

**SAN BERNARDINO
COMMUNITY COLLEGE DISTRICT**

**MEASURE P AND MEASURE M
GENERAL OBLIGATION BONDS
ELECTION 2002 AND 2008**

AUDIT REPORT

JUNE 30, 2016

**SAN BERNARDINO
COMMUNITY COLLEGE DISTRICT**

**MEASURE P AND MEASURE M
GENERAL OBLIGATION BONDS
ELECTION 2002 AND 2008**

FINANCIAL AUDIT

JUNE 30, 2016

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**FINANCIAL AUDIT
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JUNE 30, 2016**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Citizens' Bond Oversight Committee
San Bernardino Community College District
General Obligation Bonds
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino Community College District's (the District) General Obligation Bonds Construction Funds (General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008) as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 risks of material misstatement of 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bonds Construction Funds (General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008) of the District at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the General Obligation Bonds Construction Funds specific to General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008, and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of the District General Obligation Bonds Construction Funds' (General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District General Obligation Bonds Construction Funds' (General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008) internal control over financial reporting and compliance.

Vaurine, Dine, Day & Co. LLP

Rancho Cucamonga, California

November 16, 2016

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**BALANCE SHEET – MODIFIED ACCRUAL BASIS
JUNE 30, 2016**

	<u>Measure P</u>	<u>Measure M</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,195,256	\$ 82,623,303	\$ 83,818,559
Accounts receivable	5,218	34,717	39,935
Prepaid expenditures	-	1,438	1,438
Total Assets	<u>\$ 1,200,474</u>	<u>\$ 82,659,458</u>	<u>\$ 83,859,932</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	<u>\$ -</u>	<u>\$ 6,110,618</u>	<u>\$ 6,110,618</u>
FUND BALANCE			
Restricted for capital projects	<u>1,200,474</u>	<u>76,548,840</u>	<u>77,749,314</u>
Total Fund Balance	<u>1,200,474</u>	<u>76,548,840</u>	<u>77,749,314</u>
Total Liabilities and Fund Balance	<u>\$ 1,200,474</u>	<u>\$ 82,659,458</u>	<u>\$ 83,859,932</u>

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

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Measure P</u>	<u>Measure M</u>	<u>Total</u>
REVENUES			
Interest	\$ 12,630	\$ 114,237	\$ 126,867
EXPENDITURES			
Salaries and benefits	-	2,250	2,250
Professional services and other operating expenditures	-	1,027,264	1,027,264
Capital outlay	518,870	53,095,975	53,614,845
Total Expenditures	<u>518,870</u>	<u>54,125,489</u>	<u>54,644,359</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(506,240)</u>	<u>(54,011,252)</u>	<u>(54,517,492)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds received from issuance of bonds	-	102,148,488	102,148,488
Other uses - refunding of bonds	-	(64,300,979)	(64,300,979)
Total Other Financing Sources (Uses)	<u>-</u>	<u>37,847,509</u>	<u>37,847,509</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER USES	(506,240)	(16,163,743)	(16,669,983)
FUND BALANCE, BEGINNING OF YEAR	<u>1,706,714</u>	<u>92,712,583</u>	<u>94,419,297</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,200,474</u>	<u>\$ 76,548,840</u>	<u>\$ 77,749,314</u>

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

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of San Bernardino Community College District (the District) General Obligation Bonds Construction Funds (Measure P and Measure M) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). San Bernardino Community College District Bond Funds account for the financial transactions in accordance with the policies and procedures of the California Community Colleges Budget and Accounting Manual.

Financial Reporting Entity

The audited financial statements include only the General Obligation Bonds Construction Funds (Measure P and Measure M) of the District. These funds were established to account for the receipt of proceeds of general obligation bond issuances and the expenditures of the proceeds under the General Obligation Bond Election of November 2002 and February 2008. These financial statements are not intended to present fairly the financial position and the changes in financial position of the District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the General Obligation Bonds Construction Funds (Measure P and Measure M) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Bond Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. These fund financial statements do not include the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as the District was not required to adopt GASB Statement No. 54 under the reporting requirements of GASB Statement No. 35.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Board of Trustees adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Fund Balance - Governmental Funds

As of June 30, 2016, the fund balance of the General Obligation Bonds Construction Funds (Measure P and Measure M) was classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

NOTE 2 - 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.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

General Authorizations

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

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

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Summary of Investments

Investments as of June 30, 2016, consist of the following:

	Measure P	Measure M	Total
San Bernardino County investment pool	\$ 1,195,256	\$ 7,381,322	\$ 8,576,578
Short-term securities	-	75,241,981	75,241,981
Total Deposits and Investments	<u>\$ 1,195,256</u>	<u>\$ 82,623,303</u>	<u>\$ 83,818,559</u>

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 has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District also manages its exposure to interest rate risk by investing in the San Bernardino County Investment Pool and various short-term securities. The District maintains an investment of \$8,576,578 with the San Bernardino County Investment Pool with a weighted maturity of 311 days. In addition, the District maintains investments of \$75,241,981 in Short-Term Securities.

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 San Bernardino County Investment pool is rated at AAA/VI by Fitch Ratings agency. All other investments are not required to be rated, nor have they been rated as of June 30, 2016.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the San Bernardino County Treasury Investment are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
San Bernardino County investment pool	\$ 8,597,846	\$ -	\$ -	\$ -	\$ 8,597,846
Short-term securities	75,241,981	75,241,981	-	-	-
Total	<u>\$ 83,839,827</u>	<u>\$ 75,241,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,597,846</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2016, consist of the following:

	Measure P	Measure M	Total
Interest	<u>\$ 5,218</u>	<u>\$ 34,717</u>	<u>\$ 39,935</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consist of the following:

	Measure M
Construction payables	<u>\$ 6,110,618</u>

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - FUND BALANCE

Fund balance is composed of the following element:

	<u>Measure P</u>	<u>Measure M</u>	<u>Total</u>
Restricted			
Capital projects	<u>\$ 1,200,474</u>	<u>\$ 76,548,840</u>	<u>\$ 77,749,314</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2016, the General Obligation Bonds Construction Funds had the following significant construction commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Costs as of June 30, 2016</u>	<u>Estimated Costs to Complete</u>
SBVC Gymnasium and Stadium	\$ 54,752,143	\$ 14,723,942
SBVC Applied Technology	2,936,843	535,166
SBVC 2nd Auditorium Renovation	34,128	421,813
CHC Performing Arts Center Renovation	450,139	1,965,180
CHC Science Building	26,211,519	1,303,600
CHC LADM Renovation	3,279,048	10,125,967
CHC Occupational Education 2 - OE2	23,372,020	409,476
CHC College Center Renovation	436,839	3,596,650
CHC Student Services A Renovation	1,459,545	6,040,773
CHC Student Services Bldg (Crafton Ctr)	31,749,584	250,416
CHC Classroom Building Renovation	277,569	25,129
Total	<u>\$ 144,959,377</u>	<u>\$ 39,398,112</u>

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

INDEPENDENT AUDITOR'S REPORT



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

Board of Trustees and Citizens' Bond Oversight Committee
San Bernardino Community College District
General Obligation Bonds
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the San Bernardino Community College District's (the District) General Obligation Bonds Construction Funds (General Obligation Bonds - Measure P and Measure M, Election 2002 and 2008), as of and for the year ended June 30, 2016, and have issued our report thereon dated November 16, 2016.

As discussed in Note 1, the financial statements present only the General Obligation Bonds Construction Funds specific to General Obligation Bonds, Election 2002 and 2008, and are not intended to present fairly the financial position and changes in financial position of San Bernardino Community College District in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Purpose of this Report

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



Rancho Cucamonga, California
November 16, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2016**

None reported.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND CONSTRUCTION FUND
(MEASURE P AND MEASURE M)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

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

2015-001 Financial Reconciliation Process

Criteria or Specific Requirement

The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges *Budget and Accounting Manual* (BAM). Colleges are also required to present their financial statements in accordance with generally accepted accounting principles (GAAP).

Condition

Material Weakness - The accounts payable balances were not properly reconciled at the end of the year. Controls in place did not operate effectively to ensure the proper closing of open purchase orders. Material adjustments were necessary to reconcile the account balances.

Effect

Material adjustments to the general ledger were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were presented fairly.

Cause

The oversight controls over the closing process appear not to have been adhered to, resulting in adjustments and a material weakness.

Recommendation

The District needs to develop a closing procedure calendar at year end to ensure that all information is prepared, reviewed, and reconciled prior to the closing of the general ledger.

Current Status

Implemented.

**SAN BERNARDINO
COMMUNITY COLLEGE DISTRICT**

**MEASURE P AND MEASURE M
GENERAL OBLIGATION BONDS
ELECTION 2002 AND 2008**

PERFORMANCE AUDIT

JUNE 30, 2016

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
MEASURE M AND MEASURE P GENERAL OBLIGATION BONDS**

**PERFORMANCE AUDIT
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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees and Citizens' Bond Oversight Committee
San Bernardino Community College District
General Obligation Bonds
San Bernardino, California

We were engaged to conduct a performance audit of San Bernardino Community College District's (the District) Proposition 39 Measure P and Measure M General Obligation Bond funds for the year ended June 30, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Proposition 39 Measure P and Measure M General Obligation Bond funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Rancho Cucamonga, California
November 16, 2016

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT MEASURE P AND MEASURE M GENERAL OBLIGATION BONDS

JUNE 30, 2016

AUTHORITY FOR ISSUANCE

The Measure P and Measure M General Obligation Bonds (the Bonds) were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Supervisors of San Bernardino County (the County Resolution), pursuant to a request of the San Bernardino Community College District (the District) made by a resolution adopted by the Board of Education of the District (the District Resolution).

The District received authorization at elections held on November 5, 2002 and February 5, 2008, to issue bonds of the District in an aggregate principal amount not to exceed \$690,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The Measures required approval by at least 55 percent of the votes cast by eligible voters within the District. The Bond Funds represent the authorized bond issuance of the Measure P Series 2002B, 2002C, 2002D, 2002E and Measure M 2008A, 2008B, 2008C, as well as the 2005 Refunding Bonds, 2013 Refunding Bonds, and 2015 Refunding Bonds.

PURPOSE OF ISSUANCE

The general obligation bond funds of the District would be used to finance the design, acquisition, installation, restoration, and construction of public schools and school facilities and providing facilities improvements and upgrades, and the acquisition of related facilities costs, including, but not limited to, financing the following: renovation of classrooms and science labs; upgrading of electrical systems and wiring to safely accommodate computers, technology, and other electrical devices; repair and replacement of fixtures and systems. Project costs for expansion of existing facilities may include, but is not limited to, some or all of the following: vocational and technical training programs and to enhance nursing, firefighter, paramedic, public safety, and hi-tech job training. Project costs for furniture and equipment may include, but is not limited to, some or all of the following: desks and tables; window and floor covering; computer, media recording, and presentation equipment; science laboratory equipment; and/or other electronic equipment.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT MEASURE P AND MEASURE M GENERAL OBLIGATION BONDS

JUNE 30, 2016

2. The district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction, and information technology needs in developing the project list.
3. Requires the district to appoint a Citizens' Oversight Committee.
4. Requires the district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

OBJECTIVES OF THE AUDIT

Determine whether expenditures charged to the Bond Funds have been made in accordance with the Bond project list approved by the voters through the approval of Measure P and Measure M.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2015 through June 30, 2016. The population of expenditures tested included all object and project codes associated with the Bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2016, were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2016, for the Bond Funds (Measure P and Measure M). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure P and Measure M as to the approved Bond projects list. We performed the following procedures:

1. We verified that a separate Bond Construction Fund of the District has been established to account for the receipt of Bond proceeds and expenditure of the funds for the period July 1, 2015 through June 30, 2016.
2. We verified the District has established a Citizens' Bond Oversight Committee comprised of representatives from the seven specific constituency groups required by the Proposition.
3. We verified the Citizens' Bond Oversight Committee met regularly during the year and minutes of the meetings were maintained.

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MEASURE P AND MEASURE M GENERAL OBLIGATION BONDS**

JUNE 30, 2016

4. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
5. Our sample included transactions totaling \$22,087,336. This represents 40 percent of the total expenditures of \$54,644,359.
6. We verified that the Bonds proceeds in the amount of \$37,419,282 and the other uses from the 2015 General Obligation Bond Refunding in the amount of \$64,300,979 were properly accounted for within the Bond Construction Funds.
7. We verified that funds from the Bond Construction Funds (Measure P and Measure M) were expended for the voter authorized Bond projects as listed in the Approved Bond Project Listing.
8. We verified that the District used formal bid procedures for those contracts over the construction bid level requirements in accordance with the Education Code requirements and District policies.

CONCLUSION

The results of our tests indicated that, in all significant respects, San Bernardino Community College District has properly accounted for the expenditures held in the Bond Funds (Measure P and Measure M) and that such expenditures were made for authorized Bond projects. There were no salaries of administrators charged to the Bond Funds for District general administration or operations. District procedures for disbursement of funds were applied in accordance with laws and regulations, as well as policies approved by the Board of Trustees.

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MEASURE P AND MEASURE M GENERAL OBLIGATION BONDS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

None reported.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
MEASURE P AND MEASURE M GENERAL OBLIGATION BONDS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

None reported.