discussed in Note 16. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 31, 2013

## *USING THIS ANNUAL REPORT*

The purpose of this annual report is to provide readers with information about the activities, programs, and financial condition of Solano Community College District (the District) as of June 30, 2013. The report consists of three basic financial statements: the Statement of Financial Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

Solano Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities.* These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes.

***FINANCIAL HIGHLIGHTS***

California's budget, predicated on the passage of a tax initiative, Proposition 30, was politically uncertain and costly, making college budget planning rather difficult as the institution was potentially faced with an estimated workload reduction of 7.3% should the tax measure fail. As such the Fiscal Year 2012-13 budget was adopted with an approximate $410,000 deficit as a result of the estimated $2.8 million apportionment revenue loss, a revenue loss tied to Proposition 30 failing that would translate into a workload reduction for the college of about 618 FTES. Additionally, redevelopment agency wind down and related revenue shortfalls and uncertainty about backfill no funding for growth nor cost of living adjustments, and increased enrollment fees from $36 to $46 per unit represented the most significant elements for the college in the State budget for 2012-13. To address such budget challenges, Solano College offered no summer sessions, suspended football and water polo, and terminated the contract with the Solano College Theater Association for the academic year, amounting to $1.85 million in estimated expenditure savings. Additionally, the institution changed its health care from being self-insured to the CalPERS system, which resulted in an estimated $1.3 million savings in healthcare costs. To defray some healthcare costs absorbed by its employees due to the changeover, the college provided the following salary increases: 1% to the Solano College Faculty Association, 1.75% to Operating Engineers Local 39, and 1% to the Administrative Leadership Group, for a total of $238,000. Other expenditure savings initiatives included reduced spending on supplies and other operating expenditures as well as postponing hiring of numerous vacancies.

With the passage of Proposition 30 in November 2012, the State Budget now reinvests in, rather than cuts education funding. The tax measure, while temporary, provides sales tax increases through 2016 and extends income tax increases through 2018, amounting to an estimated additional $20 billion to the Proposition 98 minimum funding guarantee. As a result, the District ended the year achieving an estimated $3.0 million surplus, ending the year with an approximate $5.7 million of designated reserve, or the equivalent of 12.9% of the General Fund Unrestricted expenditures.

The college still had restricted cash with the disbursing agent from its $12.3 million solar financing arrangement, not yet fully paid out to its solar vendor for the approximate 2.5 MW install on the three campuses which resulted in a positive cash balance at year end. The State apportionment deferrals at June 30 were approximately $2.5 million lower than the prior year, lowering overall receivables As management of the Bookstore was assumed by Barnes & Noble in December 2011, no inventories remained on hand at year ends 2011/12 nor 2012/13. Prepaid expenses at June, 2013 consist of a billing in June 2013 of $316,000 for worker's compensation for coverage beginning July 1 and prepaid rent of $137,000 for temporary administrative offices. Accounts payable rose significantly because of increased construction activity. The increase in net capital assets is due principally to Measure G bond construction and solar panel installations at all three campuses.

***ATTENDANCE HIGHLIGHTS***

Solano Community College District, in response to continued state budget reductions, chose as one of the expenditure cutback strategies to eliminate summer course offerings in 2012. As a result the District, reporting enrollments for only fall and spring semesters, showed a decline of about 1,500 resident full-time equivalent students (FTES) from prior year FY 2011-12, actually serving near 7,000 FTES.

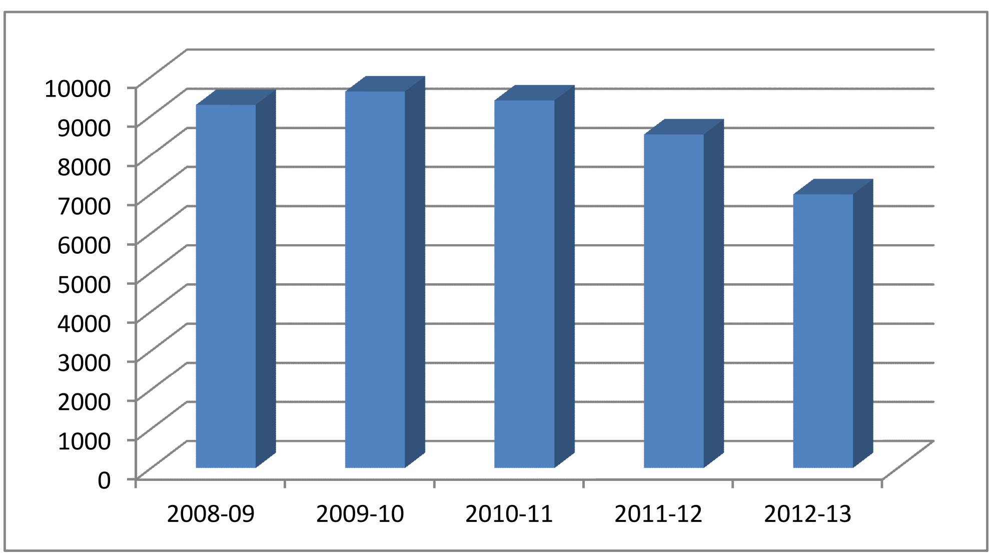
To optimize funding for FY 2012-13 and FY 2013-14, the District, after careful analysis, chose to report the FTES decline on the Final CCFS 320 enrollment report to the Chancellor's Office in FY 2012-13, placing Solano College into stability funding for that fiscal year which held the institution harmless from an apportionment funding loss in the year of decline.

With the State's funding picture improving, the District restored summer 2013 class offerings and established FTES targets for FY 2013-14 to return back to the 8,500 FTES funding base which the District believes are attainable.

Additionally, the FTES decline also lowered the college's fulltime faculty obligation number from 154.6 in fall 2012 to 121.6 for fall 2013 which helped the overall expenditure picture.

The chart below shows actual FTES served.

Annual FTES
Credit/Non-Credit Resident Students
(Reported for State Funding)



## *THE DISTRICT AS A WHOLE*

### Net Position

**Table 1**

| ASSETS | 2013 | 2012 | Change | 2011 | Change |
|---|---|---|---|---|---|
| Current Assets | | | | | |
| Cash and investments | $ 6,393,037 | $ 724,744 | $ 5,668,293 | $ 3,962,112 | $ (3,237,368) |
| Restricted cash and cash equivalents | 151,344,808 | 28,292,243 | 123,052,565 | 28,448,858 | (156,615) |
| Accounts receivable (net) | 12,063,938 | 15,531,337 | (3,467,399) | 12,753,660 | 2,777,677 |
| Store inventory | - | - | - | 1,456,169 | (1,456,169) |
| Prepaid expenses and other current assets | 503,010 | 183,945 | 319,065 | 32,841 | 151,104 |
| Total Current Assets | 170,304,793 | 44,732,269 | 125,572,524 | 46,653,640 | (1,921,371) |
| **Noncurrent Assets:** | | | | | |
| Capital assets (net) | 163,095,828 | 125,619,915 | 37,475,913 | 125,633,033 | (13,118) |
| Total Noncurrent Assets | 163,095,828 | 125,619,915 | 37,475,913 | 125,633,033 | (13,118) |
| Total Assets | $ 333,400,621 | $ 170,352,184 | $ 163,048,437 | $ 172,286,673 | $ (1,934,489) |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued liabilities | $ 10,216,633 | $ 7,298,612 | $ 2,918,021 | $ 4,221,954 | $ 3,076,658 |
| Deferred revenue | 3,951,984 | 3,597,514 | 354,470 | 4,033,641 | (436,127) |
| Deferred bond premium | 501,206 | 479,081 | 22,125 | 479,081 | - |
| Long-term liabilities due within one year | 5,509,265 | 4,787,126 | 722,139 | 4,433,803 | 353,323 |
| Total Current Liabilities | 20,179,088 | 16,162,333 | 4,016,755 | 13,168,479 | 2,993,854 |
| Long-term Debt | 253,755,090 | 124,422,068 | 129,333,022 | 127,683,699 | (3,261,631) |
| Total Liabilities | 273,934,178 | 140,584,401 | 133,349,777 | 140,852,178 | (267,777) |
| NET POSITION | | | | | |
| Net investment in capital assets | 56,907,444 | 26,452,053 | 30,455,391 | 24,336,933 | 2,115,120 |
| Restricted | 8,642,265 | 8,697,662 | (55,397) | 7,931,982 | 765,680 |
| Unrestricted | (6,083,266) | (5,381,932) | (701,334) | (834,420) | (4,547,512) |
| Total Net Position | 59,466,443 | 29,767,783 | 29,698,660 | 31,434,495 | (1,666,712) |
| Total Liabilities and Net Position | $ 333,400,621 | $ 170,352,184 | $ 163,048,437 | $ 172,286,673 | $ (1,934,489) |

The District's primary assets include receivables, restricted cash from bond proceeds and capital assets. Primary liabilities include long-term debt and investments in capital assets.

Cash increased by approximately $129 million due principally to the June sale of the first tranche of Measure Q Bond of $120 million. Restricted cash includes amounts restricted for debt service.

Receivables include approximately $7.6 million in State aid apportionment, along with student accounts receivable and grants from the State and Federal government

Long-term debt includes general obligation bonds outstanding, revenue bonds, leases payable, employee compensated absences, and retirement obligations.

## Operating Results for the Year

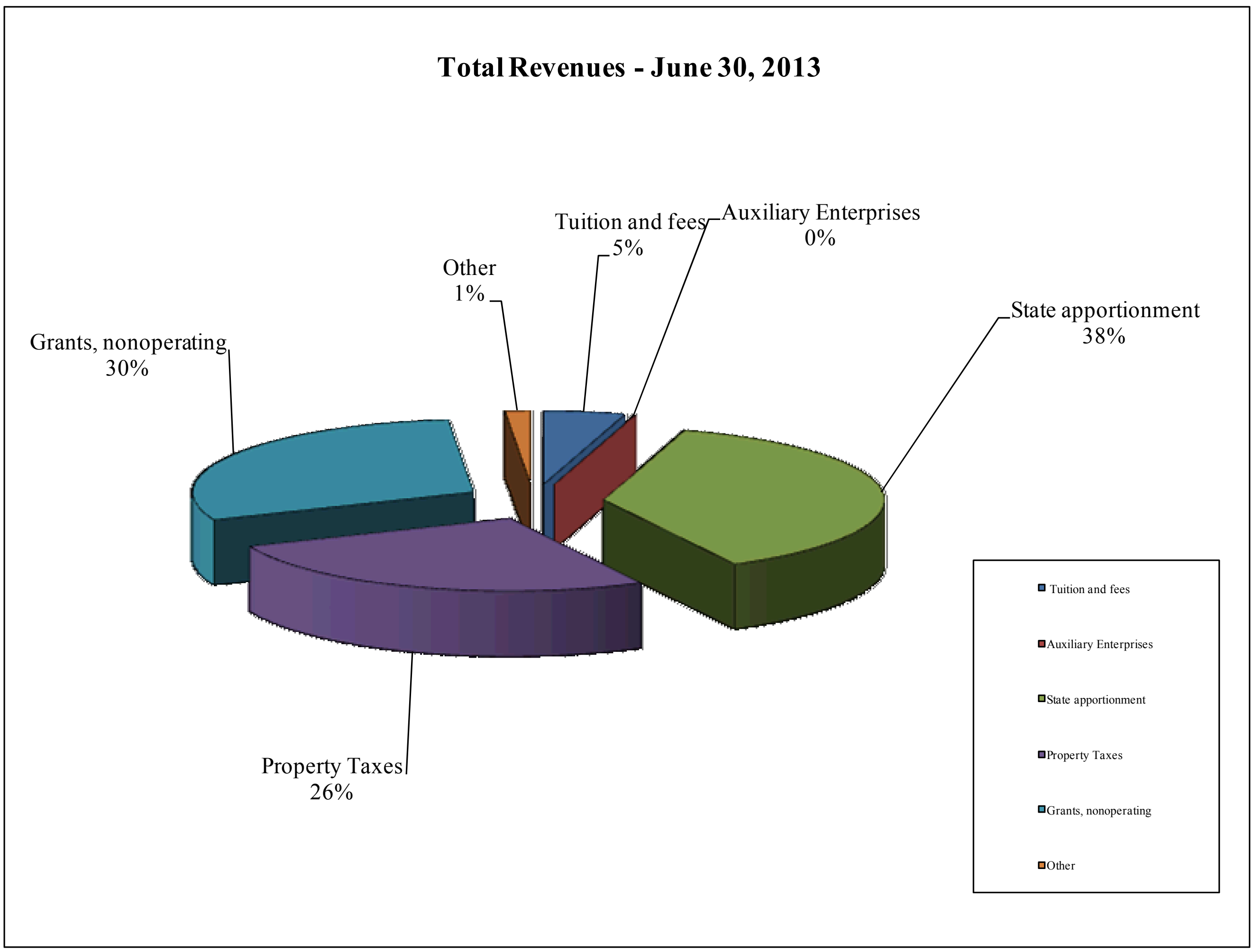
The results of this year's operations for the District as a whole are reported in the *Statement of Revenues, Expenses, and Changes in Net Position* on page 18.

**Table 2**

| **Operating Revenues** | 2013 | 2012 | Change | 2011 | Change |
|---|---|---|---|---|---|
| Tuition and fees | $ 3,478,760 | $ 3,906,774 | $ (428,014) | $ 4,389,782 | $ (483,008) |
| Auxiliary sales and charges | - | 1,322,839 | (1,322,839) | 3,687,735 | (2,364,896) |
| **Total Operating Revenues** | 3,478,760 | 5,229,613 | (1,750,853) | 8,077,517 | (2,847,904) |
| **Operating Expenses** | | | | | |
| Salaries | 29,665,105 | 29,624,357 | 40,748 | 32,051,584 | (2,427,227) |
| Employee benefits | 12,731,663 | 14,603,380 | (1,871,717) | 13,891,801 | 711,579 |
| Supplies, Materials, Other Operating Expenses and Services | 21,749,520 | 26,074,301 | (4,324,781) | 28,894,309 | (2,820,008) |
| Depreciation | 4,618,043 | 3,635,653 | 982,390 | 3,700,043 | (64,390) |
| **Total Operating Expenses** | 68,764,331 | 73,937,691 | (5,173,360) | 78,537,737 | (4,600,046) |
| **Loss on Operations** | (65,285,571) | (68,708,078) | 3,422,507 | (70,460,220) | 1,752,142 |
| **Nonoperating Revenues** | | | | | |
| State apportionments, noncapital | 28,006,801 | 31,283,738 | (3,276,937) | 36,577,090 | (5,293,352) |
| Local property taxes | 19,717,964 | 16,502,661 | 3,215,303 | 16,833,742 | (331,081) |
| Federal | 14,002,812 | 15,178,106 | (1,175,294) | 14,687,104 | 491,002 |
| State | 5,395,734 | 5,352,286 | 43,448 | 5,308,177 | 44,109 |
| Local | 2,792,729 | 1,461,480 | 1,331,249 | 2,128,259 | (666,779) |
| State taxes and other revenues | 848,081 | 1,383,043 | (534,962) | 1,117,169 | 265,874 |
| Investment income | 209,987 | 227,566 | (17,579) | 402,841 | (175,275) |
| Interest Expense on Capital Asset-Related Debt | (1,665,464) | (5,125,674) | 3,460,210 | (5,183,262) | 57,588 |
| Other nonoperating revenues (expenses) | 110,150 | (102,513) | 212,663 | (31,671) | (70,842) |
| **Total Nonoperating Revenue** | 69,418,794 | 66,160,693 | 3,258,101 | 71,839,449 | (5,678,756) |
| **GAIN (LOSS) BEFORE CAPITAL REVENUES** | 4,133,223 | (2,547,385) | 6,680,608 | 1,379,229 | (3,926,614) |
| **CAPITAL REVENUES** | | | | | |
| State and local capital income | 54,725 | 880,673 | (825,948) | 419,158 | 461,515 |
| Gain or loss on disposal of equipment | 19,227 | - | 19,227 | - | - |
| **TOTAL CAPITAL REVENUES** | 73,952 | 880,673 | (806,721) | 419,158 | 461,515 |
| **INCREASE (DECREASE) IN NET POSITION** | 4,207,175 | (1,666,712) | 5,873,887 | 1,798,387 | (3,465,099) |
| **RESTATEMENT** | 25,491,485 | - | 25,491,485 | - | - |
| **NET POSITION BEGINNING OF YEAR** | 29,767,783 | 31,434,495 | (1,666,712) | 29,636,108 | 1,798,387 |
| **NET POSITION END OF YEAR** | $ 59,466,443 | $ 29,767,783 | $ 29,698,660 | $ 31,434,495 | $ (1,666,712) |

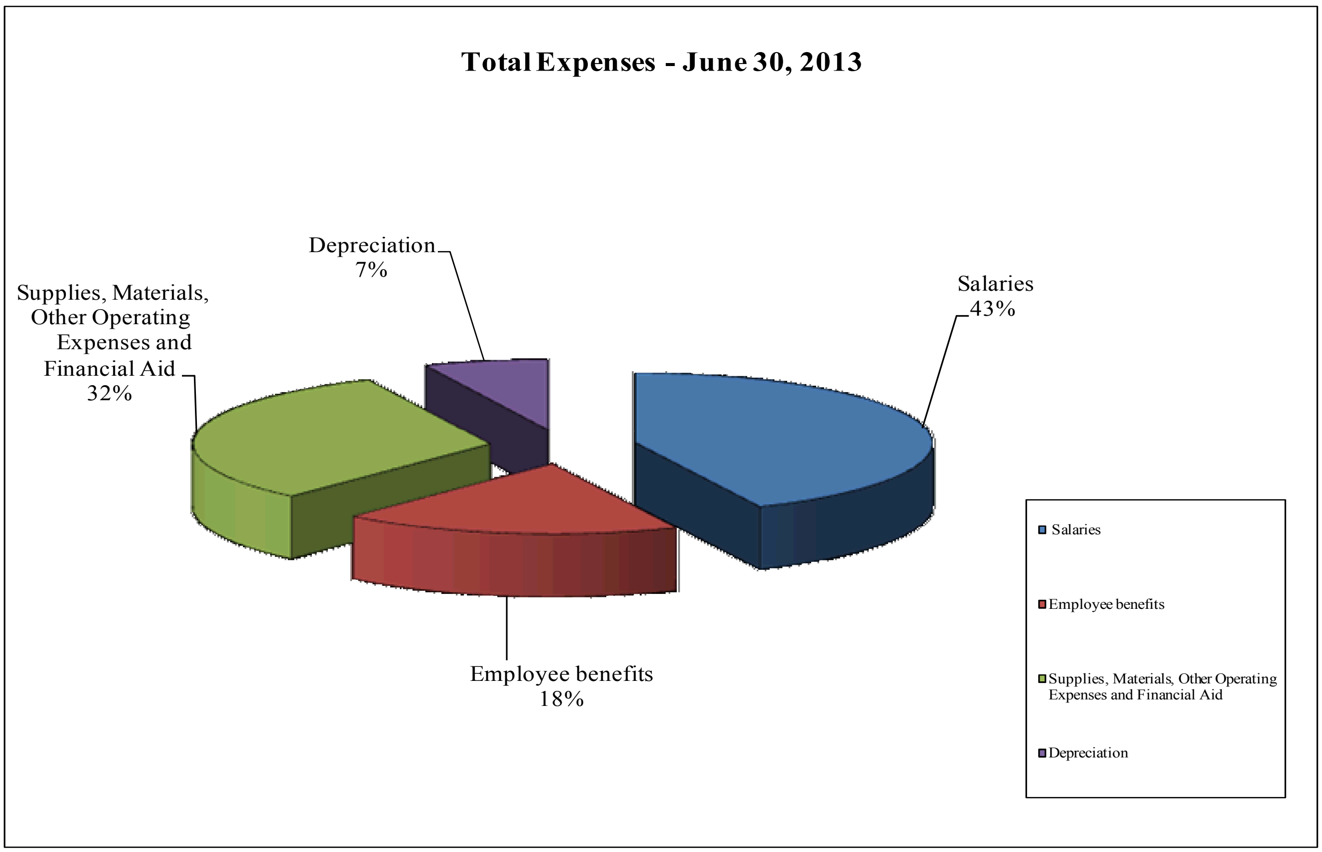
Significant revenue changes between 2012 and 2013 include:

- The decrease in student tuition and fees, primarily relate to lower FTES achieved for and reported in 2012/13 of about 7,000 FTES versus approximately 8,500 in 2011/12.
- Auxiliary revenues no longer show on the district's finances as Bookstore operations were assumed by Barnes & Noble in December of 2011. As a result of this arrangement, the district now receives commissions on sales while improving services to students, faculty and staff.
- State apportionment decreased about $3.3 million corresponding to the approximate $4.3 million increase in property taxes and local revenues as a direct result to the redevelopment agency wind down. The increase in the latter essentially shifts funding liability from the state to the county.
- Federal funding decreased due to lower PELL grants awarded, and decreased direct lending tied directly to the lower FTES achieved this academic year.
- Investment income is down due to very low interest and lower average cash balances due to intraperiod apportionment deferrals.



Significant expenditure variances include:

- Employee benefits decreased as a direct result of moving health insurance from a self insured plan to the CalPERS plan.
- Supplies, services, and other operating expenditures decreased primarily due to the Bookstore cost of sales now being accounted as part of Barnes & Noble operations and the elimination of the contract arrangement between Solano College and the Solano College Theater Association.



### Changes in Cash Position

**Table 4**

| | 2013 | 2012 | Change | 2011 | Change |
|---|---|---|---|---|---|
| Cash Provided by (Used in) | | | | | |
| Operating activities | $ (57,878,467) | $ (60,866,233) | $ 2,987,766 | $ (67,873,767) | $ 7,007,534 |
| Noncapital financing activities | 65,927,705 | 60,689,820 | 5,237,885 | 68,490,907 | (7,801,087) |
| Capital financing activities | 120,461,633 | (3,445,136) | 123,906,769 | (1,475,045) | (1,970,091) |
| Investing activities | 209,987 | 227,566 | (17,579) | 402,841 | (175,275) |
| Net Increase (Decrease) in Cash | 128,720,858 | (3,393,983) | 132,114,841 | (455,064) | (2,938,919) |
| Cash, Beginning of Year | 29,016,987 | 32,410,970 | (3,393,983) | 32,866,034 | (455,064) |
| Cash, End of Year | $ 157,737,845 | $ 29,016,987 | $ 128,720,858 | $ 32,410,970 | $ (3,393,983) |

Major increases to the cash position of the district resulted from issuance of Measure Q bonds.

## *CAPITAL ASSET AND DEBT ADMINISTRATION*

### Capital Assets

The district incurred approximately $13 million in Construction in Progress, projects which will be capitalized upon completion.

**Table 5**

| | Balance Beginning of Year, Restated | Additions | Deletions | Balance End of Year |
|---|---|---|---|---|
| Land and construction in progress | $ 9,658,967 | $ 9,761,297 | $ - | $ 19,420,264 |
| Buildings and improvements | 172,026,352 | 3,185,212 | - | 175,211,564 |
| Equipment and furniture | 11,707,912 | 2,035,360 | 257,380 | 13,485,892 |
| Subtotal | 193,393,231 | 14,981,869 | 257,380 | 208,117,720 |
| Accumulated depreciation | 42,281,831 | 4,618,042 | 257,380 | 46,642,493 |
| | $ 151,111,400 | $ 10,363,827 | $ - | $ 161,475,227 |

**Obligations**

Long-term debt includes general obligation bonds outstanding, revenue bonds, leases payable, employee compensated absences, and retirement obligations.

All general obligation bonds authorized by the 2002 ballot measure have been issued, so no new long-term debt issuances relative to Measure G occurred during the year. General obligation bonds outstanding increased due to the issuance of $120 million of Measure Q bonds in June and issuance of $12.3 million of Qualified Energy Conservation Bonds in December 2012, accretion of interest on capital appreciation bonds, and decreased due to payment of annual scheduled debt service payments.

**Table 6**

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---|---|---|---|
| General obligation and lease revenue bonds | $ 120,443,082 | $ 135,140,440 | $ 4,999,081 | $ 250,584,441 |
| Compensated absences | 944,523 | 4,833 | 22,878 | 926,478 |
| Capital leases | 282,939 | - | 92,348 | 190,591 |
| Supplemental retirement plan | 524,334 | - | 174,778 | 349,556 |
| OPEB liability | 7,493,397 | 1,718,356 | 1,497,258 | 7,714,495 |
| Total Long-Term Debt | $ 129,688,275 | $ 136,863,629 | $ 6,786,343 | $ 259,765,561 |
| Amount due within one year | | | | $ 6,010,471 |

***BUDGETARY HIGHLIGHTS – 2013-14***

Introduction
The 2013 Budget Act reflects California's most stable fiscal footing in well over a decade. With the tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the state's budget is projected to remain balanced for the foreseeable future. However, substantial risks, uncertainties, and liabilities remain.

The Budget overhauls the state's system of K-12 education finance — creating a more just allocation of resources and providing expanded flexibility. It also reinvests in the state's universities and increases their affordability. The Budget implements an affordable and sustainable path for the expansion of coverage under federal health care reform.

The Budget also makes targeted investments —dental care, mental health, and middle class scholarships — while maintaining structural balance into the future. Overall, it also preserves the state's safety net, encourages job growth, and pays down debt.

Reinvesting in Education
With the passage of Proposition 30, the Budget reinvests in, rather than cuts, education funding. From 2011-12 through 2016-17, the Proposition 98 minimum funding guarantee will increase from $47.2 billion to $67.1 billion, an increase of about $20 billion.

For K-12 schools, funding levels will increase by $1,045 per student through 2013-14 and by $2,835 per student through 2016-17.

The Budget begins to correct historical inequities in school district funding by adopting a new allocation formula and dedicating $2.1 billion in new funding beginning in 2013-14. By committing new funding to districts serving English language learners, students from low-income families, and foster youth, the formula ensures that the students most in need of help have an equal opportunity for a quality education.

This new funding will be coupled with strong accountability. It will allow communities to govern their schools locally — but provide authority to county offices of education and the state to assist if districts fail to improve. Districts will be required to improve outcomes for all students, and specifically for English learners, students from low-income families, and foster youth. Independent audits and county and state oversight will make sure this occurs.

As shown in Figure INT-01, the 2013 Budget increases funding for higher education by between $1,649 and $2,491 per student through 2016-17. In addition, a new financial aid program for middle class families will begin next year.

Figure INT-01
Budget Increases Funding Per Student

| | **2011-12** | **2016-17** | **Funding Increase** |
|---|---|---|---|
| K-12 Education | $7,175 | $10,010 | $2,835 |
| Community Colleges | $4,893 | $6,542 | $1,649 |
| California State University | $5,860 | $7,803 | $1,943 |
| University of California | $10,630 | $13,121 | $2,491 |

Expanding Health Care
Medi-Cal currently serves more than one out of every five Californians. Federal health care reform will significantly expand this coverage. The Budget moves forward with a state-based approach to the optional expansion of care allowed under federal law. This expansion will significantly increase health care coverage, improve access to mental health services, expand substance use disorder treatment, and bring in new federal dollars. The law, however, also comes with costs, risks, and uncertainties. The state currently dedicates about $1.5 billion annually to counties for health care, primarily for services for indigent adults — many of the same people who will move to Medi-Cal under the new law. Over time, as the state takes on more responsibility for health care, funding previously provided to counties for indigent health will be shifted to fund human services programs. To ensure adequate funding remains at the county level for safety net services, dollars will be redirected based on a county-by-county formula.

A Balanced Budget Plan, But Risks Remain
The Budget represents a multiyear plan that is balanced, maintains a $1.1 billion reserve, and pays down budgetary debt. The state's recent budget challenges have been exacerbated by the Wall of Debt — an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. The Budget dedicates billions to repay this budgetary borrowing. Moving forward, continuing to pay down the Wall of Debt is key to increasing the state's fiscal capacity. In 2011, the level of outstanding budgetary borrowing totaled $35 billion which will be reduced to less than $27 billion this year. And under the Budget's projections, it will be reduced to below $5 billion by the end of 2016-17.

The budget remains balanced only by a narrow margin. The pace of the economic and revenue recovery is still uncertain, and California needs to address other liabilities that have been created over many decades. Eliminating the liabilities will take many years and constrain the state's capacity to make other investments. Only by continuing to exercise fiscal discipline can the state avoid repeating the boom and bust cycles of the last decade.

May Revise – Impact on Community Colleges

The 2013/14 budget provides additional access of $89.4 million or a 1.63% restoration of previous years' workload reductions. It also affords a cost of living adjustment (COLA) of $87.5 million or 1.57%; this is the 1st COLA since 2007/08.

Categorical Program funding is increasing $88 million with $50 million for Student Success and Support, $15 million for DSPS, $15 million for EOPS and $ 8 million for CalWorks.

As a system we will see reduction in Deferrals.

Additionally, $30 million is allotted for deferred maintenance & instructional equipment and library materials and $150,000 has been earmarked for an increase for Academic Senate.
New Initiatives for community colleges include a shift in Adult Education from K-12 with $25 million for local planning grants to local consortia which must include at least one community college district and one K12 Local Education Agency. No change to existing non-credit programs or funding is proposed.

Online Education will see an increase of $16.9 million with the CCCCO planning to develop a common Learning Management System.

An estimated $41 million via Proposition 39 will be available for energy projects, after low interest loans and workforce component.

Concerns
Thanks to passage of Proposition 30 and an improving economy we see a rosier budget picture. But Proposition 30 is temporary, with the Sales Tax increase terminating at the end of 2016, and the Income Tax increase ending at the end of 2018.

Furthermore, the apportionment is getting more complicated: In 2008/09 about 2/3 of the apportionment was General Fund approved in the Budget Act whereas now it is 1/3. In other words 2/3 of apportionment funding is now based on estimates that may or may not hold up.

EPA and RDA
While the Educational Protection Act (EPA/Proposition 30 funding) and Redevelopment Agency wind down are statutorily guaranteed via backfills, timing and determination of gaps creates delays and confusion. This lack of continuous appropriation is an increasing problem.

### *ECONOMIC FACTORS AFFECTING THE FUTURE OF SOLANO COMMUNITY COLLEGE DISTRICT*

In 2012-13 the district served 6,990 full-time equivalent students. The Solano Community College District Board and Leadership remains committed to assuring access for residents of the college district service area. This has been done in the face of declining resources. The district continues to reallocate and reassign resources in order to fulfill its primary mission and to fund mission critical initiatives and services. As a result of action that has been taken to mitigate the impact of lost revenue and cost increases, services have been impacted and are likely to be in the future.

The District FTES target for 2013-14 is 8,500 FTES

### *CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT*

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Solano Community College District, Yulian Ligioso, Vice President of Finance & Administration; (707) 864-7209; yulian.ligioso@solano.edu.

# SOLANO COMMUNITY COLLEGE DISTRICT

## STATEMENTS OF NET POSITION - PRIMARY GOVERNMENT
## JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 6,393,037 | $ 724,744 |
| Restricted cash and cash equivalents | 151,344,808 | 28,292,243 |
| Accounts receivable, net | 12,063,938 | 15,531,337 |
| Prepaid expenses | 452,622 | 183,945 |
| Other current assets - current portion | 50,388 | - |
| **Total Current Assets** | 170,304,793 | 44,732,269 |
| **Noncurrent Assets** | | |
| Deferred charges - noncurrent portion | 1,620,601 | - |
| Nondepreciable capital assets | 19,420,264 | 9,658,967 |
| Depreciable capital assets, net of depreciation | 142,054,963 | 115,960,948 |
| **Total Noncurrent Assets** | 163,095,828 | 125,619,915 |
| **TOTAL ASSETS** | 333,400,621 | 170,352,184 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable | 8,729,720 | 5,859,467 |
| Interest payable | 1,363,812 | 1,439,145 |
| Due to fiduciary funds | 123,101 | - |
| Deferred revenue | 3,951,984 | 3,597,514 |
| Deferred bond premium - current portion | 501,206 | 479,081 |
| Lease obligations - current portion | 94,299 | 92,348 |
| Supplemental retirement plan - current portion | 174,778 | 174,778 |
| Revenue bonds payable - current portion | 340,188 | - |
| Bonds payable - current portion | 4,900,000 | 4,520,000 |
| **Total Current Liabilities** | 20,179,088 | 16,162,333 |
| **Noncurrent Liabilities** | | |
| Deferred bond premium | 5,190,182 | 5,027,639 |
| Compensated absences payable - noncurrent portion | 926,478 | 944,523 |
| OPEB liability - noncurrent portion | 7,714,495 | 7,493,397 |
| Lease obligations - noncurrent portion | 96,292 | 190,591 |
| Supplemental retirement plan - noncurrent portion | 174,778 | 349,556 |
| Revenue bonds payable - noncurrent portion | 11,959,812 | - |
| General obligation bonds payable - noncurrent portion | 227,693,053 | 110,416,362 |
| **Total Noncurrent Liabilities** | 253,755,090 | 124,422,068 |
| **TOTAL LIABILITIES** | 273,934,178 | 140,584,401 |
| **NET POSITION** | | |
| Net investment in capital assets | 56,907,444 | 26,452,053 |
| Restricted for: | | |
| Debt service | 6,815,071 | 6,734,084 |
| Educational programs | 1,827,194 | 1,963,578 |
| Unrestricted | (6,083,266) | (5,381,932) |
| **TOTAL NET POSITION** | $ 59,466,443 | $ 29,767,783 |

The accompanying notes are an integral part of these financial statements.

## SOLANO COMMUNITY COLLEGE DISTRICT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Student Tuition and Fees | $ 8,598,744 | $ 8,333,266 |
| Less: Scholarship discount and allowance | (5,119,984) | (4,426,492) |
| Net tuition and fees | 3,478,760 | 3,906,774 |
| Auxiliary Enterprise Sales and Charges | | |
| Bookstore | - | 1,322,839 |
| **TOTAL OPERATING REVENUES** | 3,478,760 | 5,229,613 |
| **OPERATING EXPENSES** | | |
| Salaries | 29,665,105 | 29,624,357 |
| Employee benefits | 12,731,663 | 14,603,380 |
| Supplies, materials, and other operating expenses | 21,749,520 | 26,074,301 |
| Depreciation | 4,618,043 | 3,635,653 |
| **TOTAL OPERATING EXPENSES** | 68,764,331 | 73,937,691 |
| **OPERATING LOSS** | (65,285,571) | (68,708,078) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State apportionments, noncapital | 28,006,801 | 31,283,738 |
| Local property taxes, levied for general purposes | 11,768,366 | 8,523,670 |
| Taxes levied for other specific purposes | 7,949,598 | 7,978,991 |
| Federal grants | 14,002,812 | 15,178,106 |
| State grants | 5,395,734 | 5,352,286 |
| Local grants and other revenues | 2,792,729 | 1,461,480 |
| State taxes and other revenues | 848,081 | 1,383,043 |
| Investment income | 209,987 | 227,566 |
| Interest expense on capital related debt | (1,665,464) | (5,125,674) |
| Investment income on capital asset-related debt, net | 24,118 | 23,472 |
| Transfer from agency fund | 86,032 | 24,275 |
| Transfer to agency fund | - | (150,260) |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 69,418,794 | 66,160,693 |
| **INCOME BEFORE OTHER REVENUES AND EXPENSES** | 4,133,223 | (2,547,385) |
| **OTHER REVENUES AND EXPENSES** | | |
| Local revenues, capital | 54,725 | 880,673 |
| Gain or loss on sale of equipment and insurance reimbursements | 19,227 | - |
| **TOTAL OTHER REVENUES AND EXPENSES** | 73,952 | 880,673 |
| **CHANGE IN NET POSITION** | 4,207,175 | (1,666,712) |
| **NET POSITION, BEGINNING OF YEAR** | 29,767,783 | 31,434,495 |
| **RESTATEMENT** | 25,491,485 | - |
| **NET POSITION, END OF YEAR** | $ 59,466,443 | $ 29,767,783 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS - PRIMARY GOVERNMENT
## FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 3,258,621 | $ 3,611,069 |
| Payments to vendors for supplies and services | (6,999,957) | (8,447,675) |
| Payments to or on behalf of employees | (42,109,236) | (43,355,966) |
| Payments to students for scholarships and grants | (12,977,961) | (14,774,151) |
| Auxiliary enterprise sales and charges: | - | 1,322,839 |
| Other operating receipts (payments) | 950,066 | 777,651 |
| **Net Cash Flows From Operating Activities** | (57,878,467) | (60,866,233) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State apportionments | 31,651,242 | 28,501,442 |
| Grant and contracts | 21,288,653 | 20,969,795 |
| Property taxes - nondebt related | 11,768,366 | 8,523,670 |
| State taxes and other apportionments | 848,081 | 1,383,043 |
| Transfers from fiduciary funds | 86,032 | 24,275 |
| Transfers to fiduciary funds | - | (150,260) |
| Other nonoperating | 285,331 | 1,437,855 |
| **Net Cash Flows From Noncapital Financing Activities** | 65,927,705 | 60,689,820 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Purchase of capital assets | (12,106,453) | (3,642,245) |
| Proceeds from issuance of debt | 132,539,659 | - |
| Local revenue, capital projects | 54,725 | 880,673 |
| Property taxes - related to capital debt | 7,949,598 | 7,978,991 |
| Principal paid on capital debt | (4,612,348) | (4,250,286) |
| Interest paid on capital debt | (3,363,548) | (4,412,269) |
| **Net Cash Flows From Capital Financing Activities** | 120,461,633 | (3,445,136) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received from investments | 209,987 | 227,566 |
| **Net Cash Flows From Investing Activities** | 209,987 | 227,566 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 128,720,858 | (3,393,983) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 29,016,987 | 32,410,970 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 157,737,845 | $ 29,016,987 |

The accompanying notes are an integral part of these financial statements.

## SOLANO COMMUNITY COLLEGE DISTRICT

## STATEMENTS OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
## FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **FLOWS FROM OPERATING ACTIVITIES** | | |
| Operating Loss | $ (65,285,571) | $ (68,708,078) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities: | | |
| Depreciation and amortization expense | 4,618,043 | 3,635,653 |
| Changes in Assets and Liabilities: | | |
| Receivables | (220,139) | (210,448) |
| Stores inventories | - | 1,456,169 |
| Prepaid expenses | (268,677) | (151,104) |
| Accounts payable and accrued liabilities | 2,870,253 | 3,196,832 |
| Deferred revenue | 407,624 | (85,257) |
| Total Adjustments | 7,407,104 | 7,841,845 |
| **Net Cash Flows From Operating Activities** | $ (57,878,467) | $ (60,866,233) |
| | | |
| **CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:** | | |
| Cash in banks | $ 10,627,169 | $ 485,652 |
| Cash equivalents, County Cash | 146,913,615 | 28,335,600 |
| Cash equivalents, Local Agency Investment fund | 197,061 | 195,735 |
| **Total Cash and Cash Equivalents** | $ 157,737,845 | $ 29,016,987 |
| | | |
| **NON CASH TRANSACTIONS** | | |
| On behalf payments for benefits | $ 876,939 | $ 886,274 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF FIDUCIARY NET POSITION
## JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 999,385 | $ 939,662 |
| Investments | 1,394,734 | 1,286,411 |
| Accounts receivable, net | 78,316 | 68,132 |
| Receivable from governmental funds | 123,101 | - |
| **Total Assets** | 2,595,536 | 2,294,205 |
| **LIABILITIES** | | |
| Accounts payable | 21,006 | 425 |
| Deferred revenue | 54,842 | 46,148 |
| **Total Liabilities** | 75,848 | 46,573 |
| **NET POSITION** | | |
| Unrestricted | 2,519,688 | 2,247,632 |
| **Total Net Position** | $ 2,519,688 | $ 2,247,632 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
## FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **ADDITIONS** | | |
| Federal revenues | $ 25,171 | $ 17,045 |
| Tuition and fees | 79,184 | 107,981 |
| Local revenues | 707,378 | 792,813 |
| **Total Additions** | 811,733 | 917,839 |
| **DEDUCTIONS** | | |
| Books and supplies | 82,203 | 53,458 |
| Services and operating expenditures | 371,442 | 162,996 |
| **Total Deductions** | 453,645 | 216,454 |
| | 358,088 | 701,385 |
| **OTHER FINANCING SOURCES (USES)** | | |
| Operating transfers in | - | 23,737 |
| Operating transfers out | (86,032) | (342,243) |
| Other uses | - | (5,962) |
| **Total Other Financing Sources (Uses)** | (86,032) | (324,468) |
| **Change in Net Position** | 272,056 | 376,917 |
| **Net Position - Beginning** | 2,247,632 | 1,870,715 |
| **Net Position - Ending** | $ 2,519,688 | $ 2,247,632 |

The accompanying notes are an integral part of these financial statements.

## *NOTE 1 - ORGANIZATION*

Solano Community College District (the District) was established in 1945 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two education centers located within Solano, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61.

## *NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units.* This statement amends GASB Statements No. 14 and 39, *The Financial Reporting Entity,* to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. The District has determined that it does not have any component units meeting all three of these criteria.

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District’s policies comply with the California Community Colleges Chancellor’s Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
  - Statements of Net Position – Primary Government
  - Statements of Revenues, Expenses, and Changes in Net Position – Primary Government
  - Statements of Cash Flows – Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statements of Fiduciary Net Position
    - Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

**Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

### Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, investments held at June 30, 2013 and 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

### Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

### Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at $901,739 and $651,739 for the years ended June 30, 2013 and 2012, respectively.

### Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

### Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years, vehicles, 5 to 10 years.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

### Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

### Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District agreements include a provision that overload or underload be adjusted within three semester periods.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

### Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

### Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, claims payable, capital lease obligations and OPEB obligations with maturities greater than one year.

**Net Position**

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. Net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net position categories:

**Net Investment in Capital Assets** Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt had been incurred, but not yet expended for capital assets, such accounts are not included as a component net investment in capital assets.

**Restricted - Nonexpendable**: Net position is reported as restricted when there are limitation imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

**Unrestricted**: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

**State Apportionments**

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

**Property Taxes**

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Solano bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed General Obligation Bonds in 2002 and 2012 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bonds, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

### Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

### Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and the related *Compliance Supplement.*

### On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employers' Retirement System (CalPERS) on behalf of all community colleges in California. The California Department of Education has issued a fiscal advisory instructing districts not to record the revenue and expenditures for the on behalf payments within the funds and accounts of a district. The amount of the on behalf payments made for the District of the year ended June 30, 2013, was $876,939 for CalSTRS and $0 for CalPERS. These amounts are reflected in the District's audited financial statements.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

**Changes in Accounting Principles**

In March 2012, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets. For the purposes of applying this Statement, interest cost includes interest recognized on obligations having explicit interest rates and interest imputed on certain types of payables, as well as interest related to capital leases.

The District has implemented the provisions of this Statement for the year ended June 30, 2013. See Note 16 for more information.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

**New Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68*, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

**Comparative Financial Information**

Comparative financial information for the prior year has been presented for additional analysis; certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

## *NOTE 3 - DEPOSITS AND INVESTMENTS*

**Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury -** The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**Investment in the State Investment Pool -** The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base | None |
| Medium-term Corporate Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Joint Powers Authority Pools | N/A | None | None |

**Authorized Under Debt Agreements**

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| County Pooled Investment Funds | N/A | None | None |

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Business-type activities | $ 157,737,845 |
| Fiduciary funds | 2,394,119 |
| Total Deposits and Investments | $ 160,131,964 |

Deposits and investments as of June 30, 2013, consist of the following:

| | |
|---|---|
| Cash on hand and in banks | $ 11,048,135 |
| Cash in revolving | 15,528 |
| Investments | 149,068,301 |
| Total Deposits and Investments | $ 160,131,964 |

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool and LAIF.

**Weighted Average Maturity**

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

| Investment Type | Fair Value | Weighted Average Maturity in Years |
|---|---|---|
| Master Trusts | $ 1,394,734 | Less than one |
| County Pool | 147,476,506 | 1.25 |
| State Investment Pool | 197,061 | .65 years |
| Total | $ 149,068,301 | |

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County pool are not required to be rated, nor they been rated as of June 30, 2013.

| Investment Type | Fair Value | Not Required To Be Rated | Rating as of Year End AAA | Rating as of Year End Aa | Rating as of Year End Unrated |
|---|---|---|---|---|---|
| County Pool | $ 147,476,506 | $ 147,476,506 | $ - | $ - | $ 147,476,506 |
| Joint Powers Agency Risk Pools | 1,394,734 | 1,394,734 | - | - | 1,394,734 |
| State Investment Pool | 197,061 | 197,061 | - | - | 197,061 |
| Total | $ 149,068,301 | $ 149,068,301 | $ - | $ - | $ 149,068,301 |

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Disclosure of amounts in one issuer that represent five percent or more of total investments is not required for the District's investments in the County pool and LAIF.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, approximately $9,500,000 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### *NOTE 4 - ACCOUNTS RECEIVABLE*

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

| | Primary Government | |
|---|---|---|
| | 2013 | 2012 |
| Federal Government | | |
| Categorical aid | $ 605,071 | $ 281,662 |
| State Government | | |
| Apportionment | 7,647,374 | 11,291,815 |
| Categorical aid | 125,520 | 334,054 |
| Restricted lottery | 151,102 | 322,345 |
| Local Sources | | |
| Student receivables, net | 2,711,486 | 2,491,347 |
| Other local sources | 823,385 | 810,114 |
| Total | $ 12,063,938 | $ 15,531,337 |
| | | |
| Student receivables | $ 3,613,225 | $ 3,143,086 |
| Less allowance for bad debt | (901,739) | (651,739) |
| Student receivables, net | $ 2,711,486 | $ 2,491,347 |

**Fiduciary Funds**

| | Fiduciary Funds | |
|---|---|---|
| | 2013 | 2012 |
| Local Sources | | |
| Student receivables, net | $ 78,316 | $ 68,132 |

### *NOTE 5 - PREPAID EXPENSES AND OTHER ASSETS*

The District paid facility rent and workers compensation insurance prior to June 30, 2013.

*NOTE 6 - CAPITAL ASSETS*

Capital asset activity for the District for the fiscal year ended June 30, 2013, was as follows:

| | Balance Beginning of Year, Restated | Additions / Adjustments | Deductions / Adjustments | Balance End of Year |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 6,524,355 | $ - | $ - | $ 6,524,355 |
| Construction in progress | 3,134,612 | 9,761,297 | - | 12,895,909 |
| Total Capital Assets Not Being Depreciated | 9,658,967 | 9,761,297 | - | 19,420,264 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 8,683,899 | - | - | 8,683,899 |
| Buildings | 148,366,640 | 2,078,378 | - | 150,445,018 |
| Building improvements | 14,975,813 | 1,106,834 | - | 16,082,647 |
| Furniture and equipment | 11,707,912 | 2,035,360 | 257,380 | 13,485,892 |
| Total Capital Assets Being Depreciated | 183,734,264 | 5,220,572 | 257,380 | 188,697,456 |
| Total Capital Assets | 193,393,231 | 14,981,869 | 257,380 | 208,117,720 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 3,981,425 | 253,833 | - | 4,235,258 |
| Buildings | 27,351,347 | 2,995,795 | - | 30,347,142 |
| Building improvements | 2,155,872 | 755,375 | - | 2,911,247 |
| Furniture and equipment | 8,793,187 | 613,039 | 257,380 | 9,148,846 |
| Total Accumulated Depreciation | 42,281,831 | 4,618,042 | 257,380 | 46,642,493 |
| Net Capital Assets Being Depreciated | 141,452,433 | 602,530 | - | 142,054,963 |
| Net Capital Assets | $ 151,111,400 | $ 10,363,827 | $ - | $ 161,475,227 |

Depreciation expense for the year 2013 was $4,618,042.

Interest expense on capital related debt for the year ended June 30, 2013, was $3,743,843. Of this amount, $2,078,379 was capitalized.

Capital asset activity for the District for the fiscal year ended June 30, 2012, was as follows:

| | Balance Beginning of Year | Additions / Adjustments | Deductions / Adjustments | Balance End of Year |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 6,524,355 | $ - | $ - | $ 6,524,355 |
| Construction in progress | - | 3,134,612 | - | 3,134,612 |
| Total Capital Assets Not Being Depreciated | 6,524,355 | 3,134,612 | - | 9,658,967 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 8,683,899 | - | - | 8,683,899 |
| Buildings | 126,321,031 | - | - | 126,321,031 |
| Building improvements | 6,044,005 | 57,091 | - | 6,101,096 |
| Furniture and equipment | 11,366,392 | 546,320 | 204,800 | 11,707,912 |
| Total Capital Assets Being Depreciated | 152,415,327 | 603,411 | 204,800 | 152,813,938 |
| Total Capital Assets | 158,939,682 | 3,738,023 | 204,800 | 162,472,905 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 3,719,444 | 261,981 | - | 3,981,425 |
| Buildings | 19,956,979 | 2,544,334 | - | 22,501,313 |
| Building improvements | 1,273,469 | 303,596 | - | 1,577,065 |
| Furniture and equipment | 8,356,757 | 545,452 | 109,022 | 8,793,187 |
| Total Accumulated Depreciation | 33,306,649 | 3,655,363 | 109,022 | 36,852,990 |
| Net Capital Assets Being Depreciated | 119,108,678 | (3,051,952) | 95,778 | 115,960,948 |
| Net Capital Assets | $ 125,633,033 | $ 82,660 | $ 95,778 | $ 125,619,915 |

Depreciation expense for the year 2012 was $3,655,363.

### *NOTE 7 - ACCOUNTS PAYABLE*

Accounts payable for the District consisted of the following:

| | Primary Government | |
|---|---|---|
| | 2013 | 2012 |
| Accrued payroll and related liabilities | $ 1,171,648 | $ 915,391 |
| Construction projects | 2,685,136 | 1,015,042 |
| Construction retention | 447,851 | - |
| Vendor payables | 4,425,085 | 3,929,034 |
| Total | $ 8,729,720 | $ 5,859,467 |

**Fiduciary Funds**

| | Fiduciary Funds | |
|---|---|---|
| | 2013 | 2012 |
| Vendor Payable | $ 21,006 | $ 425 |

***NOTE 8 - DEFERRED REVENUE***

Deferred revenue consisted of the following:

| | Primary Government | |
|---|---|---|
| | 2013 | 2012 |
| Federal financial assistance | $ 65,049 | $ 71,554 |
| State categorical aid | 722,057 | 1,203,237 |
| State deferred restricted lottery | 561,442 | - |
| Enrollment fees | 2,571,010 | 2,163,386 |
| Other local | 32,426 | 159,337 |
| Total | $ 3,951,984 | $ 3,597,514 |

**Fiduciary Funds**

| | Fiduciary Funds | |
|---|---|---|
| | 2013 | 2012 |
| Other local | $ 54,842 | $ 46,148 |

***NOTE 9 - INTERFUND TRANSACTIONS***

**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively, in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process.

As of June 30, 2013, the amount owed between the government and the fiduciary funds was $123,101, for a transfer of retiree benefits costs from the general fund to the post employment benefit fund.

**Interfund Operating Transfers**

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers between funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2013 fiscal year the amount transferred to the primary government from the fiduciary fund amounted to $0. The amounts transferred from the fiduciary funds to the primary government amounted to $86,032.

## *NOTE 10 - LONG-TERM OBLIGATIONS*

### Summary

The changes in the District's long-term obligations during the 2013 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year | Due in One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 114,936,362 | $ 122,176,691 | $ 4,520,000 | $ 232,593,053 | $ 4,900,000 |
| Revenue bonds | - | 12,300,000 | - | 12,300,000 | 340,188 |
| Bond premiums | 5,506,720 | 663,749 | 479,081 | 5,691,388 | 501,206 |
| Total Bonds and Notes Payable | 120,443,082 | 135,140,440 | 4,999,081 | 250,584,441 | 5,741,394 |
| Other Liabilities | | | | | |
| Compensated absences | 944,523 | - | 18,045 | 926,478 | - |
| Capital leases | 282,939 | - | 92,348 | 190,591 | 94,299 |
| Supplemental retirement plan | 524,334 | - | 174,778 | 349,556 | 174,778 |
| OPEB Liability | 7,493,397 | 221,098 | - | 7,714,495 | - |
| Total Other Liabilities | 9,245,193 | 221,098 | 285,171 | 9,181,120 | 269,077 |
| Total Long-Term Debt | $ 129,688,275 | $ 135,361,538 | $ 5,284,252 | $ 259,765,561 | $ 6,010,471 |

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year | Due in One Year |
|---|---|---|---|---|---|
| Bonds and Notes Payable | | | | | |
| General obligation bonds | $ 116,967,284 | $ 2,129,078 | $ 4,160,000 | $ 114,936,362 | $ 4,520,000 |
| Bond premiums | 5,985,801 | - | 479,081 | 5,506,720 | 479,081 |
| Total Bonds and Notes Payable | 122,953,085 | 2,129,078 | 4,639,081 | 120,443,082 | 4,999,081 |
| Compensated absences | 893,682 | 65,752 | 14,911 | 944,523 | - |
| Capital leases | 373,225 | - | 90,286 | 282,939 | 92,348 |
| Supplemental retirement plan | 699,112 | - | 174,778 | 524,334 | 174,778 |
| OPEB Liability | 7,677,479 | 1,802,451 | 1,986,533 | 7,493,397 | - |
| Total Other Liabilities | 9,643,498 | 1,868,203 | 2,266,508 | 9,245,193 | 267,126 |
| Total Long-Term Debt | $ 132,596,583 | $ 3,997,281 | $ 6,905,589 | $ 129,688,275 | $ 5,266,207 |

### Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. Payments on the lease revenue bonds are made by the capital outlay fund with Measure G funds. The capital leases are paid by the general fund. The compensated absences, supplemental retirement plan, and OPEB liability will be paid by the fund for which the employee worked.

**General Obligations Bonds**

General obligation bonds were approved by a local election in 2002. The total amount approved by the voters was $124,500,000.

In May 2003, the District issued 2002 General Obligation Bonds, Series A in the amount of $80,000,000 for the purpose of construction and repairing college education facilities.

In March 2005, the District issued $81,349,812 of General Obligation Refunding Bonds with interest rates ranging from 3 percent to 5 percent to advance refund the 2003 issued and outstanding term bonds with remaining obligation of $77,045,000. The final maturity date of the bonds is August 1, 2022. After payment of issuance and related costs of $1,002,244 the net proceeds of the bond sale were $88,845,928. $80,406,861 of the net proceeds was used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid in full. The advanced refunding met the requirements of a legal debt defeasance and the prior bond issuance is removed from the District's government wide financial statements. The premium from the bond issuance of $8,498,361 and gain on defeasance of $702,367 are capitalized and being amortized over the life of the bond.

In May 2005, the District issued 2002 General Obligation Bonds, Series B in the amount of $44,495,279 for the purpose of construction and repairing college education facilities. The final maturity date of the bonds is August 1, 2031.

In June 2013, the District issued 2012 General Obligation Bonds, Series A in the amount of $89,996,899 and Series B for $30,000,000 for the purpose of construction and repairing college education facilities. The final maturity date of the bonds is August 1, 2047.

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2012 | Issued | Accreted | Redeemed | Bonds Outstanding June 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Mar-05 | 8/1/2022 | 3.0%-5.0% | $ 81,349,812 | $ 63,292,999 | $ - | $ 1,640,156 | $ 4,055,000 | $ 60,878,155 |
| Sep-06 | 8/1/2031 | 4.0%-5.0% | 44,495,279 | 51,643,363 | - | 539,636 | 465,000 | 51,717,999 |
| Jun-13 | 8/1/2047 | 2.0%-5.49% | 89,996,899 | - | 89,996,899 | - | - | 89,996,899 |
| Jun-13 | 8/1/2040 | 2.8%-5.5% | 30,000,000 | - | 30,000,000 | - | - | 30,000,000 |
| | | | | $ 114,936,362 | $ 119,996,899 | $ 2,179,792 | $ 4,520,000 | $ 232,593,053 |

**Debt Maturity**

| Fiscal Year | Principal | Interest | Interest to Maturity | Total |
|---|---|---|---|---|
| 2014 | $ 4,900,000 | $ 8,918,245 | $ - | $ 13,818,245 |
| 2015 | 6,730,000 | 8,150,367 | - | 14,880,367 |
| 2016 | 8,070,000 | 7,566,692 | - | 15,636,692 |
| 2017 | 8,532,169 | 7,185,492 | 242,831 | 15,960,492 |
| 2018 | 9,640,000 | 6,751,542 | - | 16,391,542 |
| 2019-2023 | 34,629,811 | 28,442,264 | 9,750,188 | 72,822,263 |
| 2024-2028 | 23,638,946 | 28,191,008 | 27,921,052 | 79,751,006 |
| 2029-2033 | 26,891,013 | 26,753,399 | 22,263,987 | 75,908,399 |
| 2034-2038 | 13,381,617 | 22,896,689 | 8,977,194 | 45,255,500 |
| 2039-2043 | 27,723,433 | 17,195,103 | 12,001,750 | 56,920,286 |
| 2044-2048 | 55,785,000 | 6,547,842 | - | 62,332,842 |
| Total | 219,921,989 | $ 168,598,643 | $ 81,157,002 | $ 469,677,634 |
| Accretions to date | 12,671,064 | | | |
| Total | $ 232,593,053 | | | |

**Lease Revenue Bonds**

In May 2013, the District issued Lease Revenue Bonds in the amount of $12,300,000 for the purpose of solar projects.

| Year Ending June 30, | Lease Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 340,188 | $ 832,095 | $ 1,172,283 |
| 2015 | 688,300 | 531,657 | 1,219,957 |
| 2016 | 699,003 | 500,494 | 1,199,498 |
| 2017 | 709,873 | 468,847 | 1,178,720 |
| 2018 | 720,911 | 436,708 | 1,157,619 |
| 2019-2023 | 3,776,236 | 1,683,685 | 5,459,921 |
| 2024-2028 | 4,079,112 | 801,844 | 4,880,956 |
| 2029 | 1,286,377 | 58,165 | 1,344,541 |
| | $ 12,300,000 | $ 5,313,495 | $ 17,613,495 |

**Capital Lease Obligations**

The District has entered into various lease-purchase agreements for equipment originally valued at $1,200,000 under agreements which provide for title to pass upon expiration of the lease period. Interest charged on certain lease-purchase agreements is calculated at 65 percent to 72 percent of prime rates. The capitalized lease obligations are generally collateralized by the leased property. The annual debt service for these leases is paid from the operating revenues of the District.

| | |
|---|---|
| Capital improvements | $ 1,200,000 |
| Less: Estimated accumulated depreciation | 672,000 |
| Total | $ 528,000 |

| Year Ending June 30, | Lease Payment |
|---|---|
| 2014 | $ 98,326 |
| 2015 | 98,327 |
| Total | 196,653 |
| Less: Amount Representing Interest | 6,062 |
| Present Value of Minimum Lease Payments | $ 190,591 |

**Supplemental Retirement Plan**

The district by board resolution offered a Supplementary Retirement Plan through PARS (Public Agency Retirement Services) effective April 21, 2010. Seventeen faculty, staff, and administrators participated in the program and have retired. The district will fund the annuity premiums as follows:

| Year Ending June 30, | Retirement Payment |
|---|---|
| 2014 | $ 174,778 |
| 2015 | 174,778 |
| Total | $ 349,556 |

**Other Postemployment Benefits Obligation**

The District's annual required contribution for the year ended June 30, 2013, was $1,718,356, and contributions made by the District during the year were $1,497,258, which resulted in a net increase to the net OPEB obligation of $305,193. As of June 30, 2013, the net OPEB obligation was $7,714,495. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

### *NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION*

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

| | Faculty | Classified | Management | Operating Engineers |
|---|---|---|---|---|
| Benefit types provided | Medical, dental and vision * | Medical, dental and vision * | Medical, dental and vision * | Medical, dental and vision * |
| Duration of Benefits | 10 years ** | 5, 8, or 10 years ** | 5, 8, or 10 years ** | 5, 8, or 10 years ** |
| Required Service | 15 years *** | 10 years | 10 years | 10 years |
| Minimum Age | 55 | 50 | 50 | 50 |
| Dependent Coverage | Spouse | Spouse | Spouse | Spouse |
| District Contribution % | 100% | 100% | 100% | 100% |
| District Cap | None | None | None | None |

* Some retirees do not receive all three benefit types.

**Retirees electing coverage for less than 10 years receive cash payments depending on the duration elected. Retirees may waive retiree health benefits in exchange for cash payments. Faculty and management may waive dental benefits in exchange for cash payments.
***Faculty hired before July 1, 2004 only need 10 years of service

#### Plan Description

The District Plan provides medical and dental, and vision insurance benefits to eligible retirees and their spouses. Membership in the Plan consists of 118 retirees and beneficiaries currently receiving benefits, and 329 active employee plan members. The District is a member of the California Community College League Retiree Health Benefit Program, which is an investment program used to set aside funds for future retiree benefits. Separate financial statements for the Investment Trust can be obtained by contacting the California Community College League Retiree Health Benefit Program at 2017 O Street, Sacramento CA 95811.

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2012-2013, the District paid $1,497,258 in pay as you go health premiums and did not contribute any additional amounts to the JPA Investment Trust in 2012-13. In addition, the District has accrued a payable of $123,101 to be transferred to the trust after June 30, 2013.

#### Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed through payment of pay as you go amounts and contributions to the Investment Trust, and changes in the District's net OPEB obligation to the Plan:

| | |
|---|---|
| Annual required contribution | $ 1,718,356 |
| Total contributions | (1,497,258) |
| Increase (decrease) in net OPEB obligation | 221,098 |
| Net OPEB obligation, July 1, 2012 | 7,493,397 |
| Net OPEB obligation, June 30, 2013 | $ 7,714,495 |

The annual OPEB cost, the percentage of annual OPEB cost contributed through pay as you go amounts and to the Investment Trust, and the net OPEB obligation for the past three years is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| June, 2013 | $ 1,718,356 | $ 1,497,258 | 87% | $ 7,714,495 |
| June, 2012 | 1,802,451 | 1,986,533 | 110% | 7,493,397 |
| June, 2011 | 1,509,429 | 1,604,049 | 106% | 7,677,479 |

**Funding Status and Funding Progress**

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Investment Trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2010, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rates 4 percent. The UAAL is being amortized using the level percent of payroll method. The remaining amortization period at June 30, 2012, was 22 years. The actuarial value of assets was $1,016,238 as of this actuarial valuation.

## *NOTE 12 - RISK MANAGEMENT*

### Insurance Coverage

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

### Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2013, the District contracted with the Northern Community Colleges Self Insurance Authority, a Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

### Workers' Compensation

For fiscal year 2012-2013, the District participated in the Northern Community Colleges Self Insurance Authority Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

### Employee Medical Benefits

The District has contracted with Kaiser, Blue Shield, and Healthnet to provide employee medical benefits. Rates are set through an annual calculation process. The District pays a monthly premium based on plan membership.

| Insurance Program / Company Name | Type of Coverage | Limits |
|---|---|---|
| Northern Community Colleges Self Insurance Authority | Workers' Compensation | Statutory Limits |
| Northern Community Colleges Self Insurance Authority | Liability | $ 25,000,000 |
| SAFER | Excess Liability | $25,000,000 - $50,000,000 |
| Northern Community Colleges Self Insurance Authority | Property | $ 250,000,000 |

## *NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS*

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

**CalSTRS**

**Plan Description**

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

**Funding Policy**

Active members are required to contribute 8.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were $1,269,088, $1,301,476, and $1,401,028, respectively, and equal 100 percent of the required contributions for each year.

**CalPERS**

**Plan Description**

The District contributes to the School Employer Pool under CalPERS a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

**Funding Policy**

Active plan members are required to contribute 7.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirement of the plan members are established by State statute. The District’s contributions to CalPERS for fiscal years ending June 30, 2013, 2012, and 2011, were $1,175,242, $1,076,649, and $1,098,965, respectively, and equaled 100 percent of the required contributions for each year.

**Tax Deferred Annuity**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use STRS cash balance program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 4 percent of an employee's gross earnings. An employee is required to contribute 4 percent of his or her gross earnings to the pension plan.

**On-Behalf Payments**

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, which amounted to $876,939, $886,274, and $722,836, respectively. The 2013 contribution rate was 5.176 percent of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. No contributions were made for CalPERS for the years ended June 30, 2013, 2012, and 2011. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenses. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

**Deferred Compensation**

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

## *NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES*

The District is a member of the Northern California Community Colleges Self Insurance Authority and the California Community College League Retiree Health Benefit Program, Joint Powers Authorities. The District pays annual premiums for its property and liability coverage and a fee to use the retirement plan investment trust. The relationship between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPA and the District are included in these statements. Audited financial statements are available from the respective entities.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2013, the District made payments of approximately $ 1,002,246 to the Northern California Community Colleges Self Insurance Authority.

***NOTE 15 - COMMITMENTS AND CONTINGENCIES***

**Grants**

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

**Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

**Construction Commitments**

As of June 30, 2013, the District had the following commitments with respect to the capital projects:

| CAPITAL PROJECT | Remaining Construction Commitment | Expected Date of Completion |
|---|---|---|
| Building 1300 | $ 532,288 | August-13 |
| Fairfield Sunpower | 6,564,925 | December-13 |
| Vacaville Sunpower | 780,120 | January-14 |
| Vallejo Sunpower | 110,171 | July-13 |
| | $ 7,987,504 | |

**Deferral of State Apportionments**

Certain apportionments owed to the District for funding of FTES, categorical programs, and construction reimbursements which are attributable to the 2012-2013 fiscal year have been deferred to the 2013-2014 fiscal year. The total amount of funding deferred into the 2013-2014 fiscal year was $ 8,875,812. As of the date of the audit report, the entire amount has been received. These deferrals of apportionment are considered permanent with future funding also being subject to deferral into future years.

***NOTE 16 - RESTATEMENT OF PRIOR YEAR FUND BALANCES***

The District's prior year beginning net position has been restated as of June 30, 2013.

Effective fiscal year 2012-2013, the District was required to capitalize interest as part of the historical cost of constructing certain business-type activity assets. This required a change in accounting principle and restatement of beginning net position. In addition, a restatement of prior year construction overhead allocation was recorded.

| | |
|---|---|
| Net Position - Beginning | $ 29,767,783 |
| Restatement of capital assets for implementation of GASB Statement No. 62 | 17,195,575 |
| Restatement of capital assets for overhead allocations | 8,295,910 |
| Net Position - Beginning, as Restated | $ 55,259,268 |

## *REQUIRED SUPPLEMENTARY INFORMATION*

# SOLANO COMMUNITY COLLEGE DISTRICT

# SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
# FOR THE YEAR ENDED JUNE 30, 2013

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Method Used (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| March 1, 2008 | $ 937,234 | $ 14,444,447 | $ 13,507,213 | 6.5% | $ 34,304,656 | 39.4% |
| October 1, 2010 | 1,016,238 | 17,015,810 | 15,999,572 | 6.0% | $ 35,333,796 | 45.3% |

## *SUPPLEMENTARY INFORMATION*

# DISTRICT ORGANIZATION
## JUNE 30, 2013

Solano Community College District was established in 1945, and is comprised of one 192 acre campus and two education centers located in Vacaville, and Vallejo in Solano County. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

### BOARD OF TRUSTEES

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Sarah E. Chapman, Ph.D | President | 2014 |
| Pam Keith | Vice-President | 2014 |
| Monica Brown | Member | 2016 |
| Denis Honeychurch, J.D. | Member | 2014 |
| Michael A. Martin | Member | 2016 |
| Rosemary Thurston | Member | 2016 |
| A. Marie Young | Member | 2014 |
| Latifah Alexander | Student Trustee | 2014 |

### ADMINISTRATION

| | |
|---|---|
| Jowel C. Laguerre, PhD | Superintendent- President / Board Secretary |
| Yulian Ligioso | Vice President, Finance and Administration |
| Patrick Killingsworth | Director of Fiscal Services |

See accompanying note to supplementary information.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| **STUDENT FINANCIAL AID CLUSTER** | | | |
| Supplemental Educational Opportunity Grant (SEOG) | 84.007 | [1] | $ 132,400 |
| Pell Grant | 84.063 | [1] | 9,362,166 |
| Student Financial Aid Administrative Allowance | 84.063 | [1] | 3,530 |
| Federal Work Study Program | 84.033 | [1] | 198,113 |
| Federal Direct Student Loans | 84.268 | [1] | 2,684,298 |
| Subtotal Student Financial Aid Cluster | | | 12,380,507 |
| Veteran Assistance Title 38 | 84.111 | [1] | 3,817 |
| **Passed through California State Chancellors Office** | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | 11-C01-060 | 660,659 |
| Career and Technical Education - Basic Grants to States - CTE Transitions | 84.048 | 11-112-280 | 49,390 |
| Total U.S. Department of Education | | | 13,094,373 |
| **U.S. DEPARTMENT OF VETERAN'S AFFAIRS** | | | |
| Post-9/11 Veterans Educational Assistance | 64.028 | [1] | 133,772 |
| **U.S DEPARTMENT OF LABOR** | | | |
| **Passed through the Employment Development Department** | | | |
| Alternative and Renewable Fuel Technology | 17.258 | [2] | 280,090 |
| **Passed through Los Medanos College** | | | |
| Trade Adjustment Assistance Community College & Career Training Grants | 17.282 | [2] | 86,593 |
| **Passed through Napa Valley Community College** | | | |
| WIA Nurse Expansion | 17.261 | [2] | 52,320 |
| Total U.S. Department of Labor | | | 419,003 |
| **U.S DEPARTMENT OF AGRICULTURE** | | | |
| **Passed through the California Department of Education** | | | |
| Child Care Food Program | 10.558 | 03628 | 55,989 |
| **U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | |
| Foster Care Title IV-E | 93.658 | 10011 | 100,292 |
| **TEMPORARY ASSISTANCE FOR NEEDY FAMILIES CLUSTER** | | | |
| **Passed through California State Chancellors Office** | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | [2] | 53,476 |
| Total U.S. Department of Health and Human Services | | | 153,768 |
| **CORPORATION FOR NATIONAL AND COMMUNITY SERVICE** | | | |
| Americorps | 94.006 | [1] | 25,171 |
| **SMALL BUSINESS ADMINISTRATION** | | | |
| **Passed through Humboldt State University** | | | |
| Small Business Development Centers | 59.037 | F2144, F0305, F0405 | 140,907 |
| **U.S DEPARTMENT OF TRANSPORTATION** | | | |
| Dwight David Eisenhower Transportation Fellowship Program | 20.215 | [1] | 5,000 |
| | | | $ 14,027,983 |

[1] Pass through number not applicable.
[2] Pass through number not available.

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF STATE AWARDS
## FOR THE YEAR ENDED JUNE 30, 2013

| | Program Entitlements | | | Program Revenues | | | | |
|---|---|---|---|---|---|---|---|---|
| Program | Current Year | Prior Year | Total Entitlement | Cash Received | Accounts Receivable | Deferred Revenue | Total Revenue | Program Expenditures |
| Basic Skills - On Going | $ 118,753 | $ 70,191 | $ 188,944 | $ 118,753 | $ - | $ 69,341 | $ 119,603 | $ 119,603 |
| Cal Works | 165,656 | - | 165,656 | 165,656 | - | 25,705 | 139,951 | 139,951 |
| Cal Grants | 580,301 | - | 580,301 | 580,301 | - | - | 580,301 | 580,301 |
| CARE | 47,479 | - | 47,479 | 47,479 | - | - | 47,479 | 47,479 |
| CTE: Community Collaborative Supplement | | 106,076 | 106,076 | - | - | - | 106,076 | 106,076 |
| CTE: Community Collaborative Core | | 310,500 | 310,500 | - | - | - | 310,500 | 310,500 |
| CTE: Community Collaborative Project | | 329,080 | 329,080 | 41,135 | - | 290,974 | 79,241 | 79,241 |
| CTE SB1070 Community Collaborative 12-TBI | 387,023 | - | 387,023 | 290,267 | - | 290,267 | - | - |
| Disabled Students Programs and Services | 478,351 | 560 | 478,911 | 478,911 | - | - | 478,911 | 478,351 |
| EDD Alt Fuel Prog ARFVTP 12-041-006 | 245,080 | - | 245,080 | - | 22,483 | - | 22,483 | 22,483 |
| Extended Opportunity Program and Services | 308,530 | - | 308,530 | 308,530 | - | - | 308,530 | 308,530 |
| Foster and Kinship Care | 112,918 | - | 112,918 | 57,974 | 54,944 | - | 112,918 | 112,918 |
| Instructional Equipment, on going | - | 9,912 | 9,912 | 9,912 | - | 9,912 | - | - |
| Lottery - Prop. 20 | 177,593 | 357,209 | 534,802 | 383,701 | 151,101 | 535,738 | (936) | (936) |
| Matriculation - Credit | 296,738 | - | 296,738 | 296,738 | - | - | 296,738 | 296,739 |
| Matriculation - Non-Credit | 180 | - | 180 | 180 | - | - | 180 | 180 |
| Nurse Enrollment Growth 10-116-047 | 300,587 | - | 300,587 | 252,493 | 48,094 | - | 300,587 | 300,587 |
| Staff Development | - | 44,010 | 44,010 | - | - | 43,690 | 320 | 320 |
| Student Financial Aid Administrative Allowanc | 374,395 | - | 374,395 | 374,395 | - | - | 374,395 | 374,395 |
| Transfer Education and Articulation | | 951 | 951 | 951 | - | 951 | - | - |
| TTIP | | 16,921 | 16,921 | 16,921 | - | 16,921 | - | - |
| YESS Program | 22,500 | - | 22,500 | 22,574 | - | - | 22,574 | 22,500 |
| Subtotal | $4,218,607 | $1,245,410 | $4,838,994 | $3,446,871 | $ 276,622 | $1,283,499 | $3,299,851 | $ 3,299,218 |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2013

| CATEGORIES | Annual Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| **A. Summer Intersession (Summer 2012 only)** | | | |
| 1. Noncredit ** | - | - | - |
| 2. Credit | - | - | - |
| **B. Summer Intersession (Summer 2013 - Prior to July 1, 2013)** | | | |
| 1. Noncredit ** | - | - | - |
| 2. Credit | 9.57 | - | 9.57 |
| **C. Primary Terms (Exclusive of Summer Intersession)** | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 5,466.27 | (2.77) | 5,463.50 |
| (b) Daily Census Contact Hours | 236.46 | - | 236.46 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit ** | 0.10 | - | 0.10 |
| (b) Credit | 332.51 | - | 332.51 |
| 3. Alternative Attendance Accounting Procedures | | | |
| (a) Weekly Census Contact Hours | 874.44 | - | 874.44 |
| (b) Daily Census Contact Hours | 70.16 | - | 70.16 |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| **D. Total FTES** | 6,989.51 | (2.77) | 6,986.74 |

**SUPPLEMENTAL INFORMATION (Subset of Above Information)**

| | Annual Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| **E. In Service Training Courses (FTES)** | | | |
| **H. Basic Skills courses and Immigrant Education** | | | |
| 1. Noncredit ** | - | - | - |
| 2. Credit | 612.77 | - | - |

**<u>CCFS-320 Addendum</u>**

| Centers FTES | Annual Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| 1 Noncredit ** | - | - | - |
| 2 Credit | 2,000.00 | - | 2,000.00 |
| | 2,000.00 | - | 2,000.00 |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2013

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Academic Salaries** | | | | | | | |
| **Instructional Salaries** | | | | | | | |
| Contract or Regular | 1100 | $ 9,264,436 | $ - | $ 9,264,436 | $ 9,310,269 | $ - | $ 9,310,269 |
| Other | 1300 | 5,525,907 | - | 5,525,907 | 5,526,182 | - | 5,526,182 |
| **Total Instructional Salaries** | | 14,790,343 | - | 14,790,343 | 14,836,451 | - | 14,836,451 |
| **Noninstructional Salaries** | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 3,207,797 | - | 3,207,797 |
| Other | 1400 | - | - | - | 277,920 | - | 277,920 |
| **Total Noninstructional Salaries** | | - | - | - | 3,485,717 | - | 3,485,717 |
| **Total Academic Salaries** | | 14,790,343 | - | 14,790,343 | 18,322,168 | - | 18,322,168 |
| **Classified Salaries** | | | | | | | |
| **Noninstructional Salaries** | | | | | | | |
| Regular Status | 2100 | - | - | - | 6,698,119 | - | 6,698,119 |
| Other | 2300 | - | - | - | 442,725 | - | 442,725 |
| **Total Noninstructional Salaries** | | - | - | - | 7,140,844 | - | 7,140,844 |
| **Instructional Aides** | | | | | | | |
| Regular Status | 2200 | 875,609 | - | 875,609 | 875,618 | - | 875,618 |
| Other | 2400 | 226,645 | - | 226,645 | 234,608 | - | 234,608 |
| **Total Instructional Aides** | | 1,102,254 | - | 1,102,254 | 1,110,226 | - | 1,110,226 |
| **Total Classified Salaries** | | 1,102,254 | - | 1,102,254 | 8,251,070 | - | 8,251,070 |
| Employee Benefits | 3000 | 5,298,316 | - | 5,298,316 | 10,770,161 | - | 10,770,161 |
| Supplies and Material | 4000 | - | - | - | 591,174 | - | 591,174 |
| Other Operating Expenses | 5000 | - | - | - | 5,189,343 | - | 5,189,343 |
| Equipment Replacement | 6420 | - | - | - | 46,241 | - | 46,241 |
| **Total Expenditures Prior to Exclusions** | | 21,190,913 | - | 21,190,913 | 43,170,157 | - | 43,170,157 |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2013

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Exclusions** | | | | | | | |
| **Activities to Exclude** | | | | | | | |
| Instructional Staff - Retirees' Benefits and Retirement Incentives | 5900 | $ 692,601 | $ - | $ 692,601 | $ 692,601 | $ - | $ 692,601 |
| Student Health Services Above Amount Collected | 6441 | - | - | - | - | - | - |
| Student Transportation | 6491 | - | - | - | - | - | - |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | 6740 | - | - | - | 814,504 | - | 814,504 |
| **Objects to Exclude** | | | | | | | |
| Rents and Leases | 5060 | - | - | - | 115,988 | - | 115,988 |
| Lottery Expenditures | | | | | | | - |
| Academic Salaries | 1000 | - | - | - | 228,113 | - | 228,113 |
| Classified Salaries | 2000 | - | - | - | 108,071 | - | 108,071 |
| Employee Benefits | 3000 | - | - | - | 133,810 | - | 133,810 |
| Supplies and Materials | 4000 | - | - | - | - | - | - |
| Software | 4100 | - | - | - | - | - | - |
| Books, Magazines, and Periodicals | 4200 | - | - | - | - | - | - |
| Instructional Supplies and Materials | 4300 | - | - | - | 2,195 | - | 2,195 |
| Noninstructional Supplies and Materials | 4400 | - | - | - | 210,559 | - | 210,559 |
| **Total Supplies and Materials** | | - | - | - | 212,754 | - | 212,754 |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2013

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | $ - | $ - | $ - | $ 111,516 | $ - | $ 111,516 |
| Capital Outlay | | | | | | | |
| Library Books | 6000 | - | - | - | 54,753 | - | 54,753 |
| Equipment | 6300 | - | - | - | - | - | - |
| Equipment - Additional | 6400 | - | - | - | - | - | - |
| Equipment - Replacement | 6410 | - | - | - | - | - | - |
| **Total Equipment** | | - | - | - | 54,753 | - | 54,753 |
| **Total Capital Outlay** | | | | | | | |
| Other Outgo | 7000 | - | - | - | - | - | - |
| **Total Exclusions** | | 692,601 | - | 692,601 | 2,472,110 | - | 2,472,110 |
| **Total for ECS 84362, 50 Percent Law** | | $ 20,498,312 | $ - | $ 20,498,312 | $ 40,698,047 | $ - | $ 40,698,047 |
| **Percent of CEE (Instructional Salary Cost/Total CEE)** | | 50.37% | | 50.37% | 100.00% | | 100.00% |
| **50% of Current Expense of Education** | | | | | $ 20,349,024 | | $ 20,349,024 |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE
## FOR THE YEAR ENDED JUNE 30, 2013

| **Activity Classification** | **Object Code** | | | | **Unrestricted** |
|---|---|---|---|---|---|
| EPA Proceeds: | 8630 | | | | $ 7,042,934 |
| **Activity Classification** | **Activity Code** | **Salaries and Benefits (Obj 1000-3000)** | **Operating Expenses (Obj 4000-5000)** | **Capital Outlay (Obj 6000)** | **Total** |
| Instructional Activities | 1000-5900 | $ 7,042,934 | | | $ 7,042,934 |
| | | | | | - |
| **Total Expenditures for EPA** | | $ 7,042,934 | - | - | $ 7,042,934 |
| **Revenues Less Expenditures** | | | | | $ - |

See accompanying note to supplementary information.

## SOLANO COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

There following is the fund balance reconciliation between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

| | Unrestricted Fund |
|---|---|
| June 30, 2013, Annual Financial and Budget Report (CCFS-311) | |
| Reported Fund Balance | $ 6,214,519 |
| Adjustments to Increase (Decrease) Fund Balance | |
| Accounts receivable | (553,215) |
| Audited Fund Balance | $ 5,661,304 |

See accompanying note to supplementary information.

## *NOTE 1 - PURPOSE OF SCHEDULES*

### District Organization

This schedule provides information about the District's governing board members and administration members.

### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

### Schedule of Workload Measures for State General Apportionment - Annual (Actual) Attendance

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

### Reconciliation of Education Code Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor’s Office. This schedule provides a reconciliation of the amount reported to the State Chancellor’s Office and the impact of any audit adjustments and/or corrections noted during the audit.

### Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

### Reconciliation of Annual Financial and Budget Report (CCFS-311) with Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

# *INDEPENDENT AUDITORS' REPORTS*

VAVRINEK, TRINE, DAY
& COMPANY, LLP
*Certified Public Accountants*

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Solano Community College District
Fairfield, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Solano Community College District (the District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 31, 2013.

## Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 31, 2013.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 31, 2013

VAVRINEK, TRINE, DAY
& COMPANY, LLP
*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Solano Community College District
Fairfield, California

**Report on Compliance for Each Major Federal Program**

We have audited Solano Community College District's (the District) compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2013. The District's major Federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 31, 2013

VAVRINEK, TRINE, DAY
& COMPANY, LLP
*Certified Public Accountants*

VALUE THE DIFFERENCE

# INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Solano Community College District
Fairfield, California

## Report on State Compliance

We have audited Solano Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in April 2013 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2013.

## Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in April 2013.

## Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.



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**Basis for Qualified Opinion**

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements Section 433 CalWORKS, and Section 479 To Be Arranged (TBA). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

**Qualified Opinion**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2013.

**Unmodified Opinion for Each of the Other Programs**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2013, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

**Other Matters**

We noted certain matters that we reported to management of the District in a separate letter dated December 31, 2013.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

| | |
|---|---|
| Section 421 | Salaries of Classroom Instructors (50 Percent Law) |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Concurrent Enrollment of K-12 Students in Community College Credit Courses |
| Section 431 | Gann Limit Calculation |
| Section 433 | CalWORKS |
| Section 435 | Open Enrollment |
| Section 437 | Student Fees – Instructional and Other Materials |
| Section 438 | Student Fees – Health Fees and Use of Health Fee Funds |
| Section 474 | Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE) |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged (TBA) Hours |
| Section 490 | Proposition 1D State Bond Funded Projects |
| Section 491 | Proposition 30 Education Protection Account Funds |

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable. In addition, the District did not receive Proposition 1D State Bond Funded Projects funds, therefore, the compliance tests within this section were not applicable.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the response.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 31, 2013

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

## SOLANO COMMUNITY COLLEGE DISTRICT

## SUMMARY OF AUDITORS' RESULTS
## FOR THE YEAR ENDED JUNE 30, 2013

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Noncompliance material to financial statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) | No |
| Identification of major programs: | |

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.007, 84.063, 84.033, 84.032, 84.375 | Student Financial Aid Cluster |
| 84.048 | CTEA |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 |
| Auditee qualified as low-risk auditee? | Yes |

**STATE AWARDS**

| | |
|---|---|
| Type of auditors' report issued on compliance for State programs: | Qualified |

Unmodified for all programs except for the following program/s which was/were qualified:

| Name of Program |
|---|
| Section 433 CalWORKS |
| Section 479 To Be Arranged (TBA |

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
## FOR THE YEAR ENDED JUNE 30, 2013

None noted.

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2013

None noted.

## STATE AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2013

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

### 2013-1 Finding – To Be Arranged Hours (TBA)
*Significant Deficiency*

**Criteria or Specific Requirement**

Pursuant to Title 5, Sections 58003.1(b) and (c), the TBA portion of a course uses an alternative method for regularly scheduling a credit course. In addition, Legal Advisory 08-02 To Be Arranged (TBA) Hours Compliance Advice indicates that documentation is required to substantiate that each student has completed the TBA requirements as appropriate for either the Weekly or Daily census attendance accounting procedures.

Title 5, Section 55002(a)(3), 55002(b)(2), 58050(5), and 58051(a)(1) require that specific instructional activities, including those conducted during TBA hours, expected of all students enrolled in the course be included in the official course outline. In addition, Title 5 Section 58102 and 58108 require that a clear description of the course, including the number of TBA hours required be published in the official general catalog or addendum thereto and in the official schedule of classes or addendum thereto.

**Condition**

- We noted 11 courses where instructional activities to be conducted during the TBA hours were not described in the official course outlines.
- Nine course syllabi did not indicate the TBA instructional activities or expectations.
- We noted 12 courses where TBA hours were reported without having supporting attendance records for those hours.

**Questioned Costs**

12 Weekly Census Courses with 2.77 of unsupported FTES were noted. The error rate for Weekly Census Courses TBA hours was 15.84%, extrapolated to TBA hours for weekly courses would be 27 FTES.

**Context**

We discovered the exceptions noted above during our testing of 25 To-Be-Arranged courses.

**Effect**

FTES reported on the Annual Form 320 were overstated. In addition, course materials did not concisely and consistently describe the TBA expectations, activities and hours.

**Cause**

The District did not adjust the Annual Form 320 Report of Attendance for those students who did not participate for a minimum amount of To-Be-Arranged Hours. In addition, course information had not been updated to consistently reflect the TBA requirements.

**Recommendation**

We recommend the District review those courses that have a To-Be-Arranged component to verify the outline and syllabus adequately describe the instructional activities that will occur during the TBA portion of the course. In addition, internal reviews of TBA attendance documents should be performed to verify only students who have completed the minimum TBA requirements are claimed for apportionment.

**Management's Response and Corrective Action Plan**

The District agrees and has removed the contact hours for those courses with TBAs where there were no supporting attendance records on the Form 320 Recalculation report. The District will also work with the Curriculum Office and the college's Academic Senate to develop guidelines to be in compliance with Title 5 regulations.

**2013-2 Finding – Calworks**
*Significant Deficiency*

**Criteria or Specific Requirement**

Education Code Sections 79200-79203 & 84759 provide that Calworks funds are allocated to provide assistance to welfare recipient students and those in transition off of welfare to achieve long-term self-sufficiency through coordinated student services offered at community colleges. Districts are required to verify eligibility of Calworks for each term.

**Condition**

During our testing of student eligibility documents verification of eligibility was not available for some students selected for testing.

**Questioned Costs**

$210 for the counseling sessions for the three students where eligibility documents were not provided. The error rate of 21.4% extrapolated to the entire population of Calworks students would be $2,160.

**Context**

We tested 14 eligibility documents for fourteen students and noted in three cases that the documents were not updated for the current term.

**Effect**

Ineligible students may be charged to the program.

**Cause**

The Calworks office was unable to locate current eligibility documents for three of the students selected for review.

**Recommendation**

The Calworks office should review its procedures to ensure that eligibility verification is received for all students for each term and determine that once obtained, records are filed in such a manner as to allow for easy location and retrieval when needed.

**Management's Response and Corrective Action Plan**

The lack of staff support in the college's CalWorks Program has impacted the student eligibility tracking process. The CalWorks Coordinator is working on strengthening work-study tracking and eligibility and the District will be hiring additional support staff.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## JUNE 30, 2013

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

### 2012-1 Finding – To Be Arranged Hours (TBA)
*Significant Deficiency*

**Criteria or Specific Requirement**

Pursuant to Title 5, Sections 58003.1(b) and (c), the TBA portion of a course uses an alternative method for regularly scheduling a credit course. In addition, Legal Advisory 08-02 To Be Arranged (TBA) Hours Compliance Advice indicates that documentation is required to substantiate that each student has completed the TBA requirements as appropriate for either the Weekly or Daily census attendance accounting procedures.

Title 5, Section 55002(a)(3), 55002(b)(2), 58050(5), and 58051(a)(1) require that specific instructional activities, including those conducted during TBA hours, expected of all students enrolled in the course be included in the official course outline. In addition, Title 5 Section 58102 and 58108 require that a clear description of the course, including the number of TBA hours required be published in the official general catalog or addendum thereto and in the official schedule of classes or addendum thereto.

**Condition**

- In one course, the catalog and outline did not indicate that the lab was a lab-by-arrangement.
- We noted courses where instructional activities to be conducted during the TBA hours were not described in the official course outlines.
- Three course syllabi did not indicate the TBA instructional activities or expectations.
- We noted courses where TBA hours were reported without having supporting attendance records for those hours.

**Questioned Costs**

1 Daily Census Course of 4.96 FTES and 14 Weekly Census Courses of 2.73 FTES.

**Context**

We discovered the exceptions noted above during our testing of 25 To-Be-Arranged courses.

**Effect**

FTES reported on the Annual Form 320 were overstated. In addition, course materials did not concisely and consistently describe the TBA expectations, activities and hours.

**Cause**

The District did not adjust the Annual Form 320 Report of Attendance for those students who did not participate for a minimum amount of To-Be-Arranged Hours. In addition, course information had not been updated to consistently reflect the TBA requirements.

**Recommendation**

We recommend the District review those courses that have a To-Be-Arranged component to verify the outline and syllabus adequately describe the instructional activities that will occur during the TBA portion of the course. In addition, internal reviews of TBA attendance documents should be performed to verify only students who have completed the minimum TBA requirements are claimed for apportionment.

**Current Status**

Not implemented, see 2013-1.

**2012-2** **Finding – Calworks**
*Significant Deficiency*

**Criteria or Specific Requirement**

Calworks expenditures must directly provide support to eligible Calworks students.

**Condition**

During our testing of expenditures charged to the Calworks program, we noted three students whose salaries were paid from Calworks Work Study funds but were ineligible Calworks recipients at the time the payments were made.

**Questioned Costs**

$8,847 in salaries was paid out to these three ineligible students during the fiscal year.

**Context**

We tested 13% of total Calworks expenditures and a total of 13 students whose work study salaries were charged to the grant after the student no longer qualified for the grant.

**Effect**

Ineligible charges to the program could be charged to the program.

**Cause**

The Calworks office failed to notify the Payroll Department and request adjustments to the Calworks account.

**Recommendation**

The Calworks office should track those students whose salaries are being paid from Calworks funds. Upon determining any student ineligible, they should communicate this to the payroll department and verify that the student's salary is no longer being charged to the program as of the date they became ineligible.

**Current Status**

Implemented.

**2012-3 Finding – Instructional Materials**
*Significant Deficiency*

**Criteria or Specific Requirement**

*Education Code* Section 76365 allows districts to require students to provide various types of instructional materials. The governing boards of districts that require students to provide instructional materials or other materials for a course must have adopted policies or regulations that specify the conditions under which such materials will be required.

Districts may only require students to provide instructional materials which are of a continuing value to the students outside of the classroom setting, is tangible personal property that is owned or primarily controlled by the student, and the material must not be solely or exclusively available from the district. Such materials include, but are not limited to, textbooks, tools, equipment, clothing, and those materials, which are necessary for a student's vocation training and employment.

**Condition**

We noted that the Cosmetology 101 course required fees of $100 per student, but support indicating the items received for the fee was not provided. Therefore, there is no indication of whether the items provided lasting value to the student and whether the district received a profit from collecting the fees.

**Questioned Costs**

Enrollment in the fall and spring sessions of the course in question was 35 students. The material fees were $100 totaling $3,500.

**Context**

We noted the condition above during our review of courses that charge instructional material fees.

**Effect**

Noncompliance with State instructional material fee requirements.

**Cause**

The District did not have a process in place to track revenues and expenditures related to the courses that charge fees for all instructional materials to determine compliance with State requirements.

**Recommendation**

We recommend the departments document what materials will be purchased for courses that charge material fees and estimate the costs of those materials annually in order to estimate the appropriate fees to charge students. Tracking the items purchased will assist in assuring compliance with State instructional material requirements and determining the appropriateness of the fees charged.

**Current Status**

Implemented.

**2012-4 Finding – Disabled Student Program and Services (DSPS)**
*Significant Deficiency*

**Criteria or Specific Requirement**

Education Code Section 56002 specifies what documentation must be included in a student's file that is served by the DSPS program. The file must include a signed application for services and verification of enrollment at the community college, verification of disability and identification of educational limitations due to the disability, a Student Educational Contract or Student Educational Plan, and documentation of services provided.

**Condition**

We noted that in 1 out of 40 files reviewed did not have a Student Education Contract or Student Educational Plan.

**Questioned Costs**

None.

**Context**

We noted the condition above during our review of 40 student files served under the Disabled Students Program and Services Grant.

**Effect**

Noncompliance with the DSPS documentation requirements.

**Cause**

The College DSPS department did not have a process to verify completeness of all student files.

**Recommendation**

The DSPS department should consider adopting a checklist that includes all required documents in order to assure that each student served by the department is in compliance with State requirements.

**Current Status**

Implemented.