

Gavilan Joint Community College District Governing Board Agenda

January 10, 2012

Consent Agenda Item No.
Information/Staff Reports No.
Discussion Item No.
Old Business Agenda Item No.
New Business Agenda Item No. 2. (b)

Administrative Services

SUBJECT: FY 2010 - 2011 Annual District Audit Report

- Resolution: BE IT RESOLVED,
 Information Only
 Action Item

Proposal:

That the Board of Trustees accept the FY 2010 - 2011 Annual District Audit Report.

Background:

The certified public accounting firm of Crowe Horwath LLP has completed the Annual District Audit Report with a separately attached letter to the Board of Trustees. The report is for board review and acceptance. The financial statements are the responsibility of the District's management. The auditor's responsibility is to express opinions on the financial statements based on their audit.

In the interest of reducing paper, hard copies of the Annual District Audit Report and letter are attached for board members only. The report and letter can be found at www.gavilan.edu under the tab "About Gavilan", "Budget Information". Hard copies are available upon request from the Office of the President.

Independent Auditors' Report

It is the opinion of our auditors that the financial statements "present fairly, in all material respects, the net assets of the business-type activities of Gavilan Joint Community College District as of June 30, 2011, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America".

However, the auditor's opinion also notes that "the District restated its beginning net assets to correct an error in the recognition of the District's Other Postemployment Benefits assets at July 1, 2010."

Findings and Recommendations

The audit report contains three (3) Finding and Recommendations. This section of the audit report details the findings and corrective actions. In summary the Finding and Recommendations concern the following:

- (1) 2011-01 (page 51) Material Weakness – OPEB Asset. This finding is what is noted above in the auditor's opinion concerning Other Postemployment Benefits (OPEB). It has been corrected and is discussed in more detail below.
- (2) 2011-02 (page 53) State Compliance – Disabled Students Programs and Services. This item was immediately corrected by the program administrator and steps have been taken so it will not happen again.
- (3) 2011-03 (page 54) State Compliance – Instructional Service Agreements. This item is still in the process of being corrected by District administrators so it will not happen again.

Concerning the Material Weakness – OPEB Asset (#1 above). The District's current internal controls include providing the auditors with financial and other information contained in a variety of state financial reporting documents. This information is audited by the District auditors. Although the Audited Financial Statements are the responsibility of the District, the auditors, on behalf of the District, combine the District's information, along with additional information, into the Audited Financial Statements format, with appropriate disclosures, as required by GASB. Both the District and the auditors have an internal review process that includes reviewing the draft Audited Financial Statements before they are published.

The FY 08-09 audit was the first year of implementation of GASB 45 accounting for Other Postemployment Benefits (OPEB) for the District. In the FY 08-09 Audited Financial Statements, the auditors mistakenly recognized an asset for amounts in the irrevocable trust that had already been considered in the Actuary's calculation of the Unfunded Actuarial Accrued Liability. The FY 08-09 auditors' mistake was misinterpreting a new GASB standard concerning OPEB. The District and the new FY 09-10 auditors did not catch the mistake until the FY 10-11 audit.

Although the District challenged the reporting presentation with both audit firms, the District did not independently reinterpret the GASB reporting requirements. The District relied on the prior and current auditors when presenting financial information on the financial statements. The District is responsible for the accuracy of the financial statements even if they were compiled by the District's auditor. The District and the auditors did follow the requisite internal control procedures but a mistake was made based on a misinterpretation of new OPEB reporting standards as required by GASB.

The District's OPEB asset as presented in the Audited Financial Statements was overstated by \$4,739,981. By reversing this entry the misstatement in the Audited Financial Statements is corrected. However, this overstatement does not affect the amount of the cash held in the irrevocable trust or the actuarial calculations reported to the Board during the year and also reported in the Audited Financial Statements. The cash in the irrevocable trust has always been correct. For example, the amount of cash held in the irrevocable trust at June 30, 2011 is correct at \$6,699,900 (page 13). In addition, the current liability for retiree health benefits is correct and has not changed although the District has been working with an actuary for an updated report effective June 30, 2012 as required by GASB.

The internal control procedures did work when comparing the information prepared by the District in the state reporting documents to the Audited Financial Statements prepared by the auditors. There were no adjustments proposed to any funds of the District (page 42).

Representatives from Crowe Horwath LLP will review the Annual District Audit Report with the Board of Trustees.

Budgetary Implications:

Assures that the prior year audit was conducted.

Follow Up/Outcome:

Take corrective action needed for Finding and Recommendation #3, State Compliance – Instructional Service Agreements.

Recommended By: Joseph D. Keeler, Vice President of Administrative Services

Prepared By: Joseph D. Keeler
Joseph D. Keeler, Vice President of Administrative Services

Agenda Approval: Steven M. Kinsella
Dr. Steven M. Kinsella, Superintendent/President