



MATSON
& ISOM

YOSEMITE COMMUNITY
COLLEGE DISTRICT
MEASURE E BOND FUND

Modesto, California

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2013

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Yosemite Community College District

Measure E Bond Fund

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MATSON
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INDEPENDENT AUDITORS' 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 the Measure E Bond Funds (the Measure) of Yosemite Community College District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Measure's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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 District'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 District'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Continued

Emphasis of Matter

As discussed in note 1, the financial statements present only the Measure and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows 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.

Change in Accounting Principles

As discussed in note 8, the District adopted new accounting guidance, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The beginning net position was increased by \$28,144,336 as a result of capitalizing interest costs of bond projects that were previously expensed. Our opinion is not modified with respect to this matter.

The District also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The beginning net position was decreased by \$4,734,965 as a result of expensing the costs associated with the issuance of bonds. Our opinion is not modified with respect to this matter.

Other Matters - Required Supplementary Information

Management has omitted management's discussion that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013, 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. 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's internal control over financial reporting and compliance.

Matson and Isom

November 20, 2013
Chico, California

FINANCIAL SECTION

STATEMENT OF NET POSITION**Yosemite Community College District
Measure E Bond Fund**

June 30, 2013

ASSETS**CURRENT ASSETS**

Accounts receivable	\$ 932
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NONCURRENT ASSETS

Restricted cash and cash equivalents	108,278,910
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Capital assets - net	268,604,454
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Total Noncurrent Assets	376,883,364
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Total Assets	376,884,296
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DEFERRED OUTFLOW OF RESOURCES

Deferred loss on refunding	5,383,889
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LIABILITIES**CURRENT LIABILITIES**

Accounts payable	3,496,255
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Other accrued liabilities	4,566,926
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Current portion of long-term debt	5,150,633
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Total Current Liabilities	13,213,814
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NONCURRENT LIABILITIES

Long-term debt - net	337,057,477
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Total Liabilities	350,271,291
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NET POSITION

Restricted for Measure E	31,996,894
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Total Net Position	\$ 31,996,894
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The accompanying notes are an integral part of these financial statements.

**STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN
NET POSITION**

***Yosemite Community College District
Measure E Bond Fund***

Year Ended June 30, 2013

OPERATING EXPENSES	
Depreciation	\$ 1,245,032
Operating Loss	(1,245,032)
NONOPERATING REVENUES (EXPENSES)	
Supplies, materials, and other expenses and services	(129,689)
Other nonoperating revenues	28,081
Total Nonoperating Revenues (Expenses)	(101,608)
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,346,640)
Local property taxes and revenues - capital	13,573,368
Investment income - capital	600,055
Interest expense - capital	(5,615,985)
Increase in Net Position	7,210,798
Net Position - as Previously Reported	1,376,725
Cummulative effect of change in accounting principles	23,409,371
Net Position - as Restated	24,786,096
Net Position - End of Year	\$ 31,996,894

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

STATEMENT OF CASH FLOWS**Yosemite Community College District
Measure E Bond Fund**

Year Ended June 30, 2013

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Other receipts	\$ 28,081
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES**

Proceeds from capital debt	59,665,414
Purchases of capital assets	(30,849,182)
Principal paid on capital debt	(62,598,213)
Interest paid on capital debt	(9,815,956)
Local property taxes and other revenues for capital purposes	13,616,180
Net Cash Used by Capital and Related Financing Activities	(29,981,757)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on capital investments	600,055
Net Decrease in Cash and Cash Equivalents	(29,353,621)
Cash and Cash Equivalents - Beginning of Year	137,632,531
Cash and Cash Equivalents - End of Year	\$ 108,278,910

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (1,245,032)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation expense	1,245,032
Net Cash Provided by Operating Activities	\$ -

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity Yosemite Community College District (the District) provides higher education in the greater Modesto area, which consists of portions of six counties. The District consists of two community colleges (the Primary Institution). These financial statements present only the Measure E Bond Fund (the Measure), which consists of the building fund and the bond debt service fund. These financial statements do not include financial data for the remainder of the District's funds and component units, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

The Measure is a facilities and equipment bond measure for the District adopted by the Board of Trustees and passed by voters on November 2, 2004, authorizing the issuance and sale of general obligation bonds of \$326,174,000. 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 provide \$63,335,000 from serial bonds and \$28,680,000 from term bonds. The \$63,335,000 of serial bonds are financed over 20 years with principal payments due annually on August 1, beginning on August 1, 2006. The \$28,680,000 of term bonds are subject to four yearly mandatory sinking fund redemptions each due annually on August 1, beginning in 2026. The Series 2005B bonds provide \$2,430,000 from serial bonds. The serial bonds were financed over two years and have been paid in full. Interest payments for Series 2005A bonds will be made semiannually each February 1 and August 1 beginning on February 1, 2006.

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 are financed over 24 years with principal payments due annually on August 1, beginning on August 1, 2026. The \$40,000,000 of capital appreciation bonds are financed over 17 years with principal payments due annually on August 1, beginning on August 1, 2011. Interest payments will be made semiannually each February 1 and August 1, beginning on February 1, 2009.

On June 2, 2010, Series 2010D, tax-exempt general obligation bonds, in the amount of \$81,728,990 were issued. The Series 2010D bonds provide \$3,950,000 in current interest bonds, \$20,865,753 in standard capital appreciation bonds, and \$56,913,237 in capital appreciation term bonds converting on August 1, 2032. Interest payments on the current interest bonds will be made semiannually each February 1 and August 1, beginning on February 1, 2011. Principal payments will be made annually beginning August 1, 2012, through 2026. The capital appreciation bonds accrete interest from the date of delivery, compounded semiannually on February 1 and August 1 of each year, beginning on August 1, 2010. The convertible capital appreciation bonds accrete interest from the date of delivery, compounded semiannually on February 1 and August 1 of each year, beginning on August 1, 2010, to August 1, 2042 (the conversion date), and bear interest from the conversion date on the accreted value as of the conversion date, payable semiannually on February 1 and August 1 of each year, beginning February 1, 2033.

On August 8, 2012, the District issued \$59,205,000 of Series 2012 general obligation refunding bonds at a premium of \$6,151,157 to advance refund \$57,150,000 of the Series 2005A tax-exempt general obligation bonds. Resources totaling \$64,990,980 were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$65,502,750 of general obligation bonds. As a result, the refunded general obligation bonds are considered defeased. This advanced refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$4,292,341. As a result, the refunded general obligation bonds are considered defeased and the liability has been removed from long-term debt. Outstanding defeased general obligation bonds at June 30, 2013, were \$57,150,000.

The Series 2012 refunding bonds provide \$49,020,000 from serial bonds and \$10,185,000 from term bonds. The \$49,020,000 of serial bonds are financed over 16 years with principal payments due annually on August 1, beginning on August 1, 2013. The \$10,185,000 of term bonds are subject to two yearly mandatory sinking fund redemptions each due annually on August 1, beginning in 2027. Interest payments for Series 2012 refunding bonds will be made semiannually each February 1 and August 1 beginning on February 1, 2013.

The Board of Supervisors of Stanislaus, Tuolumne, Calaveras, San Joaquin, Santa Clara, and Merced counties are empowered and obligated to levy property taxes without limitation as to rate or amount (except for certain property which is taxable at limited rates) for payment of principal and maturity value of and interest on the bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant interfund transactions have been eliminated.

The District's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community Colleges.

Accounts Receivable The District utilizes the allowance method of accounting for uncollectible accounts receivable. No allowance was necessary at June 30, 2013.

Restricted Cash and Cash Equivalents Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other noncurrent assets is classified as a noncurrent asset in the statement of net position.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Stanislaus County Treasury as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of less than five years. As of June 30, 2013, the fair value of the County pool is 100.5% of the carrying value and is deemed to represent a material difference. Derivatives are prohibited within the County investment pool. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of restricted cash and cash equivalents. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in fair value of restricted cash and cash equivalents during the year ended June 30, 2013, was \$681,222. This amount takes into account all changes in fair value, including purchases and sales that occurred during the year.

Capital Assets Capital assets are recorded at cost on the date of acquisition or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 50 years for buildings, 30 years for building improvements or additions, 10 years for land improvements, 8 years for equipment, 7 years for library books, and 3 years for technology equipment. Land and construction in progress are considered nondepreciable capital assets; therefore, no depreciation is computed.

Deferred Outflows/Inflows of Resources In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District does not have this type of item.

Bond Premium Bond premiums are deferred and amortized over the term of the bonds using the effective-interest method. Bond premiums are recorded as long-term liabilities.

Net Position The Measure's net position include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by law.

Classification of Revenues The District has classified its revenues as nonoperating revenues according to the following criteria:

Nonoperating Revenues: Includes activities that have the characteristics of nonexchange transactions, such as capital gifts and contributions, and other revenue sources that are defined as nonoperating revenues, such as state appropriations and investment income. This is according to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*; and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Risk Management The District retains risk for liability and property damage on the first \$5,000 of each claim. The District retains risk on the first \$1,500 of each auto physical damage claim. The District retains no risk for general and auto liability and for workers' compensation claims, and coverage is provided by pooled insurance as a member.

Certain liability coverage in excess of \$1,000,000 and up to \$25,000,000 is provided by pooled insurance as a member of a joint powers authority of California community colleges and school districts. Property damage in excess of \$5,000 and up to \$100,000,000 is covered by pooled insurance as a member of a joint powers authority.

Estimates Used in Financial Reporting In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates. The Measure's largest source of revenue is property taxes, which are subject to some estimation at the date of the financial statements.

Budgets and Budgetary Accounting By State law, the District's governing board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption. The District's governing board satisfied these requirements.

The budget is revised during the year to incorporate categorical funds that are awarded during the year and for miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

Property Tax Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The following counties bill and collect the taxes for the District: Stanislaus, Calaveras, Merced, San Joaquin, Santa Clara, and Tuolumne. Tax revenues are recognized by the District when received.

3. RESTRICTED CASH AND CASH EQUIVALENTS

The following is a summary of restricted cash and cash equivalents at June 30, 2013:

	Fair Value
INVESTMENTS THAT ARE NOT SECURITIES (1)	
County treasurer's investment pool	\$ 108,278,910

(1) **Investments That are Not Securities** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Yosemite Community College District**Measure E Bond Fund****4. CAPITAL ASSETS**

Changes in capital assets consist of the following:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
NONDEPRECIATED CAPITAL ASSETS				
Construction in progress	\$193,524,114	\$ 41,924,917	\$ 35,952,591	\$ 199,496,440
DEPRECIATED CAPITAL ASSETS				
Site improvements	4,391,006	5,221,695	-	9,612,701
Buildings and improvements	30,012,901	31,875,774	-	61,888,675
Equipment	2,043,723	840,518	-	2,884,241
Total Capital Assets	229,971,744	79,862,904	35,952,591	273,882,057
Less: Accumulated depreciation	4,032,571	1,245,032	-	5,277,603
Total Capital Assets - Net	\$225,939,173	\$ 78,617,872	\$ 35,952,591	\$ 268,604,454

5. LONG-TERM DEBT

The long-term debt activity for the year ended June 30, 2013, is shown below:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Current Portion
General obligation bonds	\$ 306,156,151	\$ 59,205,000	\$ 60,447,976	\$ 304,913,175	\$ 3,246,196
Unamortized bond premium	6,435,488	6,151,157	3,391,544	9,195,101	1,210,633
Accreted interest	19,668,996	8,912,862	482,024	28,099,834	693,804
Total Long-Term Liabilities	\$ 332,260,635	\$ 74,269,019	\$ 64,321,544	\$ 342,208,110	\$ 5,150,633

The general obligation bonds payable at June 30, 2013, with their outstanding balances, are comprised of the following issuances:

2005 Series A general obligation bond, due in annual installments of \$905,000 to \$4,990,000, beginning August 1, 2006, through August 1, 2029, at interest rates ranging from 3.00% to 5.00%.	\$ 17,225,000
2008 Series C general obligation bond, due in annual installments of \$1,422,839 to \$30,685,000, beginning August 1, 2011, through August 1, 2032, at interest rates ranging from 5.00% to 6.05%.	146,939,185
2010 Series D general obligation bond, due in annual installments of \$60,000 to \$11,632,383, beginning August 1, 2012, through August 1, 2042, at interest rates ranging from 2.00% to 7.06%.	81,543,990
2012 general obligation bond refunding, due in annual installments of \$1,030,000 to \$5,085,000 beginning August 1, 2013, through August 1, 2029, at interest rates ranging from 2.00% to 5.00%.	59,205,000
Total	\$ 304,913,175

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

*Yosemite Community College District**Measure E Bond Fund*

The amount of interest cost incurred during the year ended June 30, 2013, was \$16,317,550 of which \$11,373,596 was capitalized. The annual requirements to amortize the general obligation bonds payable is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,246,196	\$ 8,594,879	\$ 11,841,075
2015	3,617,430	8,543,225	12,160,655
2016	4,043,498	8,470,246	12,513,744
2017	4,477,785	8,384,629	12,862,414
2018	6,057,192	8,324,750	14,381,942
2019-2023	36,659,597	39,507,658	76,167,255
2024-2028	65,902,487	39,562,241	105,464,728
2029-2033	109,918,949	50,526,462	160,445,411
2034-2038	25,712,740	167,253,519	192,966,259
2039-2043	45,277,301	159,147,229	204,424,530
Totals	\$ 304,913,175	\$ 498,314,838	\$ 803,228,013

6. CONSTRUCTION PROJECT COMMITMENTS

The District entered into several construction commitments for a total of \$13,332,792 during the year ended June 30, 2013, and \$10,419,500 in additional commitments subsequent to year end.

7. JOINT POWERS AGREEMENTS

The District participates in joint ventures under joint power agreements with the following joint powers authorities (JPAs): Valley Insurance Program (VIP) and Self-Insured Schools of California (SISC III). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs arrange for and provide property, liability, workers' compensation, dental, vision, and excess liability coverage for their members. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA.

Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

8. CHANGE IN ACCOUNTING PRINCIPLES

The District adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, effective July 1, 2012. The beginning net position was increased by \$28,144,336 as a result of capitalizing interest costs of the bond projects that were previously expensed.

The District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

The District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013. This statement improves financial reporting by clarifying the appropriate use of the financial elements' deferred outflows of resources and deferred inflows of financial resources to ensure consistency in financial reporting. The District implemented this statement in the year ended June 30, 2013. As a result, prior-year deferred bond issuance costs of \$4,734,965 have been expensed. In addition, \$5,690,743, representing the difference between the reacquisition price and the net carrying amount of the old general obligation bonds on the current year's refunding, has been reported as "deferred outflows of resources" and will be recognized as a component of interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

OTHER REPORT SECTION



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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***

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 the Measure E Bond Fund (the Measure) of Yosemite Community College District (the District) as of and for the year ended June 30, 2013; the related notes to the financial statements, which collectively comprise the Measure's basic financial statements; and have issued our report thereon dated November 20, 2013.

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 opinion 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.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 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*.

**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***

Continued

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.

Matson and Isom

November 20, 2013
Chico, California