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California Community Colleges

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# **C**ontracted **D**istrict **A**udit **M**anual for the audit of fiscal year 2013-14



California Community Colleges  
Chancellor's Office  
December 2013

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# **SECTION 100**

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## **AUDIT ADMINISTRATION**

## **100 Audit Administration**

### **110 - OVERVIEW**

- .01 All community college districts, regional occupational centers and programs, and all other public local educational agencies are required to have an annual audit. Section 84040.5 of the *Education Code* requires the Board of Governors and the Department of Finance to prescribe the statements and other information to be included in the audit report filed with the state and to develop audit procedures for carrying out these audits.
- .02 This manual applies to annual financial and compliance audits of community college districts and was developed to encourage sound fiscal management practices among community college districts. The intent is to promote efficient and effective use of public funds for education in California by strengthening fiscal accountability at the district, county and state levels. The audit must therefore be conducted in accordance with Section 84040.5 of the *Education Code*. The auditors must indicate compliance with Section 84040.5 and include a summary of audit exceptions and management improvement recommendations in their report.

### **120 - AMENDMENTS TO THE MANUAL**

- .01 Procedural updates to this manual may be needed as auditing experience suggests improved accountability methods or statutes and regulations are revised. Accordingly, all users of this manual are encouraged to suggest such changes to the Chancellor's Office, California Community Colleges. The Chancellor's Office will update the audit manual periodically in cooperation with the Department of Finance.

### **130 - ARRANGEMENT FOR AUDIT**

- .01 The governing board of each district is required to provide for an annual audit. Under *California Code of Regulations (CCR)*, title 5, section 59102, "Arrangements for annual audits for any fiscal year as required by Section 84040 of the Education code shall be made final no later than the May 1 preceding that fiscal year." Upon making arrangements for the annual audit, each district must inform the Chancellor's Office that the audit arrangements have been made and identify the annual auditor that has been contracted. The Chancellor's Office should be notified of the audit arrangements no later than May 15 of each year.
- .02 In the event the governing board of a district has not provided for an audit by May 1, the Board of Governors shall do so.
- .03 If a governing board or the Board of Governors fails or is unable to make satisfactory arrangements for the audit, pursuant to *Education Code* Section 84040, the State Department of Finance shall make the arrangements. The cost of such an audit shall be paid from district funds.
- .04 All audits shall be made by a certified public accountant licensed by the California State Board of Accountancy.

## 140 - REPORT DUE DATE

- .01 Under CCR, title 5, section 59106, all audit reports for the preceding fiscal year must be filed with the Chancellor's Office no later than **December 31** following the end of the audited fiscal year.
- .02 There are no provisions to allow for extensions to date required to file the annual audit reports. If an audit report will not be filed by the December 31 due date, districts must inform the Chancellor's Office. This notification should include an explanation and the date when the late audit report will be filed.
- .03 As indicated in the [Accounting Advisory 05-05, Monitoring and Assessment of Fiscal Condition, October 25, 2005](#), the untimely filing of the audit report along with the type of findings identified in the audit report may place a district on fiscal monitoring by the Chancellor's Office.

District reports not received by January 31, of the subsequent fiscal year will be identified at the Board of Governor's spring meeting.

## 150 - DISTRIBUTION OF AUDIT REPORTS

One bound hard copy and one PDF are required to be submitted from the audit firm to the Chancellor's Office. **The PDF reports provided electronically should have access controls edited to allow the copying of findings** into the audit finding data base at the Chancellor's Office. **Scanned copies do not allow necessary copying.**

Please ensure PDF files submitted have the following security settings. We do not need nor are we requesting an unprotected PDF file.

- Click on Document, select Security, select Secure this Document, select restrict opening and editing using passwords, Click on Apply, and under permissions, **select Restrict editing and printing of the document.**
- Once this option is selected, a password needs to be entered; select the option to allow printing in high resolution; and select the changes allowed option to none, and **place a checkmark on Enable copying of text, images, and other content and then click on OK.**

The audit firm will submit copies of the annual audit report as follows:

1. *Chancellor's Office* (1 printed copy and 1 PDF file copy)

Mail printed copy to:

Chancellor's Office  
California Community Colleges  
College Finance and Facilities Planning  
1102 Q Street, 4<sup>th</sup> floor  
Suite 4554  
Sacramento, CA 95811-6511

Email PDF copy to:

<[CDAMReports@cccco.edu](mailto:CDAMReports@cccco.edu)>  
Attn: Fiscal Services [In the event a PDF file is returned as undeliverable, call 916.323-6899 for an alternative email address](#)

2. *State Department of Finance* (1 PDF file copy)

Email PDF copy to:

<OSAEHOTLINE@dof.ca.gov>

3. *State Department of Education* (2 printed copies)

Mail printed copies to:

Department of Education  
Audits Investigation Division  
1430 N Street; Room 5319  
Sacramento, CA 95814

4. *State Department of Social Services* (1 PDF file copy)

Email PDF copy to:

[Ted.Manas@dss.ca.gov](mailto:Ted.Manas@dss.ca.gov)

5. *Federal Audit Clearing House*: According to §\_\_.320 of the Office of Management and Budget (OMB) Circular A-133, auditees are required to submit Form SF-SAC (Data Collection Form) with complete copies of their single audit reporting package as described in §\_\_.320. The district may select its desired method of Form data entry at <<http://harvester.census.gov/fac/collect/formoptions.html>>. Additionally, a hard copy of the Data Collection Form must be signed, dated and mailed with the district's reporting package. The address for submission is on the website. The data collection form and the reporting package must be submitted within nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. [See OMB Circular A-133 §\\_\\_.320 \(a\)](#).
6. *The U.S. Department of Education*: Requires institutions that participate in Federal student financial aid programs to submit data from their audited financial statements as well as attaching a PDF file of their audit report using the eZ-Audit submission system within nine months of their fiscal-year end effective June 16, 2003. Additional information about this process is found at <<https://ezaudit.ed.gov/EZWebApp/common/login.jsp>>
7. *Accrediting Commission for Community and Junior Colleges* (one PDF file copy)  
  
accjc.org

## 160 - AMENDMENTS TO AUDIT REPORT

- .01 When additional comments, explanations or corrections are found to be necessary after a report has been filed; inserts or supplements should be prepared and distributed by the auditor to all holders of the report.

## 170 - RETENTION OF AUDIT WORKING PAPERS

- .01 The audit working papers are subject to review by the State Department of Finance, the Chancellor's Office of the California Community Colleges and the California State Auditor.
- .02 The working papers related to the annual audits or of any other legally required audit have to be available for review for a certain time period. Whichever date is later, the working papers shall not be destroyed until either:
- After the third July 1 succeeding the completion of the audit required by Education Code Section 84040, or
  - After the ending date of any retention period required by any agency other than the State of California, such as the State board of Accountancy.

## 180 - AUDIT ASSISTANCE AND PUBLICATIONS

- .01 Sources of audit assistance and related publications are shown below. The Chancellor's Office of the California Community Colleges is the source of information on the conduct of audits of community colleges. The Department of Finance should be contacted regarding financial statement presentation and disclosure requirements.

.02 **Audit Assistance**

State Department of Finance  
Office of State Audits and Evaluation  
915 L Street  
Sacramento, CA 95814-3706  
Kim Tarvin (916) 322-2985 Ext. 3152

Chancellor's Office  
California Community Colleges  
College Finance and Facilities Planning  
1102 Q Street, 4<sup>th</sup> floor  
Suite 4554  
Sacramento, CA 95811-6511  
Tracy Britten (916) 323-6899 or  
Christine "Teena" Atalig (916) 327-5772

.03 **Publication and Source:**

*California Community Colleges Contracted District Audit Manual*, California Community Colleges Chancellor's Office, 2013.  
<[http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalAccountability/ContractedDistrictAuditManual.aspx#CDAM\\_2013\\_FY\\_2012-133](http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalAccountability/ContractedDistrictAuditManual.aspx#CDAM_2013_FY_2012-133) >

*Student Attendance Accounting Manual*, California Community Colleges Chancellor's Office, 2001.  
<<http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/StudentAttendanceAccountingManual.aspx#Manuals> >

*Student Fee Handbook*, California Community Colleges Chancellor's Office October 18, 2012.  
<http://extranet.cccco.edu/Portals/1/Legal/Resources/Student%20Fee%20Handbook%2010-01.pdfh>



*California Community Colleges Budget and Accounting Manual*, California Community Colleges Chancellor's Office, 2012.  
<<http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalStandards/BudgetandAccountingManual.aspx>>

*Legal Opinions*, California Community Colleges Chancellor's Office, Legal Affairs Division.  
<<http://www.cccco.edu/Chancellor'sOffice/Divisions/Legal/LegalOpinions/tabid/293/Default.aspx>>

*Legal Advisories*, California Community Colleges Chancellor's Office, Legal Affairs Division.  
<<http://www.cccco.edu/Chancellor'sOffice/Divisions/Legal/LegalAdvisories/tabid/410/Default.aspx>>

*California Education Code*. <<http://www.leginfo.ca.gov/calaw.html>>

*California Code of Regulations, title 5*. <<http://ccr.oal.ca.gov/>>

*Government Auditing Standards*, Government Accountability Office.  
<<http://www.gao.gov/govaud/ybk01.htm>>

*AIPCA Audit and Accounting Guide: Audits of State and Local Governments*, American Institute of Certified Public Accountants. <http://www.aicpa.org/Pages/Default.aspx>

*Original Pronouncements: Governmental Accounting and Financial Reporting Standards*, Governmental Accounting Standards Board. <<http://www.gasb.org/>>

*Codification of Governmental Accounting and Financial Reporting Standards*, Governmental Accounting Standards Board. <<http://www.gasb.org/>>

*OMB Circular A-21; Cost Principals for Educational Institutions*, U.S. Office of Management and Budget. <<http://www.whitehouse.gov/omb/circulars/index.html>>

*OMB Circular A-110; Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, U.S. Office of Management and Budget. <<http://www.whitehouse.gov/omb/circulars/index.html>>

*OMB Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations*, U.S. Office of Management and Budget. <<http://www.whitehouse.gov/omb/circulars/index.html>>

*OMB Circular A-133, Appendix B: Compliance Supplement for Audits of States, Local Governments, and Non-Profit Organizations* (includes revisions published in *Federal Register*), U.S. Office of Management and Budget.  
<<http://www.whitehouse.gov/omb/circulars/index.html>>

*Catalog of Federal Domestic Assistance*, U.S. General Services Administration.  
<<http://www.cfda.gov/>>

*Governmental Accounting, Auditing, and Financial Reporting*, Government Finance Officers Association. <<http://www.gfoa.org/>>

# SECTION 200

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## AUDIT REQUIREMENTS

## 200 Auditing Requirements

### 210 - OVERVIEW

- .01 The auditing requirements addressed within the Contracted District Audit Manual are directed toward those matters that may have a significant financial impact on community college operations or are perceived to have increased the risk of noncompliance with existing statutes and regulations. As such, the audit shall concentrate on the review and evaluation of the community college district's system of internal accounting control, including systems established to ensure compliance with laws and regulations affecting the receipt and expenditure of State, federal, and local funds, and on those major or significant compliance objectives and audit procedures for state and federal programs identified in this Manual and guide.
- .02 In accepting and conducting the audit, the auditor is reminded of Interpretation 501-3, "Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits," of the American Institute of Certified Public Accountants' *Code of Professional Conduct*, January 1988:
- Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of Rule 501 [ET Section 501.01], unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore.
- .03 It should be further understood that the auditing requirements as outlined herein are considered **minimum requirements** to meet the State's legal requirements pertaining to financial and compliance audits of the community college districts. While there may be reasons to justify deviation from these auditing requirements, disclosure that certain requirements were not followed with the reasons for the deviation will not necessarily waive those auditing requirements. Thus, any deviation will be evaluated on the basis of whether the audit and audit report satisfy the State's legal requirements. If not, the omitted auditing requirement must be completed and a supplemental report must be submitted to all report recipients.
- .04 The following items represent the significant audit requirements to which the auditor must be alert in conducting the audit.

### 220 - AUDIT SCOPE

- .01 Each audit examination shall include all funds and account groups of the district, including the student financial aid funds, student body funds, cafeteria funds, and any other funds under the control or jurisdiction of the district to obtain reasonable assurance about whether the financial statements are free of material misstatement.

- .02 The community college district may, at its option, contract for the audit and include additional items over and above the reporting requirements prescribed in this Manual. However, the audit shall, at a minimum, include those items specified in this manual.
- .03 Each audit will also include an examination for compliance with laws, rules, and regulations as more fully described later in this section.

## 230 - AUDIT STANDARDS

- .01 The financial and compliance audit shall be made in accordance with:
- Government Auditing Standards, *Generally Accepted Government Auditing Standards* (GAGAS), commonly known as the “Yellow Book”  
<http://www.gao.gov/govaud/ybk01.htm>;
  - Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*  
<http://www.whitehouse.gov/omb/circulars/index.html>;
  - OMB Circular A-133 Compliance *Supplement*  
<http://www.whitehouse.gov/omb/circulars/index.html>;
  - *Contracted District Audit Manual issued by the Chancellor’s Office of the California Community Colleges, and*
  - Generally Accepted Auditing Standards (GAAS)  
<http://www.aicpa.org/Storage/Resources/Standards/DownloadableDocuments/AU-00150.PDF>.

## 240 - FINANCIAL STATEMENTS

- .01 The financial statements and Required Supplemental Information (RSI) for audit reports of districts reporting as Special-purpose Governments Engaged Only in Business-type Activities (BTA) is specified in paragraph 1 38 of Governmental Accounting Standards Board (GASB) Statement 34. The financial statements and RSI consists of:
- Management’s Discussion & Analysis (MD&A);
  - Statement of Net Position;
  - Statement of Revenues, Expenses, and Changes in Net Position;
  - Statement of Cash Flows;
  - Notes to Financial Statements; and
  - RSI other than MD&A.
- .02 An example of such statements is illustrated in the Appendix.
- .03 If the district has participated in the State Teachers’ Retirement System Retirement Incentive Program, disclosure in the notes to the financial statements is required. Details of the required disclosures are contained in Section 325 of this manual.

## 250 - SUPPLEMENTAL INFORMATION

- .01 In addition to the community college district's financial statements, prepared in accordance with Generally Accepted Accounting Principles (GAAP), additional supplementary information is required. However, the specific information may change from year to year as the needs of management at the local, State and federal levels change. The schedules that will be required each year will include the following:
- Reconciliation of the CCFS-311 data to audited financial statements.
  - Reconciliation of the 50 Percent Law calculation to audited financial statements.
  - Reconciliation of Education Protection Account expenditures to audited financial statements.
  - Schedules of expenditures of Federal and State awards.
  - Schedule of workload measure for State General Apportionment.
  - Notes to the supplementary information.
- .02 NOTE: The audit is to include the name of the college(s) receiving federal financial awards for federal record keeping purposes.

## 260 - INTERNAL CONTROL

- .01 In conjunction with each financial and compliance audit of a community college district, the auditor will consider and evaluate the community college district's system of internal control over its financial reporting; compliance with laws, regulations, contracts, and grants applicable to federal and state programs; and the expenditure of federal, state, and local funds. The audit shall include sufficient testing and evaluation of internal control to assess its effectiveness and identify when internal control over some or all of the compliance requirements for major programs are likely to be ineffective in preventing or detecting noncompliance.
- .02 The need for auditors to effectively consider and evaluate the community college district's internal control, which is intended to ensure compliance with applicable laws and regulations, cannot be overemphasized. The auditors' report should include comprehensive comments, recommendations, and descriptions of any significant deficiency or material weakness related to the control environment, risk assessment, information communication, monitoring, or control activities.
- .03 In addition, a copy of any management letters issued resulting from the annual audit and review of the district's internal controls should accompany the contracted district audit report sent to the Chancellor's Office.

## 270 - COMPLIANCE

- .01 The district's compliance with legal and regulatory requirements may have a material impact on its financial position because noncompliance with laws and regulations could generate contingent financial liabilities for the district. Accordingly, the auditor shall determine whether the community college program, function, or activity under audit has effectively complied with applicable laws and regulations.

- .02 Section 400 of this Manual identifies the programs to be audited for State compliance. The auditor must report on those compliance procedures that are current for the year of audit.
- .03 Federal programs and related compliance questions, audit procedures and background material are generally addressed in the Office of Management and Budget's *A-133 Compliance Supplement for Single Audits of States, Local Governments and Non-Profit Organizations*; auditors should refer to the A-133 compliance supplement as part of their review. Copies of the *Compliance Supplement* may be obtained through the OMB's website at <<http://www.whitehouse.gov/omb/circulars/index.html>>.

## 280 - AUDIT FINDINGS

- .01 Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan, take corrective action and, if applicable, for the Chancellor's Office to arrive at a management decision. The following specific information shall be included in audit findings (as applicable):
- (1) The **criteria** or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
  - (2) The identified **condition** including facts that support the deficiency determination cited in the audit finding.
  - (3) Identification of **questioned costs** and how they were computed. If a dollar value is unable to be quantified, provide an explanation why. If FTES or students served are affected, regardless of funding levels, a statement must include the number of FTES, or students served, that were inappropriately reported for apportionment; and a statement consistent with its basis of funding, for any other inappropriately reported claim. **Any findings affecting FTES or students served that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**
  - (4) Information to provide **proper context** for judging the prevalence and consequences of the audit findings, such as whether the audit finding represents an isolated instance or a systemic problem. ***In the professional judgment of the auditor, an issue that may have a material impact shall be quantified in terms of the total population.***
  - (5) The **effect** of the finding and information to allow a determination of the cause and the effect to facilitate prompt and proper corrective action.
  - (6) **Recommendations** to prevent future occurrences of the deficiency identified in the audit finding.
  - (7) **District corrective action plan** prepared by the auditee that describes in specific terms the actions planned or taken to correct the problem, or a statement from the auditee that the corrective action recommended by the auditor is not necessary or appropriate and giving the specific reasons why, if that is the case, and a statement that the corrective action plan was not available if no corrective action plan was submitted before the audit report was prepared.

All seven elements should be included for each audit finding.

## **SECTION 300**

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### **REPORTING REQUIREMENTS**

## 300 Reporting Requirements

### 310 - OVERVIEW

- .01 In an effort to make the results of the audit more understandable and meaningful to both the readers and users of the community college district audit report, the reporting requirements include separate auditor's reports on financial statements, state compliance, compliance and internal control over financial reporting in accordance with *Government Auditing Standards*, compliance with requirements applicable to each major program and internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133, and a separate section for management letters and status of previous years' audit findings.
- .02 Community college districts that prepare a Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 1 may submit their CAFR, including the separate auditor's report on state compliance audit requirements and supplemental information to fulfill the audit reporting requirements of this manual.
- .03 In accordance with statements issued by GASB, the districts have elected to report using the Business-type Activities (BTA) model. This model prescribes that the districts need only issue a government-wide Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. This reporting model does not require fund financial statements to be included with the district's annual financial report. However, some districts disclose this detail in supplemental information.
- .04 In February 2009, the GASB released Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. GASB 54 must be adopted for information presented in government fund format, such as in the supplementary information, as of the 2011/12 fiscal year. GASB 54 is not applicable to the BTA model used by community college districts for entity-wide financial statements.
- .05 In December 2010, the GASB released Statement Number 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The primary objective of this Statement is to directly incorporate the applicable provisions in FASB and AICPA pronouncements issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards. This Statement applies to accounting and financial reporting for governmental, business-type activities, and proprietary funds, except as identified in the Statement. The requirements of this Statement are effective for periods beginning after December 15, 2011. For California Community Colleges, this means that capitalized interest must now be included in fixed asset costs for the 2012/13 fiscal year. Restatement of the beginning net asset balance is also required.



- 06 In June 2011, the GASB released Statement Number 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. The requirements in this Statement apply to the financial statements of all state and local governments. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
- .07 In March 2012, the GASB released Statement Number 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- .08 For additional guidance on the audit report sections and subsections, please refer to the respective editions applicable to the year being audited in the following:
- “Codification of Statement on Auditing Standards” published by the American Institute of Certified Public Accountants,
  - “Codification of Governmental Accounting and Reporting Standards” published by the Governmental Accounting Standards Board,
  - “Government Auditing Standards” published by the Comptroller General of the United States, or
  - “Governmental Accounting, Auditing and Financial Reporting” published by the Governmental Finance Officers Association.

### 315 - REPORT FORMAT

- .01 At a minimum, the audit report’s title page should include the district’s name, college name(s), city, county and state, report title, and audit period. A table of contents should then set forth the major sections of the report with their respective page numbers. The report should be arranged as follows:
- District Superintendent's Message (optional)
  - Introduction
  - Independent Auditors’ Report
  - Management’s Discussion and Analysis (MD&A)
  - Basic Financial Statements
  - Notes to Financial Statements
  - Required Supplementary Information Other Than MD&A
  - Auditor's Report on Information Accompanying the Basic Financial Statements (Supplemental Information) – May be added to the auditor’s report on the basic financial statements or may appear separately in the auditor-submitted document.
  - Supplementary Information
  - Notes to Supplementary Information
  - 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*

- Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*
- Independent Auditor's Report on State Compliance
- Summary of Auditor's Results
- Schedule of Findings and Questioned Costs
- Management Letters
- Status of Prior-Year Findings and Recommendations

### 320 - LETTER OF TRANSMITTAL (OPTIONAL)

- .01 If a letter of transmittal is presented; it should not duplicate, but may elaborate on, information required in the MD&A. The GASB believes that the MD&A and the letter of transmittal should be kept separate because they serve different purposes and because no authoritative standards have been set for the letter of transmittal. Information in the letter of transmittal may include prospective information and other data that are currently beyond the scope of GAAP.

### 321 - INTRODUCTION

- .01 The introduction shall include a description of audit objectives. Preferably, it should include a brief description of the scope of the audit, audit period, and use of auditing standards.

### 322 - AUDITOR'S REPORT ON FINANCIAL STATEMENTS

- .01 The auditor's report on financial statements shall incorporate the additional reporting standards required by government auditing standards. The report should state that the audit was performed in accordance with generally accepted governmental auditing standards (GAGAS). In addition, when providing an opinion or disclaimer on financial statements, the auditors should include either a description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements and the results of those tests or an opinion, if sufficient work was performed, or references to the separate report(s) containing that information.
- .02 Auditors should report deficiencies in internal control considered to be a **significant deficiency** as defined in AICPA standards, which includes all instances of fraud and illegal acts unless clearly inconsequential, and significant violations of provisions of contracts or grant agreements and abuse. (If the auditor is performing an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the thresholds for reporting are defined in the circular and are sufficient to meet the requirements of GAGAS. If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.
- .03 If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

### 323 - MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

- .01 MD&A provides users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. Because MD&A constitute *required supplementary information*, the district may not address additional topics not described in paragraphs 8-11 of GASB Statement 34. The overview helps readers to assess whether the district's financial position has improved or deteriorated as a result of the year's operations. The overview is an analysis of the district's financial activities based on currently known facts, decisions, or conditions. *Currently known* indicates information that management is aware of as of the date of the auditor's report. MD&A should address both positive and negative trends while discussing the current-year's results in comparison with the prior year, with emphasis on the current year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

### 324 - BASIC FINANCIAL STATEMENTS

- .01 Basic financial statements focus on the overall financial position and activities of the district and measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. This information should assist users' with assessments of the district's financial condition and its ability to maintain service levels and continue to meet its obligations as they become due. Information about fiduciary activities is normally excluded. The basic financial statements consist of the following statements and the associated notes to the basic financial statements.
- .02 **Statement of Net Position:** The statement of Net Position uses a classified format to distinguish between current and non-current assets and liabilities and to display the financial position of the district and its discretely presented component units. This statement differs from the traditional combined and combining balance sheets by its level of aggregation and its focus on the district's total operations, rather than fund and fund-type reporting. The statement also incorporates the use of the economic resources measurement focus and accrual basis of accounting for all assets and liabilities; the reporting of general capital assets and general long-term liabilities, which previously were reported only in account groups; and the reporting of infrastructure assets, which previously was optional. In addition, Net Position is now displayed in three broad components – *invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.*
- .03 **Statement of Revenues, Expenses, and Changes in Net Position:** This is the operating statement for the district as a whole. The statement reports revenues by major source, identifies any revenues used as security for revenue bonds and distinguishes between operating and nonoperating revenues and expenses consistent with the district's definition of operating revenues and expenses. Information presented should be sufficient to determine whether current-year revenues are adequate to cover the cost of current-year services and identify how the district finances its activities. This presentation along with the aggregation of financial data should enhance comparability between districts.

- .04 **Statement of Cash Flows:** The statement of cash flows provides information about the district's cash receipts and cash payments for the year's operations, its non-capital financing transactions, its capital and related financing transactions, and its investing transactions based on the provisions of GASB Statement 9, as amended by GASB Statement 34. The statement includes the net cash provided and used, the net effect of those cash flows on each of the above categories, and on cash and cash equivalents during the period regardless of any restrictions on their use. The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) is required.
- .05 **Required Supplementary Information:**
- a. Required supplementary information in addition to the MD&A should include certain data addressing concerns of previous GASB pronouncements such as public entity risk pools (GASB Statement 10), defined benefit pension plans (GASB Statement 25), and accounting for pensions by state and local governmental employers (GASB statement 27).
  - b. **Schedules:** The needs and requirements of the California Community Colleges will dictate the level of accounting to be shown in the suggested schedules. Schedules are used to demonstrate finance-related legal and contractual compliance (e.g., where bond indentures require specific data to be presented) and to present other information deemed useful (e.g., data related to annual FTES calculations, such as the Schedule of workload measures for State General Apportionment). Determination of the appropriate level of detail as to what is presented in a schedule is a matter of professional judgment.

### 325 - NOTES TO FINANCIAL STATEMENTS

- .01 The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. The notes are an integral part of the basic financial statements. Guidance pertaining to existing note disclosures is found in National Council on Governmental Accounting (NCGAI) Interpretation 6, as amended, and GASB Statement 38, *Certain Financial Note Disclosures*. Note disclosure requirements need not be applied to immaterial items.
- .02 Section 2300 of the *Codification of Governmental Accounting and Financial Reporting Standards (GASB)* and GASB Statement 35 identify specific notes that are essential to fair presentation of the financial statements. These notes include, but are not limited to:
1. Summary of significant accounting policies, including:
    - (a) A description of the district-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.
    - (b) A brief description of the component units of the financial reporting entity, the criteria for including component units in the financial reporting entity and how the component units are reported.
    - (c) The measurement focus and basis of accounting used in the district-wide statements.
    - (d) The revenue recognition policies used by the district.

- (e) The policy for eliminating internal activity in the district's statement of activities.
  - (f) The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense). Districts that choose to use the modified approach for reporting eligible infrastructure assets should describe that approach.
  - (g) The policy for allocating indirect expenses in the statement of activities.
  - (h) The policy for defining operating and non-operating revenues.
  - (i) The policy for applying FASB pronouncements issued after November 30, 1989.
  - (j) The definition of cash and cash equivalents used in the statement of cash flows.
  - (k) The district's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.
2. Cash deposits with financial institutions.
  3. Investments.
  4. Significant contingent liabilities.
  5. Significant effects of subsequent events.
  6. Annual Pension cost and net pension obligations.
  7. Significant violations of finance-related legal or contractual provisions and actions taken to address such violations.
  8. Debt service requirements to maturity.
  9. Commitments under noncapitalized (operating) leases.
  10. Construction and other significant commitments.
  11. Required disclosures about capital assets – this disclosure presents the beginning and ending balances, the increases and decreases for the year for each major class of capital asset, and its related accumulated depreciation.
  12. Required disclosures about long-term liabilities – This disclosure presents the beginning and ending balances, and increases and decreases for the year for each major type of long-term liability. In addition, it requires disclosure of the portion of each item that is due within one year.
  13. For each major component unit, the nature and amount of significant transactions with other discretely presented component units or with the district.
  14. Disclosures about donor-restricted endowments – This disclosure must include the amount of net appreciation on investments of donor-restricted endowments that are subject for authorization for expenditure by the governing board, and how those amounts are reported in Net Position.

Additional disclosures that should be made in the notes if applicable may include:

1. Entity risk management activities.
2. Property taxes.
3. Segment information.
4. Condensed financial statements for major discretely presented component units.
5. Short-term debt instruments and liquidity.
6. Related party transactions.
7. Capital leases.

8. Information about collections (if applicable) – This disclosure presents collections not capitalized and provides a description of those collections and the reasons those assets have not been capitalized.
  9. Joint ventures and jointly governed organizations.
  10. Debt refundings.
  11. Pension plans.
  12. Bond, tax, or revenue anticipation notes excluded from fund or current liabilities.
  13. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in fiscal year-ends.
  14. Relationship of component unit to primary government in separately issued component unit financial report or component unit financial statements.
  15. Reverse repurchase and dollar reverse repurchase agreements.
  16. Special assessment debt and related activities.
  17. Demand bonds.
  18. Add the amounts determined in 1 and 3 above. Post-employment benefits other than pension benefits.
  19. The amount of interest expense included in direct expenses in the district-wide statement of activities.
  20. Significant transactions or other events that are either unusual or infrequent but not within the control of management.
- .03 Employers that participate in cost-sharing multiple-employer plans should recognize annual pension expenditures or expense equal to their contractually required contributions to the plan. Employers with defined contribution plans should recognize annual pension expenditures (in governmental fund financial statements) equal to their required contributions, in accordance with the terms of the plan.
- .04 Employers should also include the following information in the notes to their financial statements for each defined benefit pension plan in which they participate, regardless of the type of plan. Disclosures for more than one plan should be combined in a manner that avoids unnecessary duplication.
- a. Plan description:
    1. Name of the plan, identification of the public employee retirement system or other entity that administers the plan, an identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit pension plan.
    2. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended.
    3. Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report.
  - b. Funding policy:
    1. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended.

2. Required contribution rate(s) of active plan members.
3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined. If the plan is a cost-sharing plan, disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years.

**.05 State Teachers' Retirement System (STRS) Retirement Incentive Program:**

*Per Education Code 84040.5(c), community college districts that have participated in the STRS Retirement Incentive Program must include information regarding the program in their annual audits. This information should be disclosed in the notes to the financial statements and include the following:*

- The number and type of positions being vacated.
- The age and service credit of the retirees receiving the additional credit.
- A comparison of the salary and benefits of each retiree receiving the additional service credit with the salary and benefits of the replacement employee, if any.
- The resulting retirement costs, including interest (if any), and the postretirement healthcare benefits costs, incurred by the district.

### **326 - AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

- .01** The auditor's report on the examination of the supplemental information shall be included in this section of the report. Findings and recommendations are to be included in the Findings and Recommendations section of this report. The information in this report may be added to the auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

### **327 - SUPPLEMENTAL INFORMATION**

- .01** Required audit of supplemental information consists of:
- Reconciliation of the CCFS-311 data to audited financial statements.
  - Reconciliation of the 50 Percent Law calculation to audited financial statements.
  - Reconciliation of Education Protection Account expenditures to audited financial statements.
  - Schedules of expenditures of Federal and State awards.
  - Schedule of workload measure for State General Apportionment.
  - Notes to the supplementary information.

### 328 - NOTES TO SUPPLEMENTAL INFORMATION

- .01 The notes to the supplemental information are presented in this section of the report and include narrative explanations and information on the individual schedules.

### 329 - 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

- .01 <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/SAS.aspx>

### 330 - INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

- .01 <http://www.whitehouse.gov>

### 331 - AUDITOR'S REPORT ON STATE COMPLIANCE

- .01 A separate auditor's report shall be prepared for the examination of state compliance requirements. The report shall contain an expression of positive assurance with respect to compliance with applicable laws and regulations for those items tested in accordance with the *Contracted District Audit Manual*, and negative assurance for untested items. **Instances of noncompliance with applicable state compliance requirements must be reported in terms of the items or monetary amounts questioned, if any, regardless of the significance, individually or collectively.** The report shall contain specific recommendations for corrective action and, if available, the community college district's response to the audit report shall be included in the audit report. **Additionally, include the number of FTES claimed for any cited instructional activity or conditions that impact the FTES claimed by the district for state general apportionment.**
- .02 The auditor is reminded that any finding related to compliance requirements may affect the auditor's opinion report on the financial condition of the community college district. Therefore, the findings shall be evaluated as to their effects, if any, upon the district's financial statements and supplemental information.

### 334 - FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS

- .01 The findings, questioned costs, and recommendations will include matters dealing with internal control, compliance, and supplemental information. Each finding shall be explained in sufficient detail to enable the reader to understand the criteria, condition, questioned costs, proper context, effect, recommendations, and response and, where applicable, the effect of the internal control weakness or condition of noncompliance on reports or schedules. Findings should also identify repeat findings from the previous year's audit report. The recommendations shall be presented in a manner that will illustrate how corrective action will eliminate the weakness or provide compliance.



- .02 **Any finding that could result in an adjustment to FTES or students served must be extrapolated from the sample to the universe of transactions available for testing.**
- .03 For State compliance findings, please name the finding the same as the number and name of the state test as found in this manual.
- .04 This section should also include a "Summary of Auditors' Results. All reportable findings, recommendations and responses shall be included in the audit report.
- .05 Sample sizes shall be a representative of the entire population that is sufficient in size to allow the auditor to draw a reasonable conclusion with respect to the compliance requirements being tested.
- .05 All audit findings, if any, shall include all seven elements as describe in section **280 - Audit Findings**

### **335 - MANAGEMENT LETTERS**

- .01 A copy of each management letter issued during the audit shall accompany the audit report that is submitted to the Chancellor's Office. Note: The management letters do not need to be a bound component of the audit report.

### **336 - STATUS OF PRIOR-YEAR FINDINGS AND RECOMMENDATIONS**

- .01 This section shall include the status of district actions on findings and recommendations reported in the prior-year audit. Any reference to prior-year findings and recommendations shall include the identification references used by the Chancellor's Office during its follow-up activities.

# SECTION 400

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## STATE COMPLIANCE REQUIREMENTS

## 400 State Compliance Requirements

### 410 - OVERVIEW

.01 In addition to the auditor's reports and fiscal information presented in reviews of basic financial statements, annual audits of governmental agencies, including community colleges, are required to report on compliance aspects of significant state and federal programs. Historically, audit requirements for California Community Colleges have stipulated specific state compliance issues to be reviewed as part of the annual audit.

.02 With the passage of AB 1725, the California Legislature implemented significant new processes and programs in community colleges: matriculation, articulation, program-based funding, and minimum qualifications. The creation of such areas significantly impact activities districts are required to perform. As a result, auditors need to view existing state compliance items in a context that increases understanding of college operations and lays the foundation for periodic changes in these testing structures.

.03 From the audit procedures performed, the **auditor should report any instances of noncompliance as required by current standards.**

Based on subsequent inquiries, the following is added for clarification purposes: Instances of noncompliance to state requirements do not automatically result in a qualified state compliance report, but do automatically result in a finding. Auditor judgment based on the types and fiscal impact of findings along with the district's control environment will determine if a district's state compliance report is qualified.

Reference footnote clarification to Attachment A, Independent Auditor's Report on State Compliance.

.05 **All state compliance tests that may affect the calculation of full-time equivalent students (FTES), or students served, for funding from the State, must be performed using a statistically significant sample. This includes apportionment, or categorical/program FTES calculations. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funded FTES status. It is needed to adjust the reported information to actual, which may change a Districts funded FTES levels for the coming year.**

As long as the statistical, stratified requirement is met, the auditor should follow current sample size guidance provided by AICPA and Generally Accepted Auditing Standards (GAAS).

.06 For state programs the auditor should use professional judgment and due diligence in designing the types of compliance tests to perform. The auditor should also determine the requirements governing the program by reviewing: *California Education Code*; *California Code of Regulations (CCR), title 5*; the provisions of contracts and grant agreements, and the laws and regulations therein. Auditors should use professional judgment in choosing procedures and determine the extent of tests performed. The audit procedures should be tailored to individual programs and circumstances. This may require unique steps at each district. Testing will trace to source documents, not summary documents.

The auditor is also responsible for ensuring that specific requirements that are modified by a change in a law or regulation are included in the audit procedures. If “Suggested Audit Procedures” are listed within a state test, those procedures are given to address a known issue, and are not given to satisfy the test in its entirety. Other procedures may also be needed to provide reasonable audit testing in that area.

**.07 Categorical Flexibility (Assembly Bill X4 2) - Reporting Requirements**

Per AB X4 2, allows community college districts to redirect funds from a select number of categorical programs to support any other categorical programs funded in the state budget. Before exercising this flexibility the districts are required to discuss this redirection of funds at a regularly scheduled public meeting and take testimony from the public. Districts exercising this funding flexibility are relieved of all state statutory, regulatory, and provisional requirements associated with the twelve programs contained in the flexibility category.

The district shall continue to report the expenditures by using the appropriate codes to indicate the activities for which these funds were expended using the existing standard reporting process as determined by the Chancellor. This flexibility was originally slated to end with the 2012/13 fiscal year, but has been extended to include the 2013/14 year.

[http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab\\_0001\\_0050/abx4\\_2\\_bill\\_20090728\\_chaptered.pdf](http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0001_0050/abx4_2_bill_20090728_chaptered.pdf)

**.08 All State compliance tests listed in the table of contents, and outlined in the remainder of this section, are required to be performed.**

.09 For State compliance findings, name the finding in the audit report the same as the test number and name. For example, with the following test, if a finding is noted it should be named “421 -SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW)”.

.10 Proposition 30 created an Education Protection Account (EPA) within the General Fund. A community college district shall have sole authority to determine how the moneys received from the EPA are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the EPA for salaries or benefits of administrators or any other administrative costs. Each community college district shall annually publish on its Internet Web site an accounting of how much money was received from the EPA and how that money was spent. The CCFS-311 Report now contains a page for EPA fund expenditures, similar to the Lottery page. Object code 8630 has been designated for EPA revenues. Expenses incurred by those entities to comply with the additional audit requirement of this section may be paid with funding from the Education Protection Account and shall not be considered administrative costs for purposes of this section. Sections 250 and 327 in this manual require reconciliation of and reporting on the EPA account.

.11 Education Code 76060.5 allows for the collection of a Student Representation Fee (SRF), under certain conditions. If an SRF fee is collected, the California Community Colleges Budget and Accounting Manual requires it to be deposited in a separate fiduciary fund. Fund 72 is the only fund these fees may be reported under. Fund 72 balances must be reported on the form CCFS-311.

- .12 Beginning with fiscal year 2012/13, a Mandated Block Grant (MBG) can be elected by the districts. If such an election has been made, the auditor needs only to verify that at least one of the mandated activities is provided. Revenue from the mandated black grant is unrestricted.

## 421 - SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW)

### .01 Background

*Education Code* Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the district's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors."

Salaries of classroom instructors, as prescribed in *CCR*, title 5, section 59204, means (1) "that portion of salaries paid for purposes of instruction of students by full-time and part-time instructors employed by a district; and (2) all salaries paid to classified district employees who are (a) assigned the basic title of "Instructional Aide" or other appropriate title designated by the governing board that denotes that the employees' duties include instructional tasks, and (b) employed to assist instructors in the performance of their duties, in the supervision of students, and in the performance of instructional tasks." An employee shall be deemed to be under the supervision of an instructor for the purpose of *Education Code* Section 84362 if the employee performs duties under the general direction of an instructor.

In addition, salaries of classroom instructors shall include the proportionate share of all benefits provided such instructors and instructional aides (object of expenditure code 3000, as defined in the California Community College Budget and Accounting Manual, 2012 edition).

CEE includes objects of expenditures 1000 through 5000 and Equipment – Replacement for activities 0100 through 6700 in the General Fund, Unrestricted subfund as defined in the California Community Colleges Budget and Accounting Manual, 2012 edition, less expenditures for activity 64XX, Other Student Services – Other (student transportation) and amounts expended for lease of plant and equipment. Note: It is expected that in-kind match will not be included in the district's accounting system and is, therefore, not part of this calculation.

Areas in which questions of compliance have arisen are

1. Inclusion in "*Salaries of Classroom Instructors*" (SCI) of:
  - a. Instructional aides' salaries and benefits.
  - b. Proration of salaries and benefits for administrative staff who teach part time.
  - c. Instructors' "reassigned time" for administrative purposes is not included in SCI.
  - d. Salaries of "Contract Instructors" and proration of these salaries and benefits for the "Contract Instructors" that teach part time.
2. Exclusion from CEE of:
  - a. Capital Outlay Expenditures: Equipment – Additional
  - b. Expenditure of state and federal categorical moneys
  - c. Expenditure of State Lottery Proceeds
  - d. Proration of salaries and benefits of staff working on activities outside of the CEE

3. Inclusion in CEE of:
  - a. Local match for categorical programs except those expenditures appropriately reflected in other funds.
  - b. Expenditures for Equipment – Replacement

## .02 **Criteria**

- [Education Code](#) Section 88242 and 84362
- [CCR, title 5](#), section 59204 and 59206
- [Government Code](#), Section 8880.5(b) and (k), specifies community college districts, as a condition for receiving lottery funds shall establish a separate account for the receipt and expenditure of those funds.
- Chancellor's Office [Legal Opinion O 00-14](#), "Salaries of Classroom Instructors" Contained in Education code Sections 84362, the "Fifty Percent Law", dated June 12, 2000
- Chancellor's Office [Legal Opinion O 04-10](#), *District Ability to Count Amounts Paid to Outside Agencies as "Salaries of Classroom Instructors" under 50% Law*
- [California Community Colleges Budget and Accounting Manual, 2012 edition](#)
- [Form CCFS-311, Supplemental Data, Analysis of Compliance with 50 Percent Law Report and Instructions](#) (Completed report should be obtained from district)

## .03 **Compliance Requirement**

All criteria above can be tested by auditors.

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with *Education Code* Section 84362. ***A significant deficiency exists if the district does not meet the 50 percent minimum.***

## .04 **Suggested Audit Procedures**

*Report any audit adjustments on the "Reconciliation of ECS 84362 (50 percent Law) Calculation" form in the supplementary materials in the Appendix. This reconciliation form should be completed at least with the annual reported data from the CCFS-311 even if there are no adjustments. See related requirement in section 327.*

1. Test a sample of the personnel duty statements from the personnel records of classified employees (instructional aides) whose salaries and benefits are included in instructor salaries and determine whether such employees are assigned the basic title of "Instructional Aide" or other appropriate title with the specification to assist instructors in instructional tasks as part of their duties. (Verify proper job classification assigned.) If salaries and benefits were allocated, determine whether the basis for the allocation is reasonable.

2. Test that a sample of administrative staff salaries and benefits allocated to “Salaries of Classroom Instructors” are adequately documented and reasonably reflect that portion of time devoted to instruction of students in the classroom. Determine whether the basis for the allocation is reasonable.
3. Test a sample of instructors that have non-instructional assignments or that are on reassigned time for administrative purposes and verify that the appropriate allocation of salaries and benefits for these individuals is excluded from SCI. See Chancellor’s Office Legal Opinion O 00-14, “Salaries of Classroom Instructors” contained in *Education Code* Section 84362, and the “Fifty Percent Law”, dated June 12, 2000.
4. Select and test a sample of previously untested instructors included in SCI to determine that all such instructors are employed in positions requiring minimum qualifications and that the salaries reported as SCI for those instructors correspond to actual instructional duties required of him or her.

If excluded amounts are being allocated without the use of a job cost system, determine that the allocation basis is appropriate.

5. Test a sample of expenditures for object 6400, Capital Outlay, Equipment. Examine supporting documentation to determine whether the sample expenditures were classified to the proper subsidiary account, i.e. additional equipment or replacement equipment. Expenditures for Equipment–Replacement should be included in CEE while those for Equipment–Additional should be excluded. Replacement equipment is a substitute, or exchange, of an asset for another asset of like kind. It does not extend the asset’s life but rather maintains the service level anticipated from the original asset. Additional equipment extends the useful life of an asset, improves the asset’s performance, or increases the value of the asset; it is not equipment previously owned (not a substitute for previously owned equipment.)
6. Test a sample of state and federal categorical program expenditures from the following programs to determine that they have been excluded from the CEE:
  - a. Disabled Student Programs & Services (DSPS)
  - b. Extended Opportunity Programs & Services (EOPS)
  - c. College Work Study, Vocational Education Technology Act (VTEA)
  - d. Workforce Investment Act (WIA), etc.
7. Determine that district lottery funds have been properly excluded from the 50 percent law calculation. Note: In order to verify the proper treatment of lottery funds in the 50 percent law calculation, the district should have established a separate account/sub-fund to account for the receipt and expenditure of lottery funds in accordance with *Government Code, Section 8880.5(k)*. Lack of a separate lottery funds account/subfund will again result in a recordkeeping finding.
8. Determine whether local matching funds for the above categorical programs/projects have been included in the General Fund’s Unrestricted subfund and are thus included in CEE. Items properly excluded from the General Fund Unrestricted subfund include but are not limited to capital outlay items properly accounted for in the Capital Outlay Projects Fund, financial aid payments made in the Financial Aid Fund, and child development activities properly accounted for in the Child Development Fund.

9. Select line items from the 311 report titled “Analysis of compliance with the 50 Percent Law (ECS 84362) as prepared by the district and agree to financial supporting documentation. Test the numerator and denominator and recalculate percentage. Verify that items reported as exclusions were included in the expenditures listed on page one of the report.

## 423 - APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS /CONTRACTS

### .01 Background

A number of community colleges have arrangements, commonly referred to as “instructional service agreements” (ISA), with public and private entities. ISA’s are different from contract education. In contract education, the college sends its instructors to provide courses or training to meet the specific needs of the contracting entity. The contracted course or training need not be open to all admitted students, the contractor pays the full cost of instruction and the district does not receive apportionment.

Although ISA’s are offered pursuant to an agreement with a third party, they are significantly different from the type of contract education described above because they must be open for the enrollment of all admitted students who meet established enrollment prerequisites. Because instruction offered under an ISA is eligible for apportionment, if apportionment is claimed, numerous standards for the conduct of ISA courses apply. ISA’s are often taught by the employees of the contracting party because they may have special expertise. If certain conditions are met, the employees of the contractor can be considered college employees for purposes of satisfying the employment standards for apportionment. ISA’s are often mutually beneficial because the instructional costs are shared, individuals with special expertise can be assigned to instruct the courses, and the colleges frequently claim state apportionment. Recently questions have been raised as to whether districts have been fulfilling the requirements in order to claim apportionment for student attendance in courses offered under ISA’s.

### .02 Criteria

- [Student Attendance Accounting Manual](#) (including the “*Addendum Concerning Academic Calendars, Course Scheduling, and Related Topics*”)
- [Education Code](#) Section 84752
- [CCR, title 5](#), section 58050, 58051(a) (1), (c)-(g), 58051.5, 58055, 58056, 58058(b), 58060, and 58100-58106.
- [Accounting Advisory FS 05-02](#), *Revision of annual CCFS 311 Fifty Percent Law page to accommodate instructional salary expenditures for Instructional Service Agreements.*



- [Legal Advisory 04-01.5](#), *Instructional Service Agreements*, dated March 18, 2004; and the related *Contract Guide for Instructional Service Agreements between College Districts and Public Agencies*

### .03 **Compliance Requirement**

All criteria above can be tested by auditors.

This compliance requirement applies to instructional service agreements in which a district has an agreement with a contractor to instruct classes and:

1. The contractor's employees are used to instruct classes, and
2. The district is compensating the contractor or the instructor, and
3. The district is reporting the FTES from these classes for purposes of claiming state apportionment funding.

Community colleges may claim FTES for classes conducted at a contractor's site and instructed by the contractor's employees, although the classes may also be conducted on college property. In order for these FTES to be eligible for state funding the following regulatory requirements must be met:

1. Programs must be approved by the State Chancellor's Office and courses must be part of those approved programs or the college must have received delegated authority to separately approve those courses,
2. Courses must be open to all admitted students who meet any approved prerequisites for the courses,
3. Instruction is under the immediate supervision and control of an employee of the district,
4. The district employee must possess valid credentials or meet the minimum qualifications required for the assignment.
5. Where the instructor is not a paid employee of the district, the college or district has a written agreement or contract with each instructor conducting instruction. Such written agreement or contract shall state that the college or district has the primary right to control and direct the instructional activities of the instructor (CCR, title 5, section 58058).
6. The district and public or private agency, individual, or group of individuals with whom the district has an instructional services agreement may not receive full compensation for the direct education costs for the conduct of the class from any other source.
7. For all courses conducted under an instructional services agreement, including those pursuant to CCR, title 5, Section 58058, determine whether the district received certification verifying that the instructional activity conducted was not fully funded by other sources in accordance with CCR, title 5, section 58051.5.

.04 **Suggested Audit Procedures**

1. Determine whether the college or district offers instruction under any instructional service agreements. The instructional services agreements may be referred to by different names, including “memoranda of understanding”, “instructional contracts”, “instructional agreements”, etc.
  - Another indicator that a district has ISAs is if the district reported *Object Code 5000 - Other Operating Expenses* (line EDP 449, Column 1) on their CCFS-311, *Analysis of Compliance with 50 Percent Law* report. Only ISA direct instructional costs should be reported in that line item.
2. Determine if the district reports FTES for these classes.
3. From the above ISA’s, select a representative sample of the instructional service agreements to include those generating the largest number of FTES and verify that:
  - a. For agreements using employees of the contracting entity, the college or district has a written agreement or contract with each instructor conducting instruction for which FTES are to be claimed. The contracts must state that the college or district has the primary right to control and direct the instructional activities of the instructor. The contract between the college or district and the instructor should be finalized prior to the commencement of instruction.
  - b. The written agreement with the contractor states the responsibilities of each party and that the college or district is responsible for the educational programs conducted under the agreement.
  - c. The courses are part of an approved program or a stand-alone course approved by the college through its delegated authority.
  - d. The courses are open to all admitted students who meet approved prerequisites for the course as published in the official general college catalog and/or the schedules of classes and/or addenda.
  - e. The minimum qualifications for instructors teaching these courses are consistent with instructor qualifications for other similar courses given at the college or district.
  - f. The instructors meet the minimum qualifications to teach the courses being taught. Minimum qualifications are met if a person has a valid, unrevoked credential or meets minimum qualifications adopted by the Board of Governors for the particular discipline. (*CCR*, title 5, section 58060, and 53400 et. seq.)
  - g. The college or district exercises control and supervision over the educational program(s). This may be demonstrated by a variety of activities, including instructor orientation and training, ongoing communications with instructors (i.e. memos, faculty manuals, and on-site supervision), and course and instructor evaluations. (**Activities should be consistent with those the college or district performs for instructional activities taught by a paid part-time instructor on campus**).
  - h. The college and/or district certifies it did not receive full compensation for the direct education costs of the class from any public or private agency, individual, or group of individuals.

- i. The public or private agency, individual, or group of individuals with whom the district has a contract and/or instructional agreement did not receive full compensation from another source for the direct education costs for the conduct of the class.
  - j. For classes that are not fully funded under contracts described in *item i* above and are claimed for apportionment purposes, the district must require the contracting entity to certify that the direct education costs of the activity are not being fully funded through other sources.
4. A **significant deficiency** may also exist if the college or district lacks the appropriate documentation to support the following:
- a. Appropriate instructional service agreements exist per the Contract Guide for Instructional Service Agreements between College District and Public Agencies,
  - b. The educational program is under the control and direction of the college or district,
  - c. Written contracts or agreements with each instructor conducting instruction for which FTES are to be reported and must state that the college or district has the primary right to control and direct the instructional activities of the instructor,
  - d. The classes are open to all admitted students who meet approved prerequisites,
  - e. The instructors meet minimum qualifications,
  - f. Either the course is part of a program approved by the Chancellor's Office, or the college has received delegated authority to separately approve those courses, or
  - g. The district has failed to obtain the required certifications described in *item 3j* above.

Additionally, include the number of FTES claimed for the instructional activity included in any conditions cited.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 424 - STATE GENERAL APPORTIONMENT FUNDING SYSTEM

### .01 Background

Effective Fiscal Year 2006-07, program based funding was replaced with the SB 361 funding model. Workload measures and related testing simplified as a result.

Full-Time Equivalent Student (FTES), credit and noncredit, are the workload measures for the SB 361 funding model.

CCR, title 5, sections 58020-24, continues to require the district to maintain detailed documentation to substantiate the data reported on the "Apportionment Attendance Report" Form CCFS-320. Each district governing board is required to adopt procedures to document all course enrollment, attendance and disenrollment as required by CCR, title 5, sections 58020-58024. Pursuant to title 5, section 58030, these procedures shall include rules for retention of support documentation that would enable independent determination of the accuracy of data submitted by the district as a basis for state support. Such procedures must be structured to provide for internal controls. Suggested information to supplement the documentation of each course may include, but is not necessarily limited to:

1. The signature of the instructor on all primary attendance accounting documents as a certification of a true and accurate accounting (this would include online or electronically submitted documents where instructors affirm or certify a written statement on the electronic class roster that says all inactive students, as defined by CCR, title 5 Section 58004 and local board adopted procedures, have been dropped on the class roster as of the census date or that positive attendance hours are based upon an accurate count of students present at each course meeting), and
2. Any pertinent information concerning courses that have atypical characteristics or requirements (e.g., lab hours, hours to be arranged [TBA], intercollegiate athletics, field trips).

Thus, the evaluation of required documentation concerns not only the test of the validity of the information documented, but also of the system used to generate that information. For districts that have converted to online or electronic submission of census or positive attendance class rosters, it is important to confirm that sound security and accountability measures have been integrated into those processes (e.g., password based, internal controls, regular quality reviews of output data, and secure retention of records, either physical or electronic, that document each transaction). The burden is on the district to develop a system and related procedures that are consistent with applicable CCR, title 5 requirements, including those provided by Sections 58000, 58004, and 58030.

### .02 Criteria

- [Student Attendance Accounting Manual](#) (including the "Addendum Concerning Academic Calendars, Course Scheduling, and Related Topics")
- [Distance Education Guidelines \(2008 Omnibus Version\)](#), which provide updated guidance on attendance accounting for distance education courses and the "Alternative Attendance Accounting Procedure," formerly referred to as "Independent Study/Work Experience Attendance Accounting Procedure."

- Governing board-approved procedures adopted pursuant to Title 5 Sections 58004(c) and 58030 for documenting course enrollment, attendance, and disenrollment. These must be obtained from the district being audited.
- [List of approved college Term Length Multipliers for fiscal year 2013/14](#)  
[CCFS-320 Apportionment Attendance Report – CATALOG HOURS vs. SCHEDULE HOURS](#)
- [CCC Contact Hours Chart for the calculation of contact hours in five-minute increments](#)
- [CCR, title 5](#), section 58003.1, 58003.4, 58004, 58020, 58022, 58024, 58030, 58770, 58771, 58773, 58774, 58776, 58777, 58779, 58785, 84750.5 and 84760.5
- [Education Code](#) Section 8152
- [Labor Code](#), Section 3074
- [Data Element Dictionary for California Community Colleges Management Information System](#)

### .03 **Compliance Requirements**

All criteria above can be tested by auditors.

FTES calculations for the Annual Apportionment Attendance Report (CCFS-320) must be tested by the auditors every year.

Courses reported using each accounting procedure used at the district under audit must be tested with a statistically significant sample. To assist with extrapolation of FTES findings, a stratified sample of each type of course must be designed.

A stratified sample is required for FTES testing. Identify each type of FTES calculation in use at the district or campus under audit. See the five types of FTES calculations available in a-e under number 3 below. Take a statistical sample from each stratified population so that you can confidently extrapolate your results from the samples to the populations of each type of FTES in use at the district or campus. The Chancellors Office will use the total FTES number provided in the audit report to calculate a dollar amount related to this test.

**FTES** results must be extrapolated to the entire population of **each** attendance procedure tested.

Testing will trace records to detail (source) documents, not summary documents.

### .04 **Suggested Audit Procedures**

1. Verify that the district maintains and follows required governing board adopted procedures and that those procedures are in accordance with applicable CCR, title 5 and Student Attendance Accounting Manual (SAAM) requirements:
  - a. Pursuant to CCR, title 5 Section 58030, each district governing board is required to adopt procedures for course enrollment, attendance, and disenrollment documentation, including rules for retention of support documentation which would enable independent determination regarding accuracy of data submitted by the district as a basis for state support. Adopted procedures shall be so structured as to provide for adequate internal controls.

- b. Pursuant to CCR, title 5 Section 58004(c), each district is required to adopt procedures for the clearing of inactive enrollment in census-based courses. Refer to CCR, title 5 Section 58004 and SAAM for rules on clearing class rolls of inactive enrollment.
- 2. Verify that required tabulations are maintained for each course section and that attendance records are retained by the district for the required retention period:
  - a. Pursuant to CCR, title 5 Section 58020 et seq., a separate tabulation is required for each course section. Requirements vary for the various course categories (e.g., Weekly Census courses, Daily Census courses, Actual Hours of Attendance courses). Refer to CCR, title 5 Section 58020 et seq. and the SAAM for specific requirements for each course category.
  - b. Pursuant to CCR, title 5 Section 59025, records relating to attendance and FTES are classified as Class 3-Disposable Records and records basic to audit. As such, verify that these records are retained by the district for the minimum applicable 3-year record retention period required by CCR, title 5 Section 59026(b) and the SAAM.
- 3. Verify that the district uses the appropriate attendance accounting procedure for courses reported for apportionment in accordance with CCR, title 5 Section 58003.1 et seq. and accurately reports the contact hours for classes in each procedure:
  - a. Courses reported under the **Weekly Student Contact Hour Procedure** (Weekly Census) must possess the following attributes:
    - i. Credit course offered during a primary term (a semester for semester-system colleges or a quarter for quarter-system colleges)
    - ii. The course must be scheduled coterminously with the primary term.
      - 1. Course must begin when the term begins and end when the term ends, and must be scheduled to meet regularly during each instructional week of the term, exclusive of final examination scheduling.
      - 2. There must be at least three days of instruction and/or examination during each week of the primary term.
    - iii. FTES computation must apply the State-established Term Length Multiplier for the particular college as listed in the Criteria section above.

The course must be scheduled regularly with respect to the number of days of the week and the number of hours the course meets each week (including TBA hours).

The weekly student contact hours reported for each class reported under the Weekly Student Contact Hour Procedure should be the product of the number of students actively enrolled at census times the total scheduled weekly contact hours of the class, including TBA hours.

- b. Courses reported under the **Daily Student Contact Hour Procedure** (Daily Census) must possess the following attributes:
- i. Credit course scheduled to meet for five or more days
  - ii. The course must be scheduled regularly with respect to the number of hours during each scheduled day, but not be scheduled coterminously with the primary term (can be offered during any term or intersession). For example, 6- or 8-week courses offered during a primary term, or during a summer or winter intersession.
  - iii. FTES calculation must apply the correct course length multiplier (the number of days the course is scheduled to meet; holidays are not counted)
  - iv. TBA hours per week cannot be a part of a Daily Census class schedule. A Daily Census course must meet the same number of hours each day it meets.

The total student contact hours reported for each class reported under the Daily Student Contact Hour procedure should be the product of the number of students actively enrolled at census times the scheduled daily contact hours of the class, times the number of scheduled meetings of the class. Holidays are not counted.

- c. The **Actual Hours of Attendance Procedure** (commonly referred to as Positive Attendance) is based on an actual count of enrolled students present at each class meeting and applies to the following types of courses, among others:
- i. Short-term credit courses scheduled to meet fewer than five days
  - ii. Credit courses scheduled irregularly with respect to the number of days of the week and the number of hours the course meets on the scheduled days
  - iii. All open entry/open exit courses
  - iv. All credit in-service training courses, regardless of length, for police, fire, corrections, and other criminal justice system occupations
  - v. All noncredit courses except noncredit distance education courses and noncredit independent study courses
  - vi. Apprenticeship classes of related and supplemental instruction; applies to students in these classes who are not indentured apprentices. A separate attendance reporting system is used for indentured apprentices in these classes.
  - vii. Noncredit courses of individual student tutoring

*Note:* FTES for any credit course, with certain exceptions, may, at the option of the district, be computed using the Actual Hours of Attendance Procedure. The exceptions are: (1) independent study and work experience education courses, and (2) distance education and hybrid courses that, in most cases, must be reported using the Alternative Attendance Accounting Procedure.

The total student contact hours reported for each class reported under the Actual Hours of Attendance Procedure should be the sum of the individual attendance hour totals for each student in the class as reported by the instructor.

- d. The **Alternative Attendance Accounting Procedure** (formerly called the Independent Study/Work Experience Education Procedure) applies to the following types of courses:
- i. All independent study courses
  - ii. All cooperative education/internship/work experience courses
  - iii. All distance education and hybrid courses (a combination of distance education and classroom/laboratory instruction) that do not qualify for the Weekly Student Contact Hour Procedure or the Daily Student Contact Hour Procedure. See the Distance Education Guidelines and related supplementary publications for the special requirements for distance education and hybrid courses to qualify for WSCH or DSCH reporting.

*Alternative Attendance Accounting Procedure – Weekly Census:* The weekly student contact hours reported for each class should be the product of the number of students actively enrolled at census times the number of units of academic credit associated with the class. (In special cases, laboratory hours can be added; see Item 3 in the Audit Criteria section above for details.)

*Alternative Attendance Accounting Procedure – Daily Census:* The total student contact hours reported for each class should be the product of the number of students actively enrolled at census times the number of units of academic credit associated with the class, times the approved term length multiplier. (In special cases, laboratory hours can be added; see Item 3 in the Audit Criteria section above for details.)

- e. A special rarely used attendance accounting procedure involving two census dates for each course applies to all noncredit distance education and noncredit independent study courses. See the SAAM for details and references to related CCR, title 5 regulations.
4. Verify that courses are appropriately scheduled and contact hours are computed in accordance with CCR, title 5 Regulations and the Student Attendance Accounting Manual (SAAM), including *SAAM Addendum Concerning Academic Calendars, Course Scheduling, and Related Topics*



- a. Weekly or Daily Census contact hours reported must be computed based on the regularly scheduled hours for each class as published in the official schedule of classes, and not on the total number of contact hours listed on the course outline of record or college catalog.
  - b. Scheduling of courses must be consistent with the total number class hours indicated in the approved course outline of record. Reasonable variances are permitted if due to legitimate scheduling considerations caused by course compression, computational exigencies, or exceptions provided for in CCR, title 5. Auditors should use their judgment as to “reasonable variance” based on the guidance and examples in the *SAAM Addendum Concerning Academic Calendars, Course Scheduling and Related Topics*.
  - c. Individual class schedules must be based on five-minute increments for starting and ending times (e.g., 8:00 a.m. to 9:25 or 8:00 a.m. to 11:10 a.m.)
  - d. Confirm that contact hours are computed based on definitions and rules in CCR, title 5 Section 58023 and the SAAM, with a special focus on multiple-hour classes (e.g., a class that meets from 8:00 a.m. to 9:20, 8:00 a.m. to 11:50, or 6:00 p.m. to 9:05 p.m.).
  - e. The start and end times of each class meeting must be explicitly stated in every published schedule of classes and addenda, in print and online, exclusive of To Be Arranged hours (TBA).
  - f. Verify that correctly computed course section tabulations are maintained and contact hours are appropriately aggregated for purposes of district contact hour and FTES reports, including the district’s Apportionment Attendance Accounting Report (CCFS-320).
5. Verify that the district has secured, as applicable, Chancellor's Office approval for credit and noncredit courses reported for apportionment funding, and that all courses have been approved by the local governing board following approval by a district/college curriculum committee. All noncredit courses are subject to Chancellor's Office approval before students may be allowed to enroll in the courses. Under conditions described in the Program and Course Approval Handbook, some credit courses may not require Chancellor's Office approval, such as non-degree-applicable credit courses and degree-applicable credit courses which are not part of an approved educational program (commonly known as “stand-alone” courses).

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 425 - RESIDENCY DETERMINATION FOR CREDIT COURSES

### .01 Background

District internal fiscal controls should ensure that state apportionment for credit courses is only claimed for student attendance allowed by statute and regulation. Student residence at the time of registration is a major factor for allowing districts to claim state apportionment for credit courses.

### .02 Criteria

- [Education Code](#) Sections 68000-68044, 68050-68080, 68082, 68100, 68130, 76140, 76140.5, and 76143 (note section 68075.5 is amended in 2012, 76140 has an addition and amendment in 2012)
- [CCR, title 5](#), sections 54000-54072
- [California Community Colleges, Student Attendance Accounting Manual \(SAAM\)](#)

### .03 Compliance Requirement

All criteria above can be tested by auditors.

Each district must act to ensure that only the attendance of California residents is claimed for State support of credit classes.

### .04 Suggested Audit Procedures

1. Test the supporting residency documentation (hardcopy and/or electronic) of a sample of students in credit courses to determine whether each student has been properly classified as either a "resident" or a "nonresident." The residence questionnaire used by the district in making residence classifications must require students to certify their answers under oath or penalty of perjury (certified electronically using an electronic signature or a manual signature).

2. In addition, test a sample of student-athletes in credit courses to determine if residency status has been properly classified. A student-athlete is a participant in an organized competitive sport sponsored by the district/college in which he or she is enrolled.
  - a. Compare the student's admission application and residence questionnaire to the athlete's Commission of Athletics Form 1 for applicable information and confirm consistency.
3. Review the selected credit course section tabulations for the students in the above samples to determine whether the attendance of nonresidents has been inappropriately claimed for State support.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 426 STUDENTS ACTIVELY ENROLLED

### .01 Background

For attendance accounting purposes, districts are required to clear the rolls of all inactive students as of each course section's drop date. The drop date shall be no later than the end of business of the day immediately preceding the beginning of the census week in weekly census procedure courses, or the day immediately preceding census day in daily census procedure courses, and is the date used to clear the rolls of the inactive enrollment for attendance accounting purposes. For noncredit distance learning courses, the drop date to clear the rolls of inactive students shall be the day prior to each of the two census dates.

### .02 Criteria

- [CCR, title 5, sections 58003.1, 58004, 58005, and 58051](#)
- [Student Attendance Accounting Manual \(SAAM\), California Community Colleges, pages 1.02-1.04](#)

**.03 Compliance Requirement**

All criteria above can be tested by auditors.

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

**.04 Suggested Audit Procedures**

1. For weekly census procedure courses, review course schedules to determine that applicable credit courses were scheduled coterminously with the primary term and that the correct census weeks were used in computing contact hours of enrollment. Census week is the week nearest one-fifth of the number of weeks of the primary term. (Each week counted shall include at least three days of instruction or examination, exclusive of mandatory or local holidays.)
2. For daily census procedure courses, review credit course schedules to determine that the correct census day was determined as that nearest one-fifth of the number of sessions for which the course is scheduled to meet, exclusive of mandatory or local holidays.

Note: For short-term daily census courses where the census falls on the first day of the course, the enrollment is to reflect the active enrollment as of the end of the first day, and the census is on the second day.

3. For noncredit distance learning (independent study) courses, determine that the correct census dates were at the points nearest the one-fifth and three-fifths of the length of the course.
4. Test supporting disenrollment records to see whether they substantiate the count of active enrollment recorded on selected census procedure course tabulations. As of the last day of business that precedes the census day, any student who has:
  - a. Been identified as a no show, or
  - b. Officially withdrawn from the course, or
  - c. Been dropped from the course

shall not be considered actively enrolled in the course pursuant to CCR, *title 5*, section 58003.1 and 58004.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 427 CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES

### .01 Background

Existing law authorizes the establishment of community college districts under the administration of community college governing boards, and authorizes these districts to provide instruction at community college campuses throughout the state. The governing board of a school district may authorize kindergarten through 12<sup>th</sup> grade (K-12) pupils who would benefit from advanced scholastic or vocational work, upon recommendation of the principal of the pupil's school of attendance, and with parental permission, to attend community college as special part-time or full-time students to undertake one or more courses of instruction at the community college level.

### .02 Criteria

- [Education Code](#) Sections 48800–48802, 76000–76002, and 84752 Note: **As of January 1, 2014, changes to section 48800(e) render some paragraphs of subdivision (d) inoperative. Therefore, the areas highlighted in yellow in this test are not valid after January 1, 2014, but have been left in for the testing of the time period prior (see item 7.b. below under “Compliance Requirements” and item 5.b. under “Suggested Audit Procedures”).**
- [CCR, title 5](#), sections 51004, 51006, 51021, 53410, 55002, 55100, 58050, 58051(a) (1), 58051.5, 58052, 58056(a), 58058, 58060, 58100–58108, and 59300 et seq. (note section 58108 is amended in 2012)
- Legal Opinions [M 98-17](#) and [M 02-20](#) issued by the Chancellor's Office, California Community Colleges.
- [Legal Advisory 05-01](#), “Questions and Answers Re. Concurrent enrollment” – issued January 5, 2005 by the Chancellor's Office, California Community Colleges.

### .03 Compliance Requirements

All criteria above can be tested by auditors.

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with all the following:

1. *Education Code* Section 76002(a) specifies that for purposes of receiving state apportionments, a community college district may include high school pupils who attend a community college within the district pursuant to Sections 48800 and 76001 in the district's report of *full-time equivalent students* (FTES) only if those pupils are enrolled in community college classes that meet all the following criteria:
  - a. The class is open to the general public.

- b. The class is advertised as open to the general public in one or more of the following:
    - i. The college catalog.
    - ii. The regular schedule of classes.
    - iii. An addendum to the college catalog or regular schedule of classes.
  - c. If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class shall be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.
  - d. If the class is offered at a high school campus, the class may not be held during the time the campus is closed to the general public, as defined by the governing board of the school district during a regularly scheduled board meeting.
2. If the class is a physical education class, no more than ten percent of its enrollment may be comprised of special part-time or full-time students. In the view of the Chancellor's Office, this ten percent limit serves as a limit on how many students may be claimed for apportionment in each course section, not how many may actually be enrolled in a class section. In addition, a community college district may not receive state apportionments for special part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES of special part-time and full-time students.
  3. The district must comply with the credit course approval requirements of CCR, title 5, sections 51004, 51021, 55002(a) or (b), 55100, and 58050. Courses are not eligible for apportionment if they have not been properly approved by the district and, where applicable, by the Chancellor's Office, or are not taught in accordance with a locally established course outline.
  4. The district must comply with the instructor supervision requirements of CCR, title 5, sections 55002(a)(4), 55002(b)(4), 58050, 58051(a)(1), 58052, 58056, 58058, and 58060. And the instructor qualification requirements of section 53410 and 58060. Educational activities of students used in computing FTES must be under the immediate supervision and control of an academic employee of the district who is authorized to render service in that capacity. Immediate supervision requires the presence of the authorized employee and is characterized by all of the following:
    - a. The employee is able to provide immediate instructional supervision and control, in terms of physical proximity and range of communication and
    - b. The employee is in a position to provide supervision and control for the protection of the health and safety of students; and
    - c. The authorized employee does not have any other assigned duty during the instructional activity for which attendance is being claimed.

5. For courses taught under a contract with a public or private agency as provided in CCR, title 5, section 58058, a district must have contracts both with the agency and with the individual who will provide the instruction. Both contracts must specify that the community college district has the primary right to control and direct the activities of the person providing the instruction. The requirements concerning immediate instructional supervision and control apply fully to those persons who provide instruction under these special contracts.

If all the conditions are met, the person furnished by the public or private agency remains an employee of the agency, but is considered an “employee of the district” for the limited purpose of rendering instructional service during the term of the contract. In all cases, including the special contracting system, employees of the district who teach credit courses must meet the minimum qualifications for community college instructors. In most cases, the minimum qualification is the possession of a master's degree in the discipline of the instructor's assignment, or the equivalent.

6. Per *Education Code* Section 84752, no community college district shall receive FTES funding for activities that are fully funded through another source. If a contract between a community college and a K-12 school district contains provisions that the K-12 school district will pay the community college for the full costs of offering a particular course, the community college district cannot claim apportionment for the course.
7. Per *Education Code* Section 48800, for summer sessions, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of the recommendation. In addition:
- Recommended pupils must demonstrate adequate preparation in the discipline to be studied.
  - The pupil must exhaust all opportunities to enroll in an equivalent course, if any, at his or her school of attendance.

AB 967 became operative January 1, 2006 and SB 1303 became operative January 1, 2007 both revised Education Code 48800(d)(3) excluding pupils enrolled in certain courses from the five percent (5%) principal's recommendation restrictions for community college summer session attendance. As a result, the 5% recommendation limitation is expanded and allows the recommendation of additional students if specified criteria are met. [see note under “Criteria” concerning this highlighted language.]

8. Per *Education Code* Section 76001(d), special part-time students may enroll in up to 11 units per semester.
9. Per *Education Code* Section 76002 (b), the governing board of a community college district may restrict the admission or enrollment of a special part-time or full-time student during any session based on any of the following criteria:
- Age.
  - Completion of a specified grade level.

- c. Demonstrated eligibility for instruction using assessment methods and procedures established pursuant to *Education Code* Sections 78210 – 78300 and regulations adopted by the Board of Governors of the California Community Colleges.

.04 **Suggested Audit Procedures**

1. For concurrent enrollment attendance claimed by the community college district for state apportionment, test a representative sample of the courses generating the greatest number of concurrent enrollment FTES. Include the number of FTES claimed for the instructional activity of any conditions cited for the following:

Note: Request Data Mart data element: SB11, Student Education Status from District management information system to identify special admit students currently enrolled in K-12.

- a. Determine if courses were open to the general public as evidenced by a clear and understandable description of the course published in the official catalog, and/or schedule of classes, and/or addenda. (*Education Code* Section 76002 and *CCR*, title 5, sections 51006, 58050, 58051.5, and 58102–58108).
- b. If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class must be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.

***Reference Legal Advisory 05-01, question 7.***

- c. Determine if the registration procedures for courses had the purpose or effect of limiting enrollment to a specialized clientele such as K-12 pupils. The governing board of a community college district may restrict the admission or enrollment of a special part-time or full-time student during any session based on age, completion of a specified grade level, or demonstrated eligibility for instruction using assessment methods and procedures established pursuant to *Education Code* Sections 78210 – 78300 and regulations adopted by the Board of Governors of the California Community Colleges.
- d. Determine if courses received necessary approvals and were taught in accordance with the applicable outline of record. (*CCR*, title 5, section 51004, 51021, 55002, and 55100 et seq.)
- e. Determine if the instructor teaching each course satisfies applicable minimum qualifications. (*CCR*, title 5, sections 53410 et seq. and 58060)
- f. Determine if instruction for each course was conducted under the immediate supervision and control of the responsible district employee. (*CCR*, title 5, section 58056)
- g. For all courses conducted under a contractual agreement pursuant to *CCR*, title 5, section 58058, determine that the district has an appropriate contract with both the public or private agency and with the employee furnished by that agency.
- h. For all courses conducted under a contractual agreement, including those pursuant to *CCR*, title 5, section 58058, determine whether the district received



certification verifying that the instructional activity conducted was not fully funded by other sources. Where no contract exists, determine whether the district obtained such a certification or can otherwise demonstrate that the instructional activity conducted was not fully funded by other sources. (*Education Code* Section 84752 and *CCR*, title 5, section 58051.5)

2. Verify that any special part-time K-12 students present in the course sample are enrolled in no more than 11 units per semester and that the district has obtained verification from the K-12 school district that the student can benefit from advanced scholastic or vocational work. (*Education Code*, Sections 48800(a), 48800.5, 76300 and 76001(d)).
  - Auditor should verify enrollment fees are assessed for all units once 11 units exceeded and student becomes special full-time student.
3. Determine that the district has not received state apportionment funding for special part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES enrollment of special part-time and full-time students. (*Education Code* Section 76002(a)(4))
4. For physical education course sections, determine that not more than ten percent of the enrollment **claimed** for apportionment for each course section consists of special part-time or full-time students. (*Education Code* Section 76002(a)(4))
5. For summer session attendance, determine if the district has procedures to require K-12 principal(s) certify that they have not recommended for community college attendance more than five percent of the total number of pupils who completed that grade immediately prior to the time of recommendation. (*Education Code* Section 48800 (d) (2)).
  - a. Auditor may test other documentation maintained by the District aside from certifications; however, contemporaneous evidence should provide similar assurances.
  - b. Note: Regarding the responsibility to ensure compliance with the 5% limitation for summer session admission, reference Legal Advisory 05-01, Question 26. **Also, reference changes to Education Code 48800(d) (3).** [see note under "Criteria" concerning this highlighted language.]

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## **430 - SCHEDULED MAINTENANCE PROGRAM**

### **.01 Background**

The Scheduled Maintenance Program is designed to protect the State's investment in community colleges through the timely repair and maintenance of facilities, to correct and avoid health and safety hazards, to maintain an environment conducive to learning, to prevent the disruption of programs, and to improve long-term cost effectiveness of facility operations.

Scheduled maintenance and special repair means unusual, non-recurring work to restore a facility to a safe and continually usable condition for which it was intended.

### **.02 Criteria**

1. [Education Code](#) 84660
2. [CCR, Title 5](#): 57200-57205
3. [2013 Budget Act](#) [AB 110, Ch. 20, Item 6870-101-0001(19)] Requirement for audit is on page 532-533, provision 30(a)(1)
4. Scheduled Maintenance 5-Year Plan – located in the FUSION system
5. Scheduled Maintenance Program Criteria for Evaluating Waiver of 50% District Match
6. [Budget and Accounting Manual \(BAM\)](#)
7. Block Grant Certification for Expenditures
8. [FP99-09 Facilities Planning Unit Advisory dated August 6, 1999](#)

### **.03 Compliance Requirement**

Funds provided by the State must be to supplement, not supplant, district deferred maintenance funds. This is defined as the amount spent in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and the district's match for the Scheduled Maintenance Program for the year being audited.

### **.04 Suggested Audit Procedures**

1. Determine how much in district funds was spent in fiscal year 1995-96 in the General Fund on Operation and Maintenance of Plant (Activity Code 6500), excluding any state funds and match dollars expended for "Deferred Maintenance and Special Repairs" as defined in Education Code Section 84660, if reported in Activity Code 6500. (This amount may be found in the audit report for fiscal year 1998-99).

2. Determine how much the district expended for Operation and Maintenance of Plant (Activity Code 6500) in the General Fund for the fiscal year being audited.
3. Determine Scheduled Maintenance and Special Repairs block grant expenditures (include state and district match) for the fiscal year being audited.
4. Determine other Scheduled Maintenance and Special Repairs expenditures incurred and funded by district or other funds for the fiscal year being audited.
5. Add the amounts determined in 2, 3, and 4 above.
6. Add the amounts determined in 1 and 3 above.
7. A reportable instance occurs if the amount identified in **6** above is greater than the amount identified in **5** above. The worksheet below has been provided to assist the auditor in determining compliance.

<b>SCHEDULED MAINTENANCE PROGRAM MAINTENANCE OF EFFORT WORKSHEET</b>	
1. 1995-96 Operations and Maintenance Expenditures (Actual from 1998-99 Annual Audit Report).	\$ _____
<b>Expenditures for fiscal year being audited</b>	
2. General Fund Expenditures – Routine Maintenance and Operation of Plant (Activity 6500) and Physical Property and Related Acquisitions (Activity 7100) All Fund Sources	\$ _____
3. Total Scheduled Maintenance and Special Repairs <b>Block Grant Expenditures</b> (Includes State and District <b>Match</b> )	\$ _____
4. District/Other Funded Scheduled Maintenance and Special Repairs Expenditures	\$ _____
5. Total Expenditures (Add lines 2, 3, and 4)	\$ _____
6. Line 1 Plus Line 3	\$ _____
Maintenance of Effort test is met if line 5 equals or exceeds line 6.	

## 431 – GANN LIMIT CALCULATION

### .01 Background

Article XIII-B of the California Constitution and Chapter 1205, Statutes of 1980, require each community college to compute its annual appropriation limit. Each limit is adjusted annually for changes in price index, population and, if applicable, other factors. CCR title 5 section 58303 indicates that the district's adopted budget shall also include the appropriations limit and the total annual appropriations subject to limitations. Government Code, Section 7908(c) requires each community college district to report to the Chancellor of the California Community Colleges and to the Director of the Department of Finance at least annually its appropriation limit, appropriations subject to limit, state aid apportionments, subventions included within property tax proceeds and amounts excluded from the appropriations subject to limit. This information is reported in the Annual Financial and Budget Report, CCFS-311, Part 2 General Fund Supplemental Data.

### .02 Criteria

- [Article XIII-B](#), Section 1.5, of the California Constitution.
- Proposition 111, effective July 1, 1990.
- [CCR, title 5](#), section 58303.
- [Government Code](#) Section 7908(c).

### .03 Compliance Requirement

All criteria above can be tested by auditors.

Each district's adopted annual financial and budget report shall include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code Division 9 (commencing with Section 7900). The calculation and adoption shall be verified by certified public accountants as part of annual financial audits.

### .04 Suggested Audit Procedures

1. Obtain the Gann Limit Worksheet for the current fiscal year from the district business office and compare the summary figures reported in the CCFS-311 with the Gann Limit Worksheet totals.
2. Test the calculations performed on the worksheet.
3. Trace the source figures used on the current year's worksheet back to the source documents. For instance, previous years' attendance figures are available on the CCFS 320s. Line 1.A., the previous year's Apportionment Limit including state transfer, is an accumulation of previous years' calculations; hence, that amount should be traced back to the total from the previous year's worksheet but it is not necessary to trace that amount back through the numerous worksheet calculations since 1980.

Note: With the change in reporting requirements, the worksheet calculations do not need to be certified by the district's governing board.

4. Reportable errors exist if calculations are significantly in error or if source figures are summarized inaccurately.

## 435 - OPEN ENROLLMENT

### .01 Background

CCR, title 5, section 51006, specifies that the governing board of each community college district shall adopt by resolution a policy related to open courses. In addition, a statement of this policy shall be published in the official catalog, schedule of classes, and any addenda to the schedule of classes for which full-time equivalent students (FTES) is reported for state apportionment. Finally, each district shall also file a copy of the statement with the Chancellor.

### .02 Criteria

- [CCR, title 5](#), sections 51006, 58050, 58051, 58051.5, 58051.6, 58102, 58104, and 58106
- [Penal Code Section 832.3\(c\)](#)
- [Legal Advisory 05-01](#), “*Questions and Answers Re. Concurrent enrollment*” – issued January 5, 2005 by the Chancellor’s Office, California Community Colleges.
- [Legal Advisory 05-04](#): “*Distance Education and Open Course Requirements*” – issued May 10, 2005 by the Chancellor’s Office, California Community Colleges.

### .03 Compliance Requirement – Open Courses

All criteria above can be tested by auditors.

Community college districts shall comply with the CCR, title 5, provisions related to open enrollment by the general public for all the courses being submitted for state apportionment funding.

Courses that qualify for state apportionment must be open to enrollment by the general public unless specifically exempted by statute. CCR, title 5, sections 58102, 58104, and 58106 outline certain requirements that districts must meet to ensure that their courses are open and available to all students. For example, CCR, title 5, section 58104 states that a description of each course must be published in the official catalog and schedule of classes and that for courses that the districts establish or conduct after publication of the general catalog or regular schedule of classes, those classes must also be reasonably well publicized. Furthermore, course announcements shall not be limited to any specialized clientele, nor shall any group or individual receive notice before the general public for purposes of preferential enrollment. The courses should be advertised in such a manner that anyone who might be interested in enrolling in a particular course section will know it is available and understand that enrollment is open to anyone who meets properly established prerequisites or enrollment limitations.

State apportionment can also be claimed for in-service training courses in the areas of police, fire, corrections, and other criminal justice system occupations if the courses meet all apportionment attendance and study requirements otherwise imposed by law. At least 15 percent of the enrollment in law enforcement continuing training prescribed in Penal Code Section 830-832.16 and 15 percent of the enrollment in in-service fire training courses shall consist of persons who are not law enforcement trainees nor volunteers of, nor employed by, a fire protection or fire prevention agency or association, if the persons are available to attend a course. (CCR, title 5, section 58051(c), (d), and *Penal Code* Section 832.3(c)) Community colleges may give preference in enrollment to persons employed by or serving in a voluntary capacity with a fire protection or prevention agency or to law enforcement trainees when such persons could not otherwise complete the course within a reasonable time or the time required by statute, and when no other training program is reasonably available. For purposes of state apportionment, classes must be located in facilities that are clearly identified to promote attendance by the general public except where specifically allowed otherwise by statute. [See Legal Advisory 05-04, Distance Education and Open Course Requirements, which provides that the Chancellor's Office will from the date of the advisory accept two-way synchronous distance education conducted between fixed locations as being "open" (and eligible for apportionment) if at least half of the sites are open to all students.] (CCR, title 5, sections 58051(d) and 58051.5(a)(3))

#### .04 **Suggested Audit Procedures**

1. Sample the class announcements of classes claimed for state apportionment to ensure that all classes were open to all admitted students unless specifically exempted. Ensure that classes conducted off campus are included in the items tested, if applicable.
2. Ensure all classes included in the above sample are located in facilities clearly identified in such a way to ensure that attendance is open to all admitted students unless exempted by statute. For example, classes offered at a high school campus must be offered at times that the high school campus is open to the general public.
3. Test a sample of classes to ensure that all classes are listed in the college catalog and in the class schedule for the term the respective classes were offered. There should be a clear and understandable description of each class.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 438 - STUDENT FEES – HEALTH FEES AND USE OF HEALTH FEE FUNDS

### .01 Background

Express statutory authority is required to charge any mandatory student fees. In some cases, districts are required to charge fees (e.g., the enrollment fee of *Education Code* Section 76300), and in other cases, districts are permitted to charge mandatory fees (e.g., the health fee of *Education Code* Section 76355).

Districts may also charge fees that are optional in nature, provided that the fee is not in conflict or inconsistent with existing law, and is not inconsistent with the purposes for which the district has been established.

#### Health Fees

Education Code section 76355 authorizes a community college district to charge a fee not to exceed \$10 per semester, up to \$7 for summer sessions or for intersessions of at least four weeks in length, or up to \$7 per quarter for health supervision and health services. The governing board of a district may increase the health fee by the same percentage increase as the Implicit Price Deflator for State and Local Government Purchase of Goods and Services. Whenever the calculation produces an increase of \$1 above the existing fee, the fee may be increased by \$1.

Effective with the Summer Session of 2012, districts were authorized to raise the maximum health fees to \$19 per semester and \$16 per summer session or intersession of at least four weeks, or \$16 per quarter. The fee increase was based on calculations by the Department of Finance.

Section 76355 also requires boards to adopt rules and regulations that exempt certain students from the payment of health fees. Under subsection (c), districts **must** exempt students who depend on prayer for healing, and students attending community college under an approved apprenticeship program. Districts should also ensure that the existence of the two statutory exemptions is communicated effectively to the students so that they will be aware of potential applicable exemptions.

### .02 Criteria

- [Education Code](#) Sections 70902 and 76355
- [CCR, title 5](#), section 51012, Student Fees.
- [CCR, title 5](#), section 54700 – 54710, Proper Use of Funds
- [Student Fee Handbook](#) published by Chancellors Office for Community Colleges, October 18, 2012.
- [AB 982 Health Fee Waiver Guidance and AB 982 Health Fee Waiver Q & A](#), Chancellor's Office

### .03 Compliance Requirement

All criteria above can be tested by auditors.

*Education Code* Section 76355 allows districts to charge a fee to provide for health supervision and health service and also requires boards to adopt rules and regulations that exempt certain students from the payment of health fees.

It is important that districts advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions. The required exemptions to the health fees are:

- a. Students who depend upon prayer for healing in accordance with teachings of a bona fide religious sect, denomination, or organization.
- b. Students who are attending a community college under an approved apprenticeship training program.
- c. Low-income students. However, effective January 1, 2006, the health fee exemption for low-income students is no longer required and becomes optional per AB 982 (*Education Code* Section 76355 (c)).

CCR, title 5, Section 54700 requires that all student fees collected for the student health services program shall be deposited in a special fund established for that purpose by the district. All monies in this fund shall be expended only for the purposes for which they were collected.

- a. The health supervision and services fee which the governing board of a district may require students to pay shall be expended only to cover the direct and indirect costs necessary to provide any, all of, or a portion of the student health programs and services approved by the governing board within the district as described in CCR, title 5, Section 54702.
- b. CCR, title 5, Section 54704 – Allowable Charges states that those identifiable expenses incurred which directly benefit the student health service program, as defined in Section 54708, are allowable charges to the student health fund for the health services authorized by the district governing board pursuant to Section 54702. Where the expense is not exclusively for the student health program, only the prorated portion applicable to the student health service program may be charged against this fund.
- c. CCR, title 5, section 54706 - *Expenses Not Funded* states that student health fees shall not be expended for the following expenses:
  - a. Salaries of personnel not directly involved in the delivery of student health services;
  - b. Administrative salaries (assistant dean level or its equivalent and above);
  - c. Athletic trainers' salaries;
  - d. Athletic insurance for the intercollegiate athletic team;
  - e. Medical supplies for athletics;
  - f. Physical examinations for intercollegiate athletics;
  - g. Ambulance services and salaries of health professionals for athletic events;
  - h. Any deductible expenses for accident claims filed for athletic team members;
  - i. Sabbatical expenses for health services personnel.

Nothing within these provisions should deny a student participating in athletic programs a service which is properly supported by student health fees.



CCR, title 5, Section 54708 – Fundable Expenses states that student health fees may be expended for costs related to the provision of health services authorized by the governing board pursuant to Section 54702. Costs such as planning, supervision, and evaluation of student health programs and services, administrative salaries (below the level of assistant dean or its equivalent); cost of instructional material for health education; consultants directly involved in student health service programs; rental and lease of space for the conduct of student health programs and services; cost of equipment and medical supplies; student health and or hospitalization insurance; travel with student health services funds is limited to student health personnel and only for student health related activities.

#### **.04 Suggested Audit Procedures**

1. Determine whether the district charges a mandatory health fee. If so, test to determine whether the health fee is described in the catalog and any online or other information concerning student fees and that the required exemptions from payment of the fee are described. (If a district does not have any apprenticeship programs, it need not describe the apprenticeship exemption.) Determine whether the district has a clear process through which students may claim an exemption.
2. Determine if the district's expenditure of health fee funds are appropriate.
3. Determine whether the amount of the fee charged is current for the period under audit.

### **439 - Prop 39 Clean Energy Fund**

#### **.01 Background**

The implementing legislation for Proposition 39 added a new chapter within the Clean Energy Job Creation division of the Public Resources Code. Funding provided to community college districts pursuant to Public Resources Code Section 26240(g) is subject to annual audits required by Section 84040 of the Education Code.

#### **.02 Criteria**

1. [Public Resources Code sections 26225-26240](#)
2. [Education Code 84040](#)
3. Approved CCC Prop 39 Energy Project Guidelines and Project Funding Application
4. [Public Contract Code \(PCC\) section 20133](#)

#### **.03 Compliance Requirement**

1. Financial compliance includes: installation of approved plan retrofits or new installations; reflection of approved CCC Prop 39 Project Funding application and Project Measurement and Verification (M&V) documentation in actual equipment installations; supporting documents substantiate purchases; and, for larger ticket items like boilers and HVAC, serial numbers on equipment match serial numbers on supporting purchase documents.

2. Source documents support administrative/overhead costs, if allowed.
3. Proposition 39 funds are tracked and reported separately, and not comingled with other funds.
4. Rules for competitive bidding, and PCC are met.
5. Energy efficient retrofit or new installation is properly installed pursuant to the approved project scope.
6. Utility energy cost savings are tracked pre and post retrofit to verify effectiveness by means of the Program Tracking Database.

.04 **Suggested Audit Procedures**

1. Test Prop 39 funds to verify that they are tracked and reported separately. They are not to be comingled with other state or local funds.
2. Review Final Project Verification Report to ensure completion and that it has appropriate signatures.
3. Trace items on approved CCC Prop 39 Project Funding application and Project Verification Report to supporting documents. (Invoices, purchase orders, etc)
4. Verify compliance with competitive bid process and other PCC requirements.

## **474 – EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS) and COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)**

.01 **Background**

Extended Opportunity Programs and Services (EOPS) were established "to encourage the enrollment of students handicapped by language, social, and economic disadvantages, and to facilitate the successful completion of their education goals and objectives." (Education Code § 69641) The program was authorized under Senate Bill 164 (Chapter 1579, Statutes of 1968), as amended by AB 3100 (Chapter 1010, Statutes of 1976), SB 2283 (Chapter 609, Statutes of 1984), and AB 3775 (Chapter 1178, Statutes of 1989). State allocations for EOPS are awarded on the basis of need, as supported by data submitted by community college districts. The data are expected to reflect the number of documented, eligible EOPS students identified and served by the district.

The Cooperative Agencies Resources for Education (CARE) program was established in 1982 as a supplemental component of EOPS to provide educational support services and activities for the academically under-prepared, welfare-dependent, single head-of-household student population. CARE was established to assist EOPS students who are at least 18 years old and single heads-of-household, current recipients of CalWORKS/TANF/AFDC (California Work Opportunities and Responsibility to Kids/Temporary Assistance for Needy Families/Aid to Families with Dependent Children), have one child under 14 years old, to break the welfare-dependency cycle by completing college-level educational and training programs.

EOPS and CARE are programs unique to the State of California and the California Community Colleges, where they are found in all 72 college districts. Program participants may be eligible to receive grants, allowances and/or services for educational costs to strengthen their retention, persistence, graduation, transfer rates, and overall academic success.

Students participating in EOPS and CARE may choose vocational certificate or license, associate degree, or transfer program options. Their selection of educational or career choices is facilitated with the assistance of EOPS-CARE and/or college counselors.

EOPS and CARE are state-funded Proposition 98 categorical programs with two separate and distinct funding streams. Program funds must be:

- 1) Held in separate budget accounts;
- 2) Expended within the fiscal year in which they are allocated; and
- 3) Restricted for specific purposes that assist targeted student populations.

## .02 **Criteria**

- [Education Code](#) Sections 69640-69656
- [CCR, title 5](#), sections 56200-56298 (EOPS)
- [Education Code](#) Sections 79150-79155 (CARE)
- [CARE Program Guidelines](#) (See Requests for Waivers)
- [CARE Auditing Guidelines](#)
- [EOPS Implementing Guidelines](#)
- [EOPS Expenditure Guidelines](#)
- [Memorandum -Use of Categorical Program Funds for Administrative Fees and Indirect Costs](#)
- [California Community Colleges Management Information System's Data Element Dictionary](#) (data elements SE01-SE10).
- [Management Information Systems Data Mart – EOPS reports](#)

## .03 **Compliance Requirement**

All criteria above can be tested by auditors.

Districts are required to expend EOPS and CARE funds to provide services that are specifically designed to supplement the college's existing support programs and to help EOPS and CARE eligible students complete their educational goal.

## .04 **Suggested Audit Procedures**

1. Determine that the student eligibility for EOPS and CARE has been verified. EOPS documents required are:
  - 1) EOPS or EOPS/CARE application;
  - 2) EOPS student education plan;
  - 3) EOPS mutual responsibility contract.

2. In addition, for CARE: written verification of the student's or their dependent child(ren)'s CalWORKs/TANF cash aid status from the county welfare department, campus CalWORKs or Tribal TANF. Verify that EOPS and CARE expenditures for Academic Salaries, Non-academic salaries and employee benefits are for positions approved in the EOPS and CARE budget annual plans. Expenditures for salaries and benefits are allowable for active EOPS or CARE employees. (EOPS and CARE funds may not be expended on employees on sabbatical or extended leave).
3. Verify that EOPS and CARE funds were not used for the following expenditures, which are **not allowed**:
  - a. College administrative support cost (e.g., staff of the business office, bookstore, reproduction, staff at the dean salary level and above.)
  - b. Indirect costs (e.g., heat, lights, power, janitorial services).
  - c. Political or professional association dues and/or contributions.
  - d. Costs of furniture (chairs, desks, coats, hangers, etc.)
  - e. Cost of construction, remodeling, renovation, or vehicles.
  - f. Travel costs other than travel costs of EOPS/CARE staff and students for EOPS/CARE activities or functions.

Except for items (a) through (c) above, waivers may be approved by the Chancellor on a case by case basis.

4. Verify that EOPS/CARE funds that remain unexpended as of June 30, of the fiscal year in which the funds are allocated, have been documented to be returned to the Chancellor's Office.
5. Verify that the EOPS Advisory Committee met at least once during each academic year and the CARE Advisory Committee met twice during each academic year.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 475 - DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)

### .01 **Background**

Disabled community college students are those with exceptional needs who, because of a verified disability, cannot benefit from general education classes, activities, and services without specific additional DSPS program support services. The purposes of these special programs and services are to integrate the disabled student into the general college program; provide educational intervention leading to vocational preparation, transfer, or general education; and increase independence or referral of the students to community resources most appropriate to their needs. Furthermore, they are to be provided only when they facilitate the student's measurable progress towards his or her educational goals. Disabled Student Programs and Services is a categorical aid program authorized under AB 77 (Chapter 275, Statutes of 1976) as amended by AB 2670 (Chapter 1407, Statutes of 1978), further modified by AB 8 (Chapter 282, Statutes of 1979), and SB 1053 (Chapter 796, Statutes of 1981) and amended by AB 746 (Chapter 829, Statutes of 1987). State allocations for the program are awarded on an excess-costs basis to meet the educational needs of students with verifiable disabilities. Community college districts shall submit student-count data annually to document eligible DSPS students served.

### .02 **Criteria**

- [Education Code](#) Sections 14020.1, 67310-67313, 71020.5, 84320-84328, and 84850
- [CCR, title 5](#), sections 56000-56076
- [Management Information Systems Data Mart – DSPS reports](#)
- <http://DSPS> (includes allocations link)

### .03 **Compliance Requirement**

All criteria above can be tested by auditors.

Auditors must be allowed to review student files for DSPS eligibility.

### .04 **Suggested Audit Procedures**

1. Test student files for eligibility.
2. Test expenditures for appropriate use of DSPS funds.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year.

**Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 479 - TO BE ARRANGED HOURS (TBA)

### .01 Background

**TBA Definition:** Some courses with regularly scheduled hours of instruction have "hours to be arranged" (TBA) as part of the total contact hours for the course. The TBA portion of the course uses an alternate method for regularly scheduling a credit course for purposes of applying either the Weekly or Daily Census Attendance Accounting Procedures pursuant to CCR, title 5, sections 58003.1(b) and (c), respectively. The procedures which must be followed for the TBA hours are described below. In some situations the entire course might be on TBA, and in that case this course would follow the same rules. (Note: The Student Attendance Accounting Manual, page 3.3, refers to TBA hours or "hours to be arranged," which for purposes of this advisory have the same meaning as "HBA" or "hours by arrangement" or any other local term used to designate these hours.)

TBA hours are only an option for credit courses that apply the Weekly or Daily Attendance Accounting Procedures and not to those that apply the Alternative Attendance Accounting Procedure pursuant to CCR, title 5, section 58003.1(f) (i.e., Distance Education courses not computed using other attendance accounting procedures, Independent Study courses, and Cooperative-Work Experience education courses).

### .02 Criteria

- [Latest Clarification on TBA Memorandum, March 8, 2013](#)
- [Second To Be Arranged \(TBA\) Hours Follow-up Memorandum, June 10, 2009](#)
- [To Be Arranged \(TBA\) Hours Follow-up Memorandum, January 26, 2009](#)
- [To Be Arranged \(TBA\) Hours Compliance Advice \(Legal Advisory 08-02\), October 1, 2008](#)
- [Education Code](#) sections 84040 and 88240.
- [CCR, title 5](#), sections 53415, 55002, 55002.5, 58000, 58003.1, 58006, 58020, 58030, 58050, 58051, 58056, 58102, 58104, 58108, 58168, 58170, 58172, 59020, and 59112 (note section 58108 was updated in 2013)
- [Student Attendance Accounting Manual](#)

**.03 Compliance Requirement**

All criteria above can be tested by auditors.

Districts are required to list TBA hours in the schedule of classes, and describe them in the course outline.

Districts need to track TBA hour student participation carefully and make sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of the census point for the particular course.

**.04 Suggested Audit Procedures**

1. Determine that a clear description of the course, including the number of TBA hours required, is published in the official schedule of classes or addenda thereto. Please see the latest clarification on TBA memorandum dated March 8, 2013 in the criteria section above.
2. Determine that specific instructional activities, including those conducted during TBA hours, expected of all students enrolled in the course are included in the official course outline. All enrolled students are informed of these instructional activities and expectations for completion in the class syllabus or other document.
3. Determine apportionment and attendance record compliance as of census date by reviewing supporting documentation such as the attendance roster.

This state compliance test may affect the calculation of funding from the State, and must be performed using a statistically significant sample. To enable the required extrapolation of findings to the universe of transactions, a stratified sample is required wherever it will assist in an accurate extrapolation of sample results. The Chancellor's Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount relating to each finding. This is required regardless of funding levels. It is needed to adjust the reported information to actual, which may change a Districts funding levels for the coming year. **Any findings from this test that do not report the extrapolated information required will be rejected by the Chancellor's Office and the audit report will be considered incomplete until amended.**

Include in your finding the source of your sample. For instance did you pull transactions from the P1, P2, Annual, R1 or R2 report? If you state that the identified discrepancy was corrected, was it corrected on the P1, P2, Annual, R1 or R2 report?

## 490 – PROPOSITION 1D - STATE BOND FUNDED PROJECTS

### .01 **Background**

Per Executive Order S-02-07, department expenditures of Proposition 1D bond proceeds shall be subject to audit to determine whether the expenditures made from bond proceeds:

1. Were made according to the established front-end criteria and processes,
2. Were consistent with all legal requirements, and
3. Achieved the intended outcomes.

Community College Districts submit claims for reimbursement of expenditures incurred for capital outlay projects to the Chancellor's Office. These claims must be supported. Examples of support include invoices, Capital Outlay Budget Change Proposals (COBCPs), approved equipment lists, and documents that release funds from the Department of Finance for specific project phases (DF14Ds). Expenditures cannot be reimbursed if invoices have not been previously paid or if they were incurred prior to funds being released for the specific project phase in question.

### .02 **Criteria**

- [Education Code sections 81837, 84040, and 101032 through 101039.5](#)
- [CCR, title 5, Community College Construction Act, sections 57000-57205](#)
- [Executive Order S-02-07](#)
- Capital Outlay Budget Change Proposals (COBCPs) for projects being tested
- Equipment Lists for projects being tested
- Grant Documents (DF14Ds) for projects being tested – these documents authorize the release of project funds by the Department of Finance for selected Community Colleges to start a project phase

### .03 **Compliance Requirement**

Reported Proposition 1D cost for the audit period must be accurately reported, appropriate, incurred for the project, and paid by the district.

### .04 **Suggested Audit Procedures**

Review a sample of those project expenditures as shown on state reimbursement claim forms paid by the state during the audit period. Verify the date of the expenditure on the reimbursement claim form from invoices or other source documents. Compare the date to the date listed on the related form DF14D, and conclude whether these expenditures were:

1. accurately reported
2. appropriate
3. incurred for the project, and
4. paid by the district



## 491 - EDUCATION PROTECTION ACCOUNT

### .01 **Background**

Proposition 30 created an Education Protection Account (EPA) within the General Fund. A community college district shall have sole authority to determine how the moneys received from the EPA are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Each community college district shall annually publish on its Internet Web site an accounting of how much money was received from the EPA and how that money was spent.

The Annual Budget and Financial Report (CCFS-311) now contain a page for EPA fund expenditures, similar to the Lottery page. Object code 8630 is used for EPA revenues.

Expenses incurred by districts to comply with the additional audit requirement of this section may be paid with funding from the Education Protection Account and shall not be considered administrative costs for purposes of this section. Accounting Advisory FS 13-03 has been issued to clarify this topic. Sections 250 and 327 in this manual require reconciliation of and reporting on the EPA account.

### .02 **Criteria**

- [Schools and Local Public Safety Protection Act of 2012](#)
- [California Community Colleges Budget and Accounting Manual 2012 edition](#)
- [California Community Colleges Apportionment Reports](#)
- [Accounting Advisory FS 13-03](#)

### .03 **Compliance Requirement**

Funds provided from the EPA have been properly disbursed and expended as required by the Schools and Local Public Safety Protection Act of 2012.

### .04 **Suggested Audit Procedures**

1. Verify that the local governing board held an open session public meeting where they took action to adopt a plan to expend EPA funds.
2. Verify the district expended EPA funds according to the board adopted EPA spending plan.
3. Verify that EPA funds were not used to support administrative salaries and benefits or other administrative costs consistent with the state Chancellor's Office Accounting Advisory FS 13-03 "Proposition 30 Education Protection Account guidelines" dated April 17, 2013.

## **SECTION 500**

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# **FEDERAL COMPLIANCE REQUIREMENTS**

## SECTION 500 - Federal Compliance Requirements

### 510 - OVERVIEW

- .01 Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the related OMB Circular A-133 *Compliance Supplement* provides guidance for determining compliance requirements relevant to the audits of states, local governments, and non-profit organizations expending federal awards.
- .02 The U.S. Department of Education (ED) now requires institutions that participate in federal student financial aid programs to submit data from their audited financial statements as well as attaching a PDF of their audit report using the eZ-Audit submission system within nine months of their fiscal-year end effective June 16, 2003. Additional information about this process is found at <https://ezaudit.ed.gov/EZWebApp/common/login.jsp>. Note: Public and/or not for profit institutions still need to submit their audit report to the Federal Audit Clearinghouse as required under OMB Circular A-133.
- .03 Recipients of federal awards exceeding \$500,000 are required to have a single or program-specific audit conducted for that year in accordance with the provisions of OMB Circular A-133. The OMB A-133 *Compliance Supplement*, an affiliated document, sets forth the major compliance requirements to be considered in an organization-wide audit of a community college district that receives federal assistance. It identifies the programs and related compliance requirements, and provides suggested audit procedures to be applied in audits of community college districts. Copies of the *Compliance Supplement* may be obtained at the OMB's Internet home page <http://www.whitehouse.gov/omb/>.
- .04 For those federal programs not covered in the *Compliance Supplement*, the auditor should use the types of compliance requirements contained in the supplement as guidance in selecting the types of compliance tests to perform, and determine the requirements governing the federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements. Auditors should use professional judgment to choose procedures and determine the extent of tests performed. The audit procedures should be tailored to individual programs and circumstances. The auditor is also responsible for ensuring that specific requirements that are modified by a change in a law or regulation are included in the audit procedures.

### 520 - REQUIRED FEDERAL COMPLIANCE TESTS

- .01 Part 2 of the A-133 Compliance Supplement, *Matrix of Compliance Requirements*, identifies the compliance requirements addressed by the supplement and associates the programs with their applicable compliance requirements. Parts 4 and 5 of the supplement include audit objectives and suggested audit procedures for each program included in the supplement. Part 5 specifically identifies those programs that are considered a cluster of programs as defined by OMB Circular A-133 (§\_\_.105).

- .02 In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-federal entity or that failure to comply with the requirement will not have a material effect on a major program. Auditors shall consider the compliance requirements and related audit objectives for programs included in the A-133 Compliance Supplement in every audit of non-federal entities with the exception of program specific audits performed using a federal agency's program specific audit guide. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, provides additional instruction for administering federal awards.
- .03 *Interest earned on federal funds is an item of particular interest for community colleges. Such interest is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.*
- .04 OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires that recipients maintain advances of federal funds in interest bearing accounts, unless they receive less than \$120,000 in federal awards per year; or the best reasonably available interest bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances; or the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources.

## 521 - CONDITIONAL TESTS OF GENERAL COMPLIANCE (EDGAR)

### .01 **Background**

Vital components to implementing any federal program are the general administrative requirements contained in Section 34 of the *Code of Federal Regulations* more commonly called the *Education Department General Administrative Regulations* (EDGAR). EDGAR defines the uses of federal funds and provides administrative procedures that grantees and sub grantees must apply to those funds.

Beyond EDGAR, there are additional publications helpful to the administration of federal funds such as circulars issued by the Office of Management and Budget (OMB). These OMB Circulars are issued to address specific situations that arise in the administration of federal funds. For example, OMB Circular A-21, *Cost Principles for Educational Institutions* establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

### .02 **Compliance Requirement**

1. A grantee shall keep financial records that clearly show:
  - a. The amount of funds under the grant;
  - b. How the grantee uses the funds;
  - c. The total cost of the project;
  - d. The share of the cost provided from other sources; and
  - e. Other records to facilitate an effective audit.

2. Generally, financial status reports shall not be required more frequently than quarterly. When reports are required quarterly, they shall be due 30 days after the end of the reporting period. Final reports, addressing both financial status and program performance, shall be due 90 days after the completion of the award.
3. A grantee's financial management system shall provide accurate, current, and complete disclosure of the financial results of each federally sponsored project. The grantee's records shall:
  - a. Provide information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.
  - b. Compare outlays with budget amounts for each award.
4. A grantee shall retain records for three years from the date of the submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. Exceptions to the three year requirement are as follows:
  - a. If any litigation, claim, or audit is started before the expiration of the three year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
  - b. Records for real property and equipment acquired with federal funds shall be retained for three years after final disposition.
  - c. The three year retention period for documents related to indirect cost rate computations or proposals, cost allocation plans and any similar accounting computations shall start on the date of submission of those records for negotiation, if that is the case, or at the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

.03 **Criteria**

- *Code of Federal Regulations*, Title 34, Part 74, Sections 21, 51, 53, and 71; Part 75, Sections 730 and 732; and Part 76, Section 730.
- [Office of Management and Budget Circular No. A-110](#), §\_\_ .51.

.04 **Compliance Requirement**

Procedures for managing equipment purchased with federal funds, until transfer or disposition takes place, shall, at a minimum, meet the following requirements:

1. The recipient's property management standards for equipment acquired with federal funds and for federally owned equipment should include all of the following:
  - a. A description of the equipment
  - b. Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
  - c. Source of the equipment, including the award number.
  - d. Whether title vests in the recipient or the federal government.

- e. The information needed to calculate the federal share of the equipment.
  - f. Acquisition date and unit acquisition cost.
  - g. Location, use and condition of the equipment and the date the information were recorded.
  - h. Ultimate disposition data, including date of disposal and sales price or the method used to determine the current fair market value where a recipient compensates the federal awarding agency for its share.
2. A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years and verify the existence, current use and continued need for the equipment. Any differences between physical inventory and accounting records shall be investigated to determine cause of difference. A statistical sampling basis is acceptable.
  3. A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented. Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

.05 **Criteria**

Office of Management and Budget Circular A-110, §\_\_.34.

.06 **Compliance Requirement**

The replacement and/or disposal of federal property require that the grantee follow these procedures:

Replacement of Equipment

When replacing equipment, the recipient may use the equipment to be replaced as trade-in or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the federal awarding agency.

Disposition of Equipment

When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards. For equipment with a current per unit fair market value of \$5,000 or more, the recipient may retain the equipment for other uses if compensation is made to the original federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request.

*If so instructed or if disposition instructions are not issued within 120 calendar days after the recipient's request, the recipient shall sell the equipment and reimburse the federal awarding agency an amount computed by applying the percentage of federal participation in the cost of the original project or program to the sales proceeds. However, the*

*recipient shall be permitted to deduct and retain \$500 or 10 percent of the proceeds, whichever is less, from the federal share for the recipient's selling and handling expenses.*

*If instructed to ship the equipment elsewhere, the recipient shall be reimbursed by the federal government by an amount which is computed by applying the percentage of the recipient's participation in the cost of the original project or program to the current fair market value of the equipment, plus any reasonable shipping or interim storage costs incurred.*

*If instructed to otherwise dispose of the equipment, the recipient shall be reimbursed by the federal awarding agency for such costs incurred in its disposition.*

.07 **Criteria**

Office of Management and Budget Circular A-110, §\_\_.34.

## 530 MAJOR FEDERAL PROGRAMS

.01 In accordance with OMB Circular A-133, auditors shall use a risk-based approach to determine which federal programs are major programs. This approach shall include consideration of current or prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The following steps summarize the process followed to identify major programs:

1. Programs are categorized as either "Type A" or "Type B." Type A programs are those programs with federal expenditures in excess of \$300,000 or three percent of the auditee's total federal awards expenditures when those total federal awards expenditures are at least \$300,000 but do not exceed \$100 million. (See OMB Circular A-133 for the limits affecting those entities with total federal awards exceeding \$100 million.) All federal programs not labeled Type A above shall be labeled Type B.
2. Type A programs are reviewed to determine which are low-risk. A Type A program is considered low risk if it has been audited as a major program at least once during the two most recent audit periods and, in the most recent audit period, had no audit findings per the criteria in Section \_\_.510 of OMB Circular A-133. Auditors should apply professional judgment in determining whether a Type A program is low-risk.
3. High-risk Type B programs are identified and selected based on the criteria in Section .525 of OMB Circular A-133 and the auditor's professional judgment. Section .525 includes factors such as current and prior audit experience, oversight exercised by federal and pass-through agencies, and the inherent risk of the federal program. The auditor is only required to perform risk assessments on Type B programs that exceed the larger of \$100,000 or 0.3 percent of the total federal awards to the recipient when total federal awards do not exceed \$100 million. (See OMB Circular A-133 for the limits affecting those entities with total federal awards greater than \$100 million.)
4. At a minimum, the following major programs shall be audited:
  - a. All Type A programs except those classified as low-risk in step 2 above.
  - b. High-risk Type B programs as identified using either of the options below:

- i. At least one-half of the Type B programs identified as high risk in step 3. The number of Type B high-risk programs selected is not required to exceed the number of low-risk Type A programs identified in step 2.
- ii. One high-risk Type B program for each Type A program identified as low-risk under Step 2.

As such, annual auditors are required to determine auditee compliance with applicable requirements as stipulated in the Compliance Supplement to A-133 – *Audits of States, Local Governments, and Non-Profit Organizations*. Additional federal program information can be obtained from the *Catalog of Federal Domestic Assistance* at: <http://www.cfda.gov/>.

During annual reviews, auditors are advised to refer directly to the OMB A-133 *Compliance Supplement* for specific compliance tests and suggested audit procedures. Questions regarding a compliance requirement, including requests for information about changes in requirements, should be addressed to the administering agency. Requirements and suggested audit procedures for smaller grant programs not contained in the OMB A-133 *Compliance Supplement* can also be obtained from the administering department or agency.



# APPENDIX

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## ILLUSTRATIVE AUDIT REPORT

# Illustrative Audit Report

## SPECIAL NOTE

This illustrative audit report, including the financial statements, footnotes, supplemental schedules, and auditor comments are intended only for informational purposes to provide general assistance to the District's staff or its auditor. It represents, at best, hypothetical financial statements intended to illustrate various features specific to implementation of GASB Statements. The illustrations that follow are not intended to represent a particular community college district. The independent auditors performing the audit will encounter situations requiring their professional judgment and expertise.

**Auditors should consult the actual guidance from AICPA and OMB regarding the latest appropriate language and standards for each of these illustrative reports.**

**Sample Community College District**

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## .01 INTRODUCTION

The single audit of the Sample Community College District has the following objectives:<sup>1</sup>

- To determine the fairness of presentation of the district's basic financial statements in accordance with accounting principles generally accepted in the United States of America.
- To evaluate the adequacy of the system and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the district's financial statements and allowability of program expenditures for federal and California financial assistance programs.
- To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
- To determine whether financial and financially related reports to state and federal agencies are presented fairly.
- To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

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<sup>1</sup>. These are meant to be illustrative of those objectives that are common to most audits. The auditor is expected to describe the objectives of their individual audits.

## Independent Auditor's Report

Board of Trustees  
Sample Community College District  
Goldfield, California 95814

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Sample Community College District (District) as of and for the year ended June 30, 20xx, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Qualification statement placed here, if necessary.] **Effective for audits of financial statements for periods ending on or after December 15, 2012, the [AICPA Statement on Auditing Standards 122](#) applies to circumstances when a modification to the auditor's opinion on the financial statements is necessary.**

### Opinion

In our opinion, (except for the qualification [describe qualification] described in the preceding paragraph), the financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Sample Community College District as of June 30, 20xx, and the results of its operations, changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report appears within this annual report.

Management's Discussion and Analysis (MD&A) on pages 4 through 9 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Auditor's signature]

[Auditor's city and state]

[Date of auditor's report]

## **Management's Discussion and Analysis Fiscal Year Ending June 30, 20xx**

### **New Accounting Standards**

The Governmental Accounting Standards Board (GASB) released Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" in June 2004, which improves relevance and usefulness of financial reporting.

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" was released in February 2009, and enhances the usefulness of fund balance information. The district has adopted and applied the above standards for the 20xx-xx fiscal year.

The California Community College Chancellor's Office recommends that all State community college districts follow the new standards using the Business Type Activity (BTA) model. Sample Community College District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

The following discussion and analysis provides an overview of the District's financial activities with emphasis on current year data. As required by the newly adopted accounting principles, this report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Some of the changes in the financial statements that have resulted from the implementation of these new standards using the BTA model are

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.
- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.
- Capital assets are included in the statement presentations.

### **Statement of Net Position**

The Statement of Net Position presents the assets, liabilities, and Net Position of the district as of the end of the fiscal year using the accrual basis of accounting, which is comparable to that used by most private-sector institutions. Net Position—the difference between assets and liabilities—are one way to measure the financial health of the district. The net asset data allows readers to determine the resources available to continue the operations of the district.

The Net Position of the district consists of three major categories:

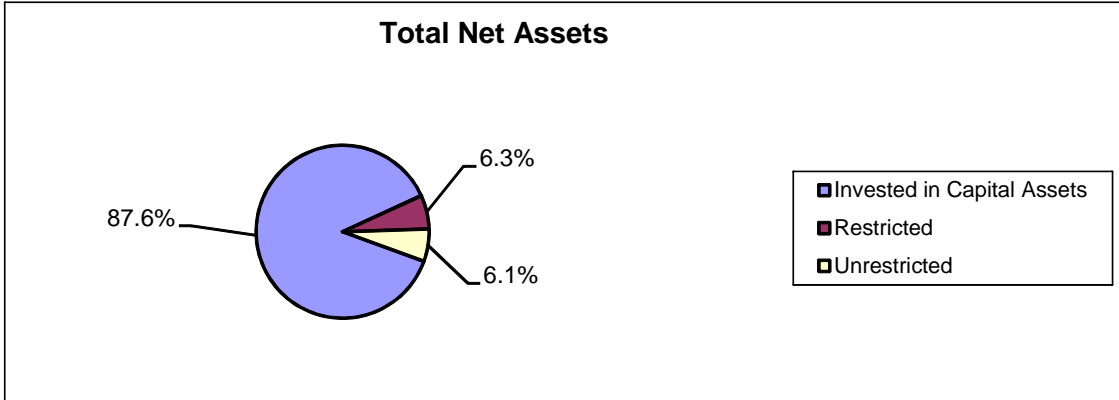
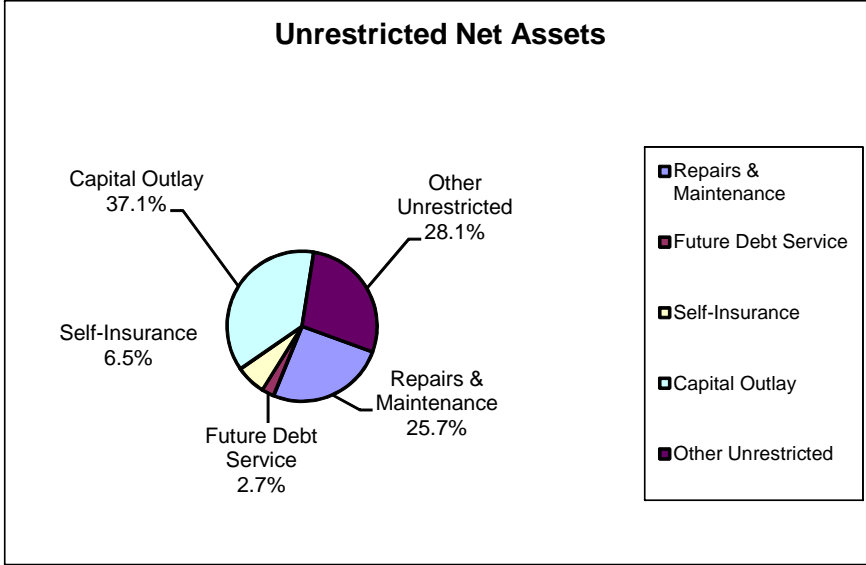
- Invested in capital assets, net of related debt – The district's equity in property, plant, and equipment.
- Restricted Net Position (distinguishing between major categories of restriction.) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.
- Unrestricted Net Position – The district can use them for any lawful purpose. Although unrestricted, the district's governing board may place internal restrictions on this Net Position, but it retains the power to change, remove, or modify those restrictions.

Condensed Statement of Net Position  
As of June 30, 20XX

	20xx	20xx	Year-to-Year Change
<b>ASSETS</b>			
Current Assets:			
Cash and short-term investments	19,271,127	20,028,226	-3.8%
Accounts Receivable, net	13,238,545	12,715,033	4.1%
Inventories, prepaid expenses and other	1,366,659	1,475,965	-7.4%
Total Current Assets	<u>33,876,331</u>	<u>34,219,224</u>	-1.0%
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	6,348,066	7,315,540	-13.2%
Student Loans Receivable	31,027	27,406	13.2%
Capital Assets, Net	184,256,927	180,758,804	1.9%
Total Noncurrent Assets	<u>190,636,020</u>	<u>188,101,750</u>	1.3%
<b>TOTAL ASSETS</b>	<u><u>224,512,351</u></u>	<u><u>222,320,974</u></u>	1.0%
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	5,349,074	5,407,465	-1.1%
Deferred Revenue	6,935,856	7,103,623	-2.4%
Long-term liabilities – current portion	2,931,192	2,881,413	1.7%
Total Current Liabilities	<u>15,216,122</u>	<u>15,392,501</u>	-1.1%
Noncurrent Liabilities			
Compensated Absences Payable -- noncurrent portion	306,117	301,227	1.6%
Notes Payable -- noncurrent portion			
Lease Obligations -- noncurrent portion	5,766,289	5,784,885	-0.3%
Total Noncurrent Liabilities	<u>6,072,406</u>	<u>6,086,112</u>	-0.2%
<b>TOTAL LIABILITIES</b>	<u><u>21,288,528</u></u>	<u><u>21,478,613</u></u>	-0.9%
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Debt	178,019,225	174,509,728	2.0%
Restricted for: Nonexpendable			
Expendable	12,887,193	12,994,136	-0.8%
Unrestricted	12,317,405	13,338,497	-7.7%
<b>TOTAL NET POSITION</b>	<u><u>203,223,823</u></u>	<u><u>200,842,361</u></u>	1.2%
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>224,512,351</u></u>	<u><u>222,320,974</u></u>	1.0%

The District's financial position, as a whole, improved during the fiscal year ending June 30, 20xx. Its total Net Position increased \$2.2 million or about 1.0 per cent from the previous year due primarily to the increase in capital assets net of depreciation. The District, however, continues to be impacted by the suppressed economic climate in California and the reduced levels of state support. The District continues to be affected by the adverse fiscal climate. Accounts receivable have increased \$523,000 as students and other service recipients have delayed payments of liabilities owed to the District. Likewise, revenue received but not yet earned has decreased by \$168,000 as students paid fewer fees in advance. Finally, many of the District's unrestricted Net Position have been designated or reserved by the Governing Board for specific purposes such as insurance reserves, repairs and replacement of equipment, self-insurance, and capital outlay. The following graphs show the allocations of unrestricted Net Position and the portion of total Net Position that is unrestricted:





**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents the operating results of the district. The purpose of the statement is to present the revenues received by the district, both operating and non-operating, and the expenses paid by the district, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the district. State general apportionment funds, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

Changes in total Net Position on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues are received for providing goods and services to the various customers and constituencies of the district. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the district.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	20xx	20xx	
Operating Revenues	32,317,195	33,284,981	-2.9%
Operating Expenses	94,887,490	91,455,282	3.8%
Operating loss	(62,570,295)	(58,170,301)	7.6%
Non-operating revenues and expenses	59,938,259	58,394,325	2.6%
Income (Loss) Before Other Revenues Expenses, gains or losses	(2,632,036)	224,024	
Other Revenues, Expenses, Gains or losses	5,013,498	6,577,597	-23.8%
Increase (decrease) in Net Position	2,381,462	6,801,621	-65.0%
Net Position -- beginning of year	<u>200,842,361</u>	<u>195,100,032</u>	2.9%
Net Position -- end of year	<u>203,223,823</u>	<u>201,901,653</u>	0.7%

The Statement of Revenues, Expenses, and Changes in Net Position reflect a positive year with an increase in the Net Position at the end of the year. However, the magnitude of this increase is less than the increase noted in fiscal year 20xx-xx. The cost of operations increased by \$3.43 million resulting in part from an \$895,000 increase in salaries and employee benefits. In contrast, utility expense decreased by \$205,000 as the price of energy moderated somewhat from the price spike of late 2000. There was also a \$1.32 million increase in depreciation expense due in part to the completion of one building and additional investment in computer equipment and applications during the preceding year. Finally, the balance for Other Revenue, Expenses, Gains or Losses fell by 23.8% when the District's receipt of state apportionments for future capital projects decreased by 10.2% or \$555,000 and local property taxes and revenues for capital projects decreased by \$1.01 million or 90.5%.

Although the statement shows an operating loss of \$62.6 million, that balance does not reflect the \$59.9 million non-operating revenue and the \$5 million of other revenues received by the District. Because of these revenues from both state and local sources, the District reports an increase in its Net Position of \$2.4 million dollars for this fiscal year, less than the \$6.8 million reported for fiscal year 20xx. The increase in total Net Position reflects a \$3.5 million increase in capital assets.

**Statement of Cash Flows**

The statement of cash flows provides additional information about the district's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the district's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and shows the sources and uses of those funds. The third sections deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

	Audit Yr. 20xx	Prior Yr. 20xx
Cash received from operations	\$ 31,920,589	\$ 31,591,133
Cash expended for operations	(87,287,703)	(84,706,071)
Net cash used in operating activities	(55,367,114)	(53,114,938)
Net cash provided by noncapital financing activities	58,838,560	57,331,093
Net cash used in capital and related financing activities	(6,278,174)	(2,423,505)
Net cash provided by investing activities	1,199,146	1,323,779
Net increase in cash and cash equivalents	(1,607,582)	3,116,429
Cash and cash equivalents, beginning of year	25,421,769	22,305,340
Cash and cash equivalents, end of year	\$ 23,814,187	\$ 25,421,769

### District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### Economic Factors That Will Affect the Future

The District's economic strength is directly affected by the economic well-being of California. As the State's economy has been weak and intermittent, the impact of continuing restricted state resources to the District has limited its ability to provide access to educational services demanded by potential students. We anticipate continued restrictions in state funding as the state deals with its budget deficit and the weak economic recovery. These conditions will limit the ability of the District to meet the growing demands of its student population.

**Great Community College District**  
**Statement of Net Position**  
**June 30, 20xx**

	<b>District</b>	<b>Alumni Assoc.</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$17,466,121	\$ 754,422
Investments	1,805,006	98,182
Derivative instrument-rate swap	13,238,545	67,843
Receivables (net)	115,321	-
Student Loans Receivable, net -- current portion	1,100,348	-
Stores Inventory	150,990	22,827
Equity interest in joint venture	2,303,256	-
Capital Assets:		
Land, improvements, and construction in progress	24,256,927	12,211
Other capital assets, net of depreciation	141,587,735	311,571
Total capital assets	170,022,760	4,847,587
Total assets	\$224,512,351	\$ 5,790,861
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of hedging derivatives	568,479	-
<b>LIABILITIES</b>		
Accounts Payable and accrued expenses	5,349,074	233,198
Advances from grantors	6,935,856	531,420
Compensated Absences Payable -- current portion	1,510,094	
Amounts Held in Trust for Others	905,678	
Notes Payable -- current portion	44,007	
Lease Obligations -- current portion	471,413	
Total Current Liabilities	15,216,122	775,047
Noncurrent Liabilities		
Compensated Absences Payable -- noncurrent portion	306,117	
Notes Payable -- noncurrent portion		
Lease Obligations -- noncurrent portion	5,766,289	
Total Noncurrent Liabilities	6,072,406	
<b>TOTAL LIABILITIES</b>	21,288,528	775,047
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Debt	178,019,225	487,668
Restricted for:		
Nonexpendable		
Expendable	12,887,193	3,615,633
Unrestricted	12,317,405	912,513
<b>TOTAL NET POSITION</b>	203,223,823	5,015,814
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$224,512,351	\$ 5,790,460

**Sample Community College District**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 20xx**

	District	Alumni Assoc.
<b>OPERATING REVENUES</b>		
Tuition & Fees	\$ 6,437,171	
Less: Scholarship Discounts & Allowances	(1,189,726)	
Net Tuition & Fees	5,247,455	
Contracts, Non-Capital:		
Federal	7,727,201	
State	10,622,174	
Local	2,477,064	
Auxiliary Enterprise Sales and Charges	6,243,311	
Interest on Student Loans		
Other Operating Revenues		
<b>TOTAL OPERATING REVENUES</b>	<b>32,317,311</b>	
<b>OPERATING EXPENSES</b>		
Salaries	49,702,388	314,732
Employee Benefits	11,475,106	54,217
Payments to Students		205,638
Supplies, Materials, and Other Expenses	24,307,992	
Utilities	1,602,004	
Depreciation	7,800,000	
<b>TOTAL OPERATING EXPENSES</b>	<b>94,887,490</b>	<b>574,587</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(62,570,295)</b>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State Apportionments, Non-Capital	30,201,072	
Local Property Taxes	25,575,846	
Grants:		
Federal		
State		
Local		
State Taxes and Other Revenues	2,957,402	
Investment Income – Non-Capital	1,082,155	55,886
Investment Income – Capital	478,052	
Investment Expense – Capital Asset-Related Debt	(460,227)	
Other Non-Operating Revenues	121,338	534,822
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>59,938,259</b>	<b>590,708</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<b>(2,632,036)</b>	<b>16,121</b>
State Apportionments, Capital	4,907,542	
Local Property Taxes and Revenues, Capital	105,956	
Grants and Gifts	0	
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>2,381,462</b>	<b>16,121</b>
<b>NET POSITION – BEGINNING OF YEAR</b>	<b>200,842,361</b>	<b>4,999,693</b>
<b>NET POSITION – END OF YEAR</b>	<b>203,223,823</b>	<b>5,015,814</b>

**Sample Community College District  
Statement of Cash Flows  
For the Year Ended June 30, 20xx**

	<b>District Total</b>	<b>Alumni Assoc.</b>
<b>Cash Flows From Operating Activities</b>		
Tuition and Fees	\$ 5,508,342	\$
Federal Grants and Contracts	7,502,052	
State Grants and Contracts	10,224,457	
Local Grants and Contracts	2,477,064	
Payments to Suppliers	(24,178,133)	
Payments for Utilities	(1,636,879)	
Payments to/on-behalf of Employees	(49,727,123)	(314,732)
Payments for Benefits	(11,431,620)	(54,217)
Student Loans/Grants	(19,275)	(205,638)
Auxiliary Enterprise Sales and Charges	6,208,674	(16,936)
Other Receipts (Payments)	<u>(294,673)</u>	
Net Cash Provided (Used) by Operating Activities	(\$55,367,114)	(591,523)
<b>Cash Flows From Noncapital Financing Activities</b>		
State Apportionments and Receipts	30,201,072	
Property Taxes	25,558,467	
State Taxes and Other Revenues	2,957,402	
Grants & Gifts for Other Than Capital Projects		379,210
Other Receipts (Payments)	<u>121,619</u>	
Net Cash Provided (Used) by Noncapital Financing Activities	58,838,560	379,210
<b>Cash Flows From Capital and Related Financing Activities</b>		
State Apportionments for Capital Purposes	4,907,542	
Purchases of Capital Assets	(11,298,123)	
Proceeds from Sales of Capital Assets	0	
Interest Paid on Capital Debt	(273,872)	
Principal Paid on Capital Debt	(186,355)	
Interest on Capital Investments	478,052	
Local Property Taxes and Other Revenues for Capital Purposes	105,956	
Capital Debt and Lease Obligations (net)	<u>(11,374)</u>	
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,278,174)	0
<b>Cash Flows From Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	6,100,466	272,352
Interest on Investments	1,082,155	55,886
Purchase of Investments	<u>(5,983,475)</u>	<u>(98,182)</u>
Net Cash Provided (Used) by Investing Activities	1,199,146	230,056
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,607,582)	17,743
<b>Cash Balance -- Beginning of Year</b>	<u>25,421,769</u>	<u>736,679</u>
<b>Cash Balance -- End of Year</b>	<u><u>\$23,814,187</u></u>	<u><u>754,422</u></u>

**Reconciliation of Net Operating Revenues (Expenses) to  
Net Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	(\$62,570,295)	(574,578)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	7,800,000	
Changes in assets and liabilities:		
Receivables, net	(523,512)	(16,936)
Student Loans Receivable, net	(19,275)	
Inventories	113,069	
Accounts Payable	(58,391)	
Deferred Revenue	(167,767)	
Prepaid Expenses	11,891	
Compensated Absences	47,166	
Other Liabilities	0	
Net Cash provided (used) by operating activities:	(\$55,367,114)	(591,523)

**Noncash Transactions**

Information about all noncash investing, capital, and financing activities during the period should also be reported. This information should be presented in a separate schedule and may be in either a narrative or a tabular format. The schedule may be presented, if space permits, on the same page as the statement of cash flows.

## Sample Community College District Notes to the Financial Statements

June 30, 20xx

### Note 1 – Organization and Nature of Activities

**Reporting Entity** – The Sample Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college located in Goldfield, California. While the District is a political subdivision of the State, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal taxes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the “direct benefit” criterion, the “entitlement/ability to access” criterion, and the “significance criterion. The District identified the Sample Community College Alumni Association as its only potential component unit.

The District will report the Alumni Association (Association) as a component unit. The Association was established as a legally separate, not-for-profit corporation to support the district and its students. It contributes to various scholarship funds for the benefit of district students and contributes directly to the college. The funds contributed directly by the association to Sample Community College are significant to the college’s financial statements. Therefore, the district has classified the Association as a component unit that will be discretely presented in the District’s annual financial statements. The Alumni Association also issues a stand-alone audited, financial report, which can be obtained from the District or the Association.

### Note 2 – Summary of Significant Accounting Policies

**Basis of Presentation** – GASB released Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, “Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities,” which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Sample Community College District (district) adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Statement No. 39, “Determining Whether Certain Organizations Are Component Units,” which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The district adopted and applied this standard for the 20xx-xx fiscal year as required.



The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

**Basis of Accounting** – For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All material intra-agency transactions have been eliminated.

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. It has also elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The District has not elected to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

**Cash and Cash Equivalents** – For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the county treasurer's investment pool are considered cash equivalents.

**Restricted Cash and Cash Equivalents** – Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants and contracts and amounts.

**Accounts Receivable** – Accounts receivable 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. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

**Inventories** – Inventories, primarily bookstore merchandise, are carried at the lower of cost of market using the first-in, first-out ("FIFO") method.

**Capital Assets** – Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Capitalized equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged as operating expense in the year in which the expense was incurred.

Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for land improvements, 8 years for most equipment and vehicles, and 3 years for technology equipment such as computers.

**Net Position** – The District’s Net Position is classified as follows:

- *Invested in capital assets, net of related debt* – This represents the District’s total investment in capital assets, net of associated outstanding debt obligations. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- *Restricted net position – expendable* – Restricted expendable net position include resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- *Restricted net position - nonexpendable* – Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net position* – Unrestricted net position represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. Although the governing board may designate these funds for special purposes, the funds remain unrestricted.

When an expense is incurred that can be paid using either restricted or unrestricted funds, the District’s policy is to utilize available restricted resources, followed by unrestricted resources.

**State Apportionments** – Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 20xx will be recorded in the year computed by the State.

**On-Behalf Payments** – GASB Statement 24 requires that direct on-behalf payments for firing benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers’ and Public Employees’ Retirement System on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructs districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the district is estimated at \$862,000 for STRS and \$8,900 for PERS.

**Deferred Revenues** – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Operating Revenues** – Operating revenues include all revenues from programmatic sources. Non-operating revenues include state apportionments, state and local tax revenues, investment income, and gifts.

**Classification of Revenues** – The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

- Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local contracts and federal appropriations, and (4) interest on institutional student loans.
- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, most federal, state and local grants, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

**Investments** – In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value. However, cash in the county treasury and some investments are recorded at cost, which approximates fair value.

**Restricted Cash and Cash Equivalents** – Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other non-current assets is classified as a non-current asset in the statement of Net Position.

**Compensated Absences** – Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District also participates in and accrues “load banking” with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District’s policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

**Scholarship Discounts and Allowances** – Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students’ behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the district’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

**Note 3 – Cash and Investments**

Cash in County Treasury	<u>\$ 21,637,342</u>
Cash on hand and in banks	<u>2,140,247</u>
Total Cash	\$ 23,814,187
Investments	<u>\$ 1,805,006</u>
Total Cash and Investments	<u>\$ 25,619,193</u>

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer to enhance interest earnings through county investment activities. The *California Government Code*, Sections 16520–16522, require California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized. At June 30, 20xx, the District's investments primarily consist of certificates of deposits, and bonds that are carried at cost plus accretion of bond discount, which approximates market value.

Cash in banks and specifically identifiable investments are classified according to credit risk into one of three categories and summarized as follows:

- Category 1 - includes investments that are insured or registered or for which securities are held by the district or its agent in the district's name and deposits insured or collateralized with securities held by the district;
- Category 2 - includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the district's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the district's name;
- Category 3 - includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the district's name.

All certificates of deposit are collateralized as required by California state law for any amount exceeding FDIC or FSLIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

	1	Category 2	3	Carrying Amount	Market Value
Cash in County Treasury		\$16,879,769		\$16,879,769	\$16,879,769
Cash Held by Fiscal Agents		6,216,796		6,216,796	6,216,796
Cash in Banks	\$622,950	94,672		717,622	717,625
Total cash and cash equivalents	\$622,950	\$23,191,237		\$23,814,187	\$23,814,187
Investments:					
Certificates of Deposit		\$1,805,006			\$1,805,006
Total Investments		\$1,805,006			\$1,805,006

The certificates of deposit bear interest at rates ranging from 2.5% to 4.3%.

**Note 4 – Accounts Receivable**

Accounts receivable consist of the following at June 30, 20xx (Audit Yr.):

Federal Grants and Contracts	\$11,034,298
Tuition and Fees	1,668,713
Auxiliaries	402,559
Other	132,975
	<u>\$13,238,545</u>

**Note 5 – Capital Assets**

Capital asset activity for the year ended June 30, 20xx, is summarized as follows:

	Beginning Balance July 1, 20xx	Additions	Reductions	Ending Balance June 30, 20xx
Land	26,845,352			26,845,352
Infrastructure	11,970,307	1,625,000		13,595,307
Buildings	125,405,188	5,700,200		131,105,388
Furniture	42,496,662	2,449,143	42,500	44,903,305
Library materials	27,216,915	1,523,780	218,000	28,522,695
Capitalized collections	1,163,240			1,163,240
Total	235,097,664	11,298,123	260,500	246,135,287
Less accumulated depreciation:				
Infrastructure	2,307,839	105,310	62,500	2,413,149
Buildings	26,314,820	4,275,407		30,590,227
Furniture, etc.	14,453,953	2,105,861	42,500	16,517,314
Library materials	10,698,571	1,251,682	218,000	11,732,253
Capitalized collections	563,677	61,740		625,417
	54,338,860	7,800,000	260,500	61,878,360
<b>Capital Assets, net</b>	180,758,804	3,498,123	0	184,256,927

**Note 6 – Short Term Debt – Tax Anticipation Notes**

The District issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the District’s operating expenses are continuous throughout the academic year while property tax collections are received approximately on their April 1 and October 1 due dates. Short-term activity for the audit year ended June 30, 20xx, was as follows:

	<b>Beginning Balance July 1, 20xx</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Ending Balance June 30, 20xx</b>
Tax Anticipation Notes	\$0	\$9,000,000	\$9,000,000	\$0

**Note 7 – Long- term Liabilities**

Long-term liabilities for the year ended June 30, 20xx, are summarized as follows:

	<b>Beginning Balance July 1, 20xx</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 20xx</b>
<b>Leases and bonds</b>				
Lease obligations	\$4,621,742	\$856,475	\$867,849	\$4,610,368
General obligations	1,627,334	0	0	1,627,334
Revenue bonds	0	0	0	0
Total lease and bond obligations	6,249,076	856,475	867,849	6,237,702
<b>Other liabilities</b>				
Compensated absences	1,769,045	262,889	215,723	1,816,211
Total other liabilities	1,769,045	262,889	215,723	1,816,211
<b>Total long-term obligations</b>	<b>\$8,018,121</b>	<b>\$1,119,364</b>	<b>\$1,083,572</b>	<b>\$8,053,913</b>

Amounts due within one year include lease obligations of \$1,467,818 and compensated absences of \$1,510,049.

**Note 8 – Revenue Bonds and Notes Payable**

The outstanding bonded debt of Sample Community College District on June 30, 20xx is:

Date of Issue	Interest	Maturity Rate %	Amount of Original Date	Outstanding Issue	Redeemed Current July 1, 20xx	Outstanding Year
Jun 30, 2009						

## Note 9 – Lease Obligations

The District has entered into various capital and non-cancelable operating leases for land, buildings, and equipment with lease terms in excess of one year. Future minimum lease payments under these agreements are as follows:

Fiscal Year	Minimum Lease Payments
2004-2005	\$ 455,303
2005-2006	470,783
2006-2007	486,790
2007-2008	503,340
2008-2009	520,454
2009-2013	2,980,022
2013-2018	3,404,099
2018-2023	1,529,181
Total Minimum Lease Payments	\$10,349,971

## Note 10 - Employee Retirement System

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

### A. State Teachers' Retirement System (STRS)

#### 1. Plan Descriptions

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges, and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered.

Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for “normal” retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. Disability benefits are available up to 90 percent of final compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CD Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

## 2. Funding Policy

Active members of the DB Plan are required to contribute 8.0% of their salary while 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The district contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

## 3. Annual Pension Cost

The District's total contributions to STRP for the fiscal years ended June 30, 20xx, 20xx, and 20xx were \$2,683,908, \$2,507,662, and \$2,496,378, respectively and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

In their most recent actuarial valuation of the DB Plan as of June 30, 2006, the independent actuaries for STRS determined that, at June 30, 2006, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

In their most recent actuarial valuation of the CB Plan as of June 30, 20xx, the independent actuaries for STRS determined that, at June 30, 20xx, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.



B. *California Public Employees' Retirement System (CalPERS)*

1. Plan Descriptions

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. 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, California 95814.

2. Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the district is required to contribute an actuarially determined rate. The district's contribution rate to CalPERS for fiscal year 20xx-20xx was 2.894% beginning with the first pay period ending in July 20xx; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 20xx. On May 16, 20xx, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ends in July 20xx.

3. Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 20xx, 20xx, and 20xx were \$1,947,354, \$680,756, and \$0, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 20xx, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

Funded Status of Retirement Plans by Member Category

Member Category	6/30/x1	6/30/x2	6/30/x3	6/30/x4	6/30/x5
State	120.0%	123.5%	110.5%	103.7%	90.3%
School	<u>135.8%</u>	<u>137.0%</u>	<u>124.2%</u>	<u>116.3%</u>	<u>97.4%</u>
Public Agency	129.6%	128.2%	127.3%	114.8%	N/A

**C. Deferred Compensation**

The district offers its employees a CalPERS administered 457 Deferred Compensation Program (Program). The plan, 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.

During fiscal year 20xx-20xx, Program membership grew to 12,729 from 10,472 with assets increasing from \$195.2 million to \$226.6 million, because of \$64.2 million in contributions, investment losses of \$21.5 million, and distributions and withdrawals paid to participants of \$10.4 million.

**NOTE 11 – Joint Powers Agreement:**

The District participates in two joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); and the Schools Excess Liability Fund (SELF). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

ASCIP arranges for and provides property, liability and excess workers' compensation insurance for its member school districts. The district pays a premium commensurate with the level of coverage requested.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. A board of 16 elected voting members, elected alternates and two ex-officio members, govern SELF. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

Condensed financial information of ASCIP and SELF for the most current year available is as follows:

	ASCIP 6/30/20xx (Unaudited)	SELF 6/30/20xx (Audited)
Total Assets	\$80,514,569	\$112,123,757
Total Liabilities	45,409,240	64,483,431
Retained Earnings	\$35,105,329	\$ 47,640,326
Total Revenues	\$48,632,152	\$ 25,828,579
Total Expenditures	33,766,606	11,022,709
Net increase/(decrease in retained earnings)	\$14,865,546	\$ 14,805,870

**NOTE 12 – Functional Expenses**

	Salaries	Employee Benefits	Supplies Materials & Other Expenses & Services	Depreciation	Total
Instructional Activities	29,274,706	5,026,096	2,798,280		37,099,082
Academic Support	3,976,191	791,782	2,513,270		7,281,243
Student Services	6,560,715	1,170,461	1,606,419		9,337,595
Plant Ops & Maint.	2,783,334	722,932	4,508,339		8,014,605
Instructional Support Services	4,721,727	3,339,256	3,057,380		11,118,363
Community Services & Economic Development	745,536	80,326	466,380		1,292,242
Ancillary Services & Auxiliary Operations	1,494,072	321,303	7,254,799		9,067,174
Physical Property & Related Acquisitions	149,107	22,950	3,705,129		3,877,186
Depreciation. Expense				7,800,000	7,800,000
<b>Total.</b>	<b>49,702,388</b>	<b>11,475,106</b>	<b>25,909,996</b>	<b>7,800,000</b>	<b>94,887,490</b>

**NOTE 13 - Commitments and Contingencies**

- A. *Vacation and Sick Leave (Compensated Absences)* – Accumulated unpaid employee vacation benefits are accrued when earned by employees and recognized at year-end as liabilities of the District. The District also participates in and accrues “load banking” with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District’s policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. However, the employees do not gain a vested right to accumulated sick leave nor are they paid for any sick leave balance at termination of employment or any other time. It is, therefore, not appropriate to accrue the value of accumulated sick leave. See note 7 for the accrued balance of compensated absences as of June 30, 20xx.

- B. *Leases* – The District has entered into various operating leases for land, buildings and equipment. All leases contain termination clauses providing for cancellation after xx days written notice to lessors. It is expected that in the normal course of business most of these leases will be replaced by similar leases. See note 9 for minimum lease payments of operating leases as of June 30, 20xx.
- C. *State and Federal Allowances, Awards and Grants* - The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material. The District has, however, overreported attendance in certain adult education off-campus courses that may result in the repayment to the state for the overclaimed and reimbursed FTES. The overstatement of FTES has been extrapolated and reported within the related finding(s).

**NOTE 14 - SUBSEQUENT EVENTS** (If applicable.)

**NOTE 15 – STRS Early Retirement Incentive Program**

The District has adopted an early retirement incentive program pursuant to Education Code Sections 22714 and 87488, whereby the service credit to eligible employees is increased by two years (and age is increased by two years). Eligible employees must have five or more years of service under the State Teachers’ Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District (retire during the window period in the formal action taken by the district’s governing board).

**Retiree Information**

Position <u>Vacated</u>	Age	Service <u>Credit</u>	<u>Retired Employee</u>		<u>Replacement Employee</u>	
			<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Instructor	63	29	\$86,000	\$10,000	\$36,000	\$5,000
Instructor	68	26	84,000	10,000	0	0
Counselor	72	30	<u>75,000</u>	<u>12,000</u>	<u>29,000</u>	<u>4,500</u>
			\$245,000	\$32,000	\$65,000	\$9,500

**Additional Costs to Employer:**

As a result of this early retirement incentive program, the District has incurred (or expects to incur) \$205,000 in additional costs. The breakdown in additional costs is presented below:

Retirement Costs (including interest, if applicable)	\$175,000
Post-retirement Health and Benefit Costs	25,000
Administrative Costs	<u>5,000</u>
Total Additional Costs	<u>\$205,000</u>

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## Independent Auditor's Report on Supplementary Information

Board of Trustees  
Sample Community College District  
Goldfield, California 95814

We have audited the basic financial statements of Sample Community College District (District) for the year ended June 30, 20xx, and have issued our report thereon dated December 8, 20xx. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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 and the standards identified by the *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the business-type activities and discretely presented component unit of the Sample Community College District, which collectively comprise the District's basic financial statements. The accompanying supplementary information, presented for purposes of additional analysis, is not a required part of the basic financial statements and includes the following supplementary information:

- Reconciliation of the CCFS-311 data to audited financial statements.
- Reconciliation of the 50 Percent calculation to audited financial statements.
- Reconciliation of Education Protection Account expenditures to audited financial statements.
- Schedules of expenditures of Federal and State awards.
- Schedule of workload measure for State General Apportionment.
- Notes to the supplementary information.

The information in these supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

[Signature]

[Date]

**Sample Community College District  
Organization**

**June 30, 20xx**

The Sample Community College District was established on July 1, 1963, and is comprised of an area of approximately 12 square miles located in Sacramento County. There were no changes in the boundaries of the District during the current year.

**GOVERNING BOARD**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. David Johnson	President	April 20xx
Mr. Norman Richards	Secretary	April 20xx
Mrs. Jan McDonald	Member	April 20xx
Mr. James Wilde	Member	April 20xx
Mrs. Louise Hanson	Member	April 20xx

**ADMINISTRATION**

Dr. Georgia Scott  
Superintendent

Mr. Thomas Sharp  
Assistant Superintendent

Mrs. Mildred Coleman  
Assistant Superintendent

**Sample Community College District  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 20xx**

Federal Grantor/ Pass-Through Entity Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal
<b>U.S. Department of Education</b>			
Financial Aid Cluster:			
College Work Study	84.033		\$xxx,xxx
Perkins Loan	84.038		xxx,xxx
Pell Grant	84.063		xxx,xxx
Adult Basic Education (ABE)			
Adult Basic Education	84.002		xxx,xxx
ABE - Citizenship	84.002		xxx,xxx
ABE - ESL	84.002		xxx,xxx
Upward Bound	84.047		xxx,xxx
Talent Search II	84.044		xxx,xxx
Student Support Services	84.042		xxx,xxx
Title III - Strengthening Institutions	84.031		xxx,xxx
Pass through California Department of Education (CDE):			
Vocational And Technical Education Act (VTEA)			
Tech Prep VTEA, Education	84.048		xxx,xxx
Title I-C VTEA	84.048		xxx,xxx
<b>U.S. Department of Health and Human Services:</b>			
Passed through CDE:			
Temporary Assistance to Needy Families (TANF)	93.558		xxx,xxx
<b>Department of Labor:</b>			
WIA Assessment			xxx,xxx
<b>Department of Agriculture:</b>			
FC Childcare Food Program			xxx,xxx

**Sample Community College District  
Schedule of State Financial Awards  
For the year ended June 30, 20xx**

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
<b>State Awards</b>					
Disabled Student Program & Services	\$xxx,xxx	\$xx,xxx	\$x,xxx	\$xxx,xxx	\$xxx,xxx
Extended Opportunity Program & Services	xxx,xxx	xx,xxx	x,xxx	xxx,xxx	xxx,xxx
Cal Grant					
CalWorks					
Care Program					
Child Development Center					
Economic Development					
Funds for Student Success					
Block Grant					
Instructional Equipment – Block Grant					
Multimedia					
State Block Grant FY xx					
State Funds for Instructional Materials					
Student Success Scorecard					
Teacher & Reading Development Partnership					
Temporary Assistance to Needy Family (TANF)					
Telecommunication Technology					
Infrastructure Program (TTIP)					
Scheduled Maintenance					
General Childcare Grant					
Staff Development					
<b>Total State Programs</b>					



**Sample Community College District  
Schedule of Workload Measures for State General Apportionment  
Annual (Actual) Attendance as of June 30, 20xx**

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 20xx only)			
1. Noncredit <sup>1</sup>			
2. Credit			
B. Summer Intersession (Summer 20xx – Prior to July 1, 20xx)			
1. Noncredit <sup>1</sup>			
2. Credit			
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours			
(b) Daily Census Contact Hours			
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit <sup>1</sup>			
(b) Credit			
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours			
(b) Daily Census Contact Hours			
(c) Noncredit Independent Study/Distance Education Courses			
D. Total FTES			
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)			
H. Basic Skills courses and Immigrant Education			
(a) Noncredit <sup>1</sup>			
(b) Credit			
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES			
Centers FTES			
(a) Noncredit <sup>1</sup>			
(b) Credit			

<sup>1</sup> Including Career Development and College Preparation (CDCP) FTES

**Sample Community College District  
Reconciliation of Annual Financial and Budget  
Report (CCFS-311) With  
Audited Financial Statements**

**For the fiscal year ended June 30, 20xx**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund
June 30, 20xx, Annual Financial and Budget Report (Form CCFS-311) Fund Balances				
Adjustments and Reclassifications increasing (decreasing) fund balance:				
Prior Year Post Closing Entries				
Post-Closing Entries				
Under (Over) Statement of Accounts Receivable				
(Under) Over Statement of Accounts Payable				
(Under) Over Statement of Deferred Revenue				
(Under) Statement of Accrued Vacation				
Reclassification of interfund operating transfers				
Other				
Net Adjustments and Reclassifications				
June 30, 20xx Audited Financial Statements Fund Balance				

**Sample Community College District  
Reconciliation of ECS 84362 (50 Percent Law) Calculation  
For the year ended June 30, 20xx**

Illustrative Audit Report

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b><u>Academic Salaries</u></b>							
<b>Instructional Salaries</b>							
Contract or Regular	1100						
Other	1300						
<b>Total Instructional Salaries</b>							
<b>Non-Instructional Salaries</b>							
Contract or Regular	1200						
Other	1400						
<b>Total Non-Instructional Salaries</b>							
<b>Total Academic Salaries</b>							
<b><u>Classified Salaries</u></b>							
<b>Non-Instructional Salaries</b>							
Regular Status	2100						
Other	2300						
<b>Total Non-Instructional Salaries</b>							
<b>Instructional Aides</b>							
Regular Status	2200						
Other	2400						
<b>Total Instructional Aides</b>							
<b>Total Classified Salaries</b>							
<b>Employee Benefits</b>	3000						
<b>Supplies and Materials</b>	4000						
<b>Other Operating Expenses</b>	5000						
<b>Equipment Replacement</b>	6420						
<b>Total Expenditures Prior to Exclusions</b>							

**Sample Community College District  
Reconciliation of ECS 84362 (50 Percent Law) Calculation  
For the year ended June 30, 20xx**

Illustrative Audit Report

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b>Exclusions</b>							
<b>Activities to Exclude</b>							
Instructional Staff–Retirees’ Benefits and Retirement Incentives	5900						
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees’ Benefits and Retirement Incentives	6740						
<b>Objects to Exclude</b>							
Rents and Leases	5060						
Lottery Expenditures							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials							
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300						
Noninstructional, Supplies & Materials	4400						
Total Supplies and Materials							
Other Operating Expenses and Services	5000						
Capital Outlay							
Library Books	6000						
Equipment							
Equipment	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
<b>Total Exclusions</b>							
<b>Total for ECS 84362, 50% Law</b>							
<b>Percent of CEE (Instructional Salary Cost / Total CEE)</b>							
<b>50% of Current Expense of Education</b>							

**CALIFORNIA COMMUNITY COLLEGES**  
**Annual Financial and Budget Report**  
**SUPPLEMENTAL DATA**

Schools and Local Public Safety Protection Act  
 Prop 30 EPA Expenditure Report

For Actual Year: 20xx -20xx

District ID:

Name:

Activity Classification	Object Code	Unrestricted			
		Salaries and Benefits (1000 - 3000)	Operating Expenses (4000 - 5000)	Capital Outlay (6000)	Total
EPA Proceeds:	8630				0
Instructional Activities	0100-5900				
Other Support Activities (list below)	6XXX				
<b>Total Expenditures for EPA*</b>		0	0	0	0
<b>Revenues less Expenditures</b>					0
<b>*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.</b>					

**Sample Community College District  
Notes to Supplemental Information**

**For the year ended June 30, 20xx**

**NOTE 1 - Purpose of Schedules**

The audit of the Sample Community College District for the year ended June 30, 20xx was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Sample Community College District.

*The Schedules of Workload Measures for State General Apportionment and Annual Apprenticeship Hours of Instruction represent the basis of apportionment of the Sample Community College District's annual source of funding.*

**NOTE 2 - Results of Reconciliation of Expenditure per Schedule of Grant Activity  
with the District's Accounting System**

The following is a list of the grants and the unreconciled differences between the District's records and the schedule of federal grant activity:

<u>Grant</u>	<u>Difference</u>
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## Independent Auditor's Report on State Compliance

Board of Trustees  
Sample Community College District  
Goldfield, California 95814

We have audited the financial statements of the Sample Community College District for the year ended June 30, 20xx, and have issued our report thereon dated \_\_\_\_\_, 20xx.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM):*

[List the areas of compliance tested based on the latest update of the CDAM.]

*Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.*

*Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.*

In our opinion, [include if applicable<sup>2</sup> "except for findings xx-x and xx-x described in the accompanying schedule of finding and questioned costs"], the Sample Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009.

*This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, the California Community Colleges Chancellor's Office, The California Department of finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.*

[Signature]

[Date]

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<sup>2</sup> [Reference CDAM, Section 400 – 410.04](#)

## Sample Reports

For Report samples under A133 and GAS, please see current guidance at

<http://www.aicpa.org/Research/Standards/AuditAttest/Pages/SAS.aspx>

and

<http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/pages/default.aspx>



**Sample Community College District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 20xx**

(See 20xx AICPA Government Audit Guide)

**Summary of Auditors' Results**

**Financial Statements**

Type of opinion on financial statements: \_\_\_\_\_

Internal control over financial reporting: \_\_\_\_\_

Material Weakness Identified? \_\_\_\_\_

Significant deficiency identified but not considered to be material weaknesses? \_\_\_\_\_

Noncompliance material to financial statements noted? \_\_\_\_\_

**Federal Awards**

Internal control over major programs: \_\_\_\_\_

Material weakness identified? \_\_\_\_\_

Significant deficiency identified but not considered to be material weaknesses? \_\_\_\_\_

Type of opinion issued on compliance for major programs: \_\_\_\_\_

Any audit findings disclosed that are required to be reported in accordance With Circular A-133, Section .510(a)? \_\_\_\_\_

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs: \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_

**State Awards**

Internal control over state programs: \_\_\_\_\_

Material weakness identified? \_\_\_\_\_

Significant deficiencies identified not considered material weaknesses? \_\_\_\_\_

Type of opinion issued on compliance for state programs: \_\_\_\_\_

**Financial Statement Findings for the Year Ended June 30, 20xx**

The following findings represent **significant deficiency** related to the financial statements that are required to be reported in accordance with generally accepted government audit standards. [Insert each finding in the section below with its appropriate number.]

20xx -1 Finding

[Insert Finding]

Recommendation

[Insert Recommendation]

District Response

[Insert the District's Response]

**Federal Award Findings and Questioned Costs for the Year Ending 20xx**

[Insert criteria, condition, questioned costs, context, effect, cause, recommendation, views of responsible official and corrective actions.]

**State Award Findings and Questioned Costs for the Year Ending 20xx**

[Insert criteria, condition, questioned costs, context, effect, cause, recommendation, views of responsible official and corrective actions as referenced in Section 280 – Audit Findings]

**Sample Community College District  
Summary Schedule of Prior Audit Findings**

**June 30, 20xx**

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 audit findings and questioned costs and of any other as yet unresolved audit finding from previous years.

Finding Reference Number <sup>20</sup>	Recommendation	Current Status	Explanation if Not Fully Implemented
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<sup>20</sup> Use the identification number referenced by the California Community Colleges in their follow-up activities.

## California Community Colleges Annual Contracted District Audit Review Checklist

FY \_\_\_\_\_ District \_\_\_\_\_

Audit Firm \_\_\_\_\_

Report Receipt Date  on time  late  
 Status of Audit Report  complete  incomplete

**A**  **Independent Auditors Report**

**B**  **Managements Discussion and Analysis (Required Supplementary Information (RSI))**

**C** **Financial Statements**

- 1  Statement of Net Position
- 2  Statement of Revenues, Expenses, and Changes in Net Position
- 3  Statement of Cash Flows
- 4  Discretely Presented Component Units (if applicable-could include foundations)

**D** **Notes to the Basic Financial Statements**

- 1  Reporting Entity
- 2  Significant Accounting Policies
- 3  Cash and Investments
- 4  Capital Assets
- 5  Employee Retirement Systems
- 6  Lease Obligations (capital and operating)
- 7  Long Term Liabilities (GO Bonds, Rev Bonds, Notes Payable, TRANS)
- 8  Other Post Employment Benefits
- 9  Certificates of Participation
- 10  Risk Management (self insurance programs, worker's compensation, claims)
- 11  Joint Ventures and Jointly Governed Organizations (if applicable)
- 12  Subsequent Events (if applicable)

**E** **Required Supplementary Information**

- Schedule of Post-Employment Health Care Benefits Funding Progress

**F** **Supplementary Information**

- 1  Independent Auditors Report on Supplementary Information (allowable as part of main report in A)
- 2  Schedule of Expenditures of Federal Awards with award specific information
- 3  Schedule of Expenditures of State Awards
- 4  Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance
- 5  Reconciliation of Annual Financial and Budget Report (CCFS-311) with audited financial statements (if applicable)
- 6  Reconciliation of 50 Percent Law Calculation
- 7  Reconciliation of Education Protection Account funds
- 8  Notes to Supplemental Information

**G**     **Reports on Compliance and Internal Control**

- 1    Independent Auditors Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Basic Financial Statements performed in accordance with Government Auditing Standards
- 2    Independent Auditors Report on Compliance with Requirements Applicable to Each Major Program
- 3    Independent Auditors Report on State Compliance Requirements
- 4    Schedule of Findings and Questioned Costs - **MUST include all 7 CDAM-required elements and extrapolation**
- 5    Status of Prior Year Findings and Recommendations
- 6    Summary of Auditors Results.

**\*\*District CBO/CPA will be contacted prior to rejection\*\***