

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT

**MEASURE AA GENERAL OBLIGATION BONDS
ELECTION 2014**

FINANCIAL AND PERFORMANCE AUDITS

JUNE 30, 2017

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT

**MEASURE AA GENERAL OBLIGATION BONDS
ELECTION 2014**

FINANCIAL AUDIT

JUNE 30, 2017

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**FINANCIAL AUDIT
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JUNE 30, 2017**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Citizens' Oversight Committee
Mt. San Jacinto Community College District
San Jacinto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Mt. San Jacinto Community College District's (the District) Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) as of and for the year ended June 30, 2017, 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 statement 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 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 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 respective financial position of the Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) of the District at June 30, 2017, 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 Measure AA General Obligation Bond Fund specific to General Obligation Bonds, Election 2014, 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 October 31, 2017, on our consideration of the District's Measure AA General Obligation Bond Fund's (General Obligation Bonds, Election 2014) 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 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 District's Measure AA General Obligation Bond Fund's (General Obligation Bonds, Election 2014) 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 Measure AA General Obligation Bond Fund's (General Obligation Bonds, Election 2014) internal control over financial reporting and compliance.

Varrinck, Trine, Day & Co., LLP

Riverside, California
October 31, 2017

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**BALANCE SHEETS
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 44,387,527
Accounts receivable	113,095
Due from other funds	437,741
Total Assets	<u><u>\$ 44,938,363</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	<u>\$ 2,064,290</u>
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FUND BALANCE

Restricted for capital projects	<u>42,874,073</u>
Total Liabilities and Fund Balance	<u><u>\$ 44,938,363</u></u>

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

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Investment income \$ 389,171

EXPENDITURES

Other expenses and services 553,340

Capital outlay 11,743,719

Total Expenditures 12,297,059

EXCESS OF EXPENDITURES OVER REVENUES (11,907,888)

FUND BALANCE, BEGINNING OF YEAR 54,781,961

FUND BALANCE, END OF YEAR \$ 42,874,073

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

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT MEASURE AA GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mt. San Jacinto Community College District's (the District) Measure AA General Obligation Bond Fund conforms 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). The District's Measure AA General Obligation Bond Fund accounts 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 Measure AA General Obligation Bond Fund of the District. This Fund was 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 2014. 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 Measure AA General Obligation Bond Fund 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 Fund is 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.

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT MEASURE AA GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 lapse at June 30.

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

As of June 30, 2017, the fund balance of the Measure AA General Obligation Bond Fund 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.

Spending Order Policy

When an expenditure is incurred for purposes of which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assigned actions.

New Accounting Pronouncements

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT MEASURE AA GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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.

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.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2017, consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Riverside County Treasury Investment Pool	<u>\$ 44,295,695</u>	<u>412</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 does not have 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 manages its exposure to interest rate risk by investing in the Riverside County Treasury Investment Pool. The District maintains a Measure AA General Obligation Bond Fund investment of \$44,387,527 with the Riverside County Treasury Investment Pool, with an average maturity of 412 days.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Riverside County Treasury Investment Pool has been rated by Fitch Ratings as AAA/V1.

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.

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 Riverside County Treasury Investment Pool 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, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Riverside County Treasury Investment Pool	<u>\$ 44,295,695</u>	<u>\$ 44,295,695</u>

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

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2017, consist of the following:

Interest	<u>\$ 113,095</u>
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NOTE 5 - DUE FROM OTHER FUNDS

Due from other funds at June 30, 2017 consist of \$437,741 due from the General Fund for payroll and benefit expenses for four employees working on bond activities. The District elected to cover these expenses with unrestricted funds to allow more bond funds to be utilized on bond projects.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consist of the following:

Construction payables	<u>\$ 2,064,290</u>
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NOTE 7 - FUND BALANCE

Fund balance is composed of the following element:

Restricted Capital projects	<u>\$ 42,874,073</u>
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NOTE 8 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2017, the Measure AA General Obligation Bonds (Measure AA) had the following commitments with respect to unfinished projects:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Wireless Deployment	\$ 232,564	January 31, 2018
Emergency Generator	238,577	December 31, 2017
CDEC Security Enhancements	92,004	December 31, 2017
Athletics Facilities Renovation	4,661,833	January 31, 2018
	<u>\$ 5,224,978</u>	

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Litigation

The District may be 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's Measure AA General Obligation Bond Fund at June 30, 2017.

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' Oversight Committee
Mt. San Jacinto Community College District
San Jacinto, 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 Mt. San Jacinto Community College District's (the District) Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014), as of and for the year ended June 30, 2017, and the related notes of the financial statements, and have issued our report thereon dated October 31, 2017.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure AA General Obligation Bond Fund specific to General Obligation Bonds, Election 2014, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) 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 Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) internal control. Accordingly, we do not express an opinion on the effectiveness of the District's Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) 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 significant deficiencies or material weaknesses. 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 Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) 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 testing 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 Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) 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 Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinich, Trinn, Day & Co., LLP

Riverside, California
October 31, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There were no audit findings reported in the prior year's Financial Statement Findings.

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT

**MEASURE AA GENERAL OBLIGATION BONDS
ELECTION 2014**

PERFORMANCE AUDIT

JUNE 30, 2017

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**PERFORMANCE AUDIT
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JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees and Citizens' Oversight Committee
Mt. San Jacinto Community College District
San Jacinto, California

We were engaged to conduct a performance audit of Mt. San Jacinto Community College District's (the District) Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) for the year ended June 30, 2017.

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's Measure AA General Obligation Bond Fund (General Obligation Bonds, Election 2014) funds are in compliance with Proposition 39 as outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co., LLP

Riverside, California
October 31, 2017

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT MEASURE AA GENERAL OBLIGATION BOND FUND

JUNE 30, 2017

AUTHORITY FOR ISSUANCE

The Measure AA 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 Riverside County (the County Resolution), pursuant to a request of the Mt. San Jacinto Community College District (the District) made by a resolution adopted by the Board of Trustees of the District (the District Resolution).

The District received authorization from an election held on November 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$295,000,000 to finance specific acquisition, construction, and modernization projects approved by eligible voters within the District. The Measure required approval by at least 55 percent of the votes cast by eligible voters within the District. The results of the election provided a 58.82 percent approval of the bond measure.

PURPOSE OF ISSUANCE

Pursuant to the 2014 Authorization, the proceeds of the Bonds will be used to finance the repair, renovation, and construction of facilities noted on a specific Project List for facilities of the District. The bond project list includes:

- Expanding career/support facilities for veterans and military
- Ensuring buildings are accessible for the disabled
- Upgrading nursing, emergency responder, criminal justice, and vocational job training classrooms
- Updating science labs, electrical systems, and technology infrastructure
- Acquisition, construction and repair of classrooms, facilities, sites, and 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.
2. The community college 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.

MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT MEASURE AA GENERAL OBLIGATION BOND FUND

JUNE 30, 2017

3. Requires the community college district to appoint a Citizens' Oversight Committee.
4. Requires the community college 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 community college 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 Bonds have been made in accordance with the Bond project list approved by the voters through the approval of the Measure AA for the year ended June 30, 2017.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2016 through June 30, 2017. 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, 2017, 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, 2017, for the Measure AA Bonds. 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 AA as to the approved Bond projects list. We performed the following procedures:

1. We verified that a separate Bond Fund of the District has been established to account for the receipt of Bond proceeds, interest, and expenditure of the funds for the period July 1, 2016 through June 30, 2017.
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 with agendas and/or minutes of the meetings maintained.
4. We selected a sample of expenditures for the period starting July 1, 2016 and ending June 30, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

JUNE 30, 2017

5. Our sample included transactions totaling \$7,681,673 for the year ended June 30, 2017. This represents 62 percent of the total expenditures.
6. 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, Mt. San Jacinto Community College District has properly accounted for the expenditures held in the Measure AA General Obligation Bond Fund and that such expenditures were made for authorized Bond projects. There were no salaries of administrators charged to the Bonds 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.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

None reported.

**MT. SAN JACINTO COMMUNITY COLLEGE DISTRICT
MEASURE AA GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



To the Board of Trustees
Mt. San Jacinto Community College District
San Jacinto, California

We have audited the financial statements of the Proposition 39 General Obligation Bonds Election 2014, of Mt. San Jacinto Community College District (the District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mt. San Jacinto Community College District related to the Proposition 39 General Obligation Bonds Election 2014 are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by Mt. San Jacinto Community College District related to the Proposition 39 General Obligation Bonds Election 2014 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2017. Management has read this letter, signed and returned it to us.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mt. San Jacinto Community College District's Proposition 39 General Obligation Bonds Election 2014 financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mt. San Jacinto Community College District's auditors of the Proposition 39 General Obligation Bonds Election 2014. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of management, the Board of Trustees, and the Citizen's Oversight Committee of Mt. San Jacinto Community College District, and is not intended to be and should not be used by anyone other than these specified parties.

Varrinck, Trine, Day & Co., LLP

Riverside, California
October 31, 2017