

**COMPTON
COMMUNITY COLLEGE DISTRICT**

**MEASURE CC GENERAL OBLIGATION BOND
AUDIT REPORT**

JUNE 30, 2011

**COMPTON
COMMUNITY COLLEGE DISTRICT**

**MEASURE CC GENERAL OBLIGATION BOND
FINANCIAL AUDIT**

JUNE 30, 2011

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**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

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INDEPENDENT AUDITORS' REPORT

Governing Board and
Citizens' Oversight Committee
Compton Community College District
Compton, California

We have audited the accompanying financial statements of the Measure CC General Obligation Bond (the Bond Fund) of Compton Community College District (the District) as of June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As discussed in Note 1 of the Notes to Financial Statements, the financial statements present only the Bond Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, as discussed in Note 2 of the Notes to Financial Statements, the Bond Fund's financial statements are prepared on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - modified accrual basis of the Measure CC General Obligation Bond of Compton Community College District as of June 30, 2011, and the results of its operations - modified accrual basis for the year then ended, in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012, on our consideration of the District's internal control over financial reporting for the Measure CC General Obligation Bond and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Vavrinek, Trine Day & Co. LLP

Rancho Cucamonga, California
March 15, 2012

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**BALANCE SHEET - MODIFIED ACCRUAL BASIS
JUNE 30, 2011**

ASSETS

Investments	\$ 12,751,659
Accounts receivable	2,185,503
Due from other funds	346,076
Total Assets	<u><u>\$ 15,283,238</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 2,356,358</u>
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FUND BALANCE

Unreserved	
Designated	<u>12,926,880</u>

Total Liabilities and Fund Balance	<u><u>\$ 15,283,238</u></u>
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See the accompanying notes to financial statements.

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES

Local revenues	\$ 2,317,175
Total Revenues	<u>2,317,175</u>

EXPENDITURES

Supplies	20
Professional services and other operating expenditures	1,237,526
Capital outlay	1,761,325
Total Expenditures	<u>2,998,871</u>

EXCESS OF EXPENDITURES OVER REVENUES (681,696)

OTHER FINANCING SOURCES

Operating transfers in	354,029
Total Other Financing Sources	<u>354,029</u>

**EXCESS OF EXPENDITURES OVER REVENUES
AND OTHER FINANCING SOURCES** (327,667)
FUND BALANCE, BEGINNING OF YEAR 13,254,547
FUND BALANCE, END OF YEAR \$ 12,926,880

See the accompanying notes to financial statements.

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The General Obligation Bond Fund (the Bond Fund) is a governmental fund of Compton Community College District (the District). This fund is used to account for the activity of the Proposition 39 General Obligation Bond approved by the voters of the District. These financial statements present only the Bond Fund and do not purport to, and do not, present fairly the financial position of the District and the changes in its financial position in conformity with accounting standards generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Financial Statement Presentation

The financial statements of the Bond Fund have been prepared on the modified accrual basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The statement of revenues, expenditures, and changes in fund balance is a statement of financial activities of the Bond Funds related to the current reporting period. Using this method, revenues are recognized when they are both measurable and available, and expenses are recognized when goods are received or services are rendered. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets and Long-Term Obligations

The accounting and reporting treatment applied to the capital assets and long-term obligations associated with the Bond Fund are determined by its measurement focus. The Bond Fund is accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of "available spendable resources". Thus, the capital assets and long-term liabilities associated with the Bond Fund are accounted for in the basic financial statements of Compton Community College District.

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 - INVESTMENTS

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The pool is managed by the Los Angeles County Treasurer and is not registered as an investment company with the Securities Exchange Commission. Oversight of the pool is the responsibility of the County Treasury Oversight Committee. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the Treasurer follows.

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Investment Pool. The District maintains an investment of \$12,751,659 with the Los Angeles County Investment Pool for Measure CC. The fair value of this investment is approximately \$12,757,056 with an average weighted maturity of 600 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2011.

**COMPTON COMMUNITY COLLEGE DISTRICT
MEASURE CC GENERAL OBLIGATION BOND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable at June 30, 2011, is made up of the following. All amounts have been determined by management to be fully collectable.

Interest	\$ 35,503
Legal settlement	2,150,000
Total Receivables	<u>\$ 2,185,503</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable at June 30, 2011, in the amount of \$2,356,358, represents an amount owed to vendors for both ongoing and completed construction projects.

NOTE 6 - FUND BALANCE

Fund balance is composed of the following element:

Unreserved	
Designated	<u>\$ 12,926,880</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District is involved with various long-term construction and renovation projects throughout the four College campuses and the District Office. The projects are in various stages of completion and are funded primarily through the voter-approved general obligation bonds.

Litigation

The District may be involved in legal proceedings during the normal course of business related to construction through the Measure CC General Obligation Bond Fund. At this time, District management believes any current proceedings are not material to the financial statements of the Measure CC General Obligation Bond Fund.

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

Governing Board and
Citizens' Oversight Committee
Compton Community College District
Compton, California

We have audited the accompanying financial statements for the Measure CC General Obligation Bond of Compton Community College District (the District) for the year ended June 30, 2011, and have issued our report thereon dated March 15, 2012. 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.

Internal Control Over Financial Reporting

The management of Compton Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Compton Community College District's internal control over financial reporting for the Measure CC General Obligation Bond fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Compton Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Compton Community College District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses as items 2011-1 through 2011-4.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies as items 2011-5 through 2011-7.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the Special Trustee and Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Citizens' Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, June Day & Co. LLP

Rancho Cucamonga, California
March 15, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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COMPTON COMMUNITY COLLEGE DISTRICT MEASURE CC GENERAL OBLIGATION BOND

FINANCIAL STATEMENT FINDINGS JUNE 30, 2011

The following findings represent material weaknesses, significant deficiencies, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2011-1 YEAR END CLOSING AND ACCOUNTING PROCESSES

Criteria or Specific Requirement

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

Condition

Material Weakness - As has been noted in prior years' audits, the District's internal controls have not been implemented to a sufficient degree to prevent and detect material misstatements from occurring during the year and in the closing process. Significant adjustments to the District's accounting records were noted during the audit process that affected the following accounts:

- Invoices related to construction expense were not properly monitored and accrued during the closing process resulting in a \$206,691 accrual adjustment for accounts payable in the Bond Fund.
- Prior year audit findings relating to questioned costs for the Bond Fund were not implemented resulting in a \$346,076 adjustment to transfer the questioned costs from the Bond Fund to the District's Unrestricted General Fund.

The District's accounting staff has undergone significant changes in personnel over the past several years and it appears the inconsistency in staffing at both the entry level for these transactions and the supervisory level to review and analyze accounting entries has contributed to this condition.

Recommendation

Consistent and adequately trained staff at all areas within the District Business Office must be a high priority of the District. The Chief Business Officer position was open during the year-end closing process, as well as several other key positions which would have aided in ensuring all amounts had been properly accounted for. The priority of the District to fill these positions and train staff within the Business Office should be the highest priority of the District. The adjustments noted during the audit should be posted to the District's general ledger as soon as possible as the effect will be to reduce beginning balances and may impact the ability of the District to meet budgetary obligations.

District Response

The District concurs with the finding and recommendation; however, the adjusted trial balance prepared by the District consultants, which was presented to the auditors, was subsequently determined by the auditors to contain material errors and, hence, the audit adjustments proposed.