

YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Yosemite Community College District
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Yosemite Community College District (the "District") Measure E Bond Fund (the "Bond Fund") 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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 audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Fund of Yosemite Community College District as of June 30, 2016, and the changes in its financial position thereof 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 District's Bond Fund and do not purport to, and do not, present fairly the financial position of the Yosemite Community College District as of June 30, 2016, and the changes in its financial position for the year then ended, 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 14, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the Bond Fund. 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 for the Bond Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Yosemite Community College District's internal control over financial reporting and compliance for the Bond Fund.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
November 14, 2016

YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2016

ASSETS

Cash and cash equivalents	\$ 37,274,910
Accounts receivable	<u>1,052</u>

Total assets	<u>\$ 37,275,962</u>
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LIABILITIES AND FUND BALANCE

Liabilities:

Accrued retention payable	\$ 860,283
Due to District	<u>1,288,009</u>

Total liabilities	<u>2,148,292</u>
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Restricted fund balance	<u>35,127,670</u>
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Total liabilities and fund balance	<u>\$ 37,275,962</u>
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See accompanying notes to financial statements.

YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2016

Revenues:		
Interest income		\$ <u>458,819</u>
Expenditures:		
Supplies and materials		25,238
Contract services		3,111,863
Capital outlay		<u>13,534,358</u>
Total expenditures		<u>16,671,459</u>
Change in fund balance		(16,212,640)
Restricted fund balance, July 1, 2015		<u>51,340,310</u>
Restricted fund balance, June 30, 2016		<u>\$ 35,127,670</u>

See accompanying notes to financial statements.

YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Yosemite Community College District (the "District") accounts for its Measure E Bond Capital Projects Fund's ("Bond Fund") financial transactions in accordance with policies and procedures of the State Chancellor's Office's California Community Colleges Budget and Accounting Manual. The accounting policies of the Bond Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

Financial Reporting Entity: The financial statements include only the Bond Fund's resources of the District. The fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2004. The total authorized issuance amount of the bonds is \$326,174,000. Series A and B of the bonds were sold in April 2005 for \$92,015,000 and \$2,430,000, respectively. Series C of the bonds was sold in March 2008 for \$150,000,000. Series D of the bonds was sold in June 2010 for \$81,728,990. In August 2012, Series A Bonds were partially refunded through the issuance of General Obligation 2012 Refunding Bonds for \$59,205,000. In July 2015, the remaining Series A Bonds were refunded and the Series C Bonds were partially refunded through the issuance of General Obligation 2015 Refunding Bonds for \$120,205,000. These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements represent the Bond Fund of the District and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Cash and Cash Equivalents: For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Stanislaus County Treasury are considered cash equivalents.

Due to District: At June 30, 2016, an interfund payable balance totaling \$1,288,009 was due to the District's general fund for the reimbursement of payments to vendors.

Restricted Fund Balance: Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Bond Fund in accordance with the Bond Project List for Measure E General Obligation Bonds.

Accounting Estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 during the reporting period. Actual results could differ from those estimates.

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YOSEMITE COMMUNITY COLLEGE DISTRICT
 MEASURE E GENERAL OBLIGATION BONDS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

NOTE 2 – CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2016:

County treasurer's investment pool	<u>\$ 37,274,910</u>
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Credit Risk: In accordance with Education Code Section 41001, the Bond Fund maintains substantially all of its cash in the Stanislaus County Treasury. The County Treasurer of Stanislaus County acts as the Measure E General Obligation Bond Fiscal Agent. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the Bond Fund's deposits are maintained in a recognized pooled investment fund under the care of a third party and the Bond Fund's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable State laws, the Stanislaus County Treasurer may invest in derivative securities. However, at June 30, 2016, the Stanislaus County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments Authorized by Debt Agreements: Investment 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 or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
County Pooled Investment Fund	None	None	None

Disclosures Relating to 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.

Concentration of Credit Risk: The District's investment policy places limits on the amount it may invest in any one issuer. At June 30, 2016, the District had no concentration of credit risk.

(Continued)

YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – PURPOSE OF BOND ISSUANCE

Bond Authorization: The Yosemite Community College District, Stanislaus County, California Election of 2004 General Obligation Bonds, Measure E were authorized at an election of the registered voters of the Yosemite Community College District held on November 2, 2004 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$326,174,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the repair, upgrade and new construction of Modesto Junior College and Columbia College Facilities and the expansion of college education centers. The Bonds are general obligations of the District, payable solely from ad valorem property taxes.

Purpose of Bonds:

The proceeds of the Bond may be used:

"To prepare Modesto Junior College and Columbia College students for jobs and four-year colleges, repair buildings, and increase access to educational opportunities by repairing, constructing, equipping buildings, classrooms, libraries, science labs, establishing new and expanded college education centers in Turlock, Oakdale, Patterson, and Calaveras County, and acquiring land, and modernizing classroom technology, by issuing \$326,174,000 in bonds, at legal rates, with annual audits, a Citizens' Oversight Committee and no money for administrators' salaries."

Proceeds from the sale of bonds authorized by this proposition shall be used only for the construction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

NOTE 4 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District. The Board of Supervisors of Stanislaus County are obligated to levy *ad valorem* taxes for the payment, without limitation as to amount, upon all property within the county subject to taxation by the District for the payment of principal of and interest on the Bonds when due. The bonds are included in the audited financial statements of the District.

On April 19, 2005, Series 2005A, tax-exempt general obligation bonds and Series 2005B, taxable general obligation bonds, in the amount of \$92,015,000 and \$2,430,000, respectively, were issued. The Series 2005A bonds were partially refunded during the year ended June 30, 2013 with the remaining bonds refunded during the year ended June 30, 2016. The Series 2005B bonds were financed over two years and have been paid in full.

On March 19, 2008, Series 2008C, tax-exempt general obligation bonds, in the amount of \$150,000,000, were issued. The Series 2008C bonds provide \$110,000,000 from term bonds and \$40,000,000 from capital appreciation bonds. The \$110,000,000 of term bonds were refunded during the year ended June 30, 2016. Capital Appreciation Bonds of \$40,000,000, mature through August 1, 2025 with an interest accretion rate of 6.05% compounded semiannually each year and due upon maturity.

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YOSEMITE COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – GENERAL OBLIGATION BOND ISSUANCES (Continued)

On May 12, 2010, Series 2010D, tax-exempt general obligation bonds, in the amount of \$81,728,990 were issued. Current interest bonds of \$3,950,000 bear interest ranging from 2.00% and 5.00% and mature through August 1, 2026. Interest payments are due semiannually on February 1 and August 1 of each year. Capital appreciation bonds of \$20,865,753, maturing through August 1, 2040, bear interest at 6.05% with interest compounded semiannually each year and due upon maturity. Convertible capital appreciation bonds of \$56,913,237 mature through August 1, 2042 and accrete interest semiannually at 6.55% until August 1, 2032 when the accreted value bears interest and is payable semiannually on February 1 and August 1 of each year.

On July 24, 2012, the District issued \$59,205,000 of General Obligation 2012 Refunding Bonds. Proceeds were used to advance refund a portion of the Series 2005A General Obligation Bonds. The 2012 Refunding Bonds mature through August 1, 2029 and bear interest at rates ranging from 2.00% to 5.00% with interest due semiannually on August 1 and February 1. For financial reporting purposes, the refunded debt has been considered defeased and therefore removed from the District's financial statements. On June 30, 2016, \$52,235,000 of bonds outstanding are considered defeased.

On July 28, 2015, the District issued \$120,205,000 of General Obligation 2015 Refunding Bonds. Proceeds were used to refund the outstanding Series 2005A General Obligation Bonds, advance refund a portion of the Series 2008C General Obligation Bonds, and to pay the costs of issuing the 2015 Refunding Bonds. The 2015 Refunding Bonds mature through August 1, 2032 and bear interest at rates ranging from 2.00% to 5.00% with interest due semiannually on August 1 and February 1. For financial reporting purposes, the refunded debt has been considered defeased and therefore removed from the District's financial statements. On June 30, 2016, \$126,190,000 of bonds outstanding are considered defeased.

NOTE 5 – CONSTRUCTION PROJECT COMMITMENTS

As of June 30, 2016, the District has approximately \$18 million in outstanding commitments on 2004 General Obligation Bond construction contracts.

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

To the Board of Trustees
Yosemite Community College District Modesto, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Yosemite Community College (the "District") Measure E Bond Fund (the "Bond Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Bond Fund financial statements are free of material misstatement, we performed tests of the Bond Fund's 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*.

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Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance for the Bond Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance for the Bond Fund. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
November 14, 2016