

**SAN MATEO COUNTY COMMUNITY
COLLEGE DISTRICT**

**MEASURE A
2005 GENERAL OBLIGATION BONDS
AUDIT REPORT**

JUNE 30, 2011

**SAN MATEO COUNTY COMMUNITY
COLLEGE DISTRICT**

**MEASURE A
2005 GENERAL OBLIGATION BONDS
FINANCIAL AUDIT**

JUNE 30, 2011

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

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JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Measure A Citizens' Oversight Committee
San Mateo County Community College District
San Mateo, California

We have audited the accompanying financial statements of the San Mateo County Community College District (the District), Capital Outlay – Bond Fund 2005 Election (Measure A), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Capital Outlay - Bond Fund specific to Measure A and are not intended to present fairly the financial position and results of operations of San Mateo County Community College District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capital Outlay - Bond Fund Measure A of the San Mateo County Community College District at June 30, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, on our consideration of the District Capital Outlay – Bond Fund Measure A 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* and should be considered in conjunction with this report in considering the results of our audit.

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
December 9, 2011

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**BALANCE SHEET
JUNE 30, 2011**

ASSETS

Deposits and investments	
Investments	\$ 68,234,264
Accounts receivable	247,270
Due from other governments	18,398
Prepaid expenses	539,963
Total Assets	\$ 69,039,895

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 6,459,220
Due to other funds	357,338
Total Liabilities	6,816,558

FUND BALANCES

Restricted	62,223,337
Total Fund Balances	62,223,337
Total Liabilities and Fund Balances	\$ 69,039,895

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

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES

Interest income	\$ 907,267
Total Revenues	<u>907,267</u>

EXPENDITURES

Current

Salaries and benefits	4,185,111
Books and supplies	7,601,383
Services and operating expenditures	9,049,824

Capital outlay	<u>65,869,066</u>
Total Expenditures	<u>86,705,384</u>

DEFICIENCY OF REVENUES OVER/(UNDER) EXPENDITURES	(85,798,117)
FUND BALANCE - BEGINNING	<u>148,021,454</u>
FUND BALANCE - ENDING	<u><u>\$ 62,223,337</u></u>

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

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the San Mateo County Community College District's Capital Outlay – Bond Fund Measure A conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The San Mateo County Community College District's Capital Outlay – Bond Fund accounts for financial transactions in accordance with the policies and procedures of the California College Budget and Accounting Manual.

Financial Reporting Entity

The financial statements include only the Capital Outlay – Bond Fund of the San Mateo County Community College District used to account for Measure A projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2005. These financial statements are not intended to present fairly the financial position and results of operations of the San Mateo County Community College District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Capital Outlay – Bond Fund Measure A 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 Capital Outlay – Bond Fund Measure A 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

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 governing board 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 governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Encumbrances

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

Fund Balance

As of June 30, 2011, fund balance for the Measure A fund is 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

When an expenditure is incurred for purposes for 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 assignment actions.

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.

New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 instrument; 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 agreement; 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 statement at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
County Pooled Investment Funds	N/A	None	None

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 is to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of deposits at the County Treasury, at June 30, 2011, was \$68,234,264 and the weighted average maturity of the pool is 1.5 years.

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 Capital Outlay Bond Fund only invests in county pooled investments which are not required to be rated.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011, consisted of the following:

Interest	\$ 244,471
Other local sources	2,799
	<u>\$ 247,270</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

Vendor payables	<u>\$ 6,459,220</u>
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NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable balance at June 30, 2011, was as follows:

Due from other funds - Capital Outlay Fund	<u>\$ 18,398</u>
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Interfund payable balance at June 30, 2011, was as follows:

Due to other funds - General Fund	<u>\$ 357,338</u>
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NOTE 6 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, the Building Fund (Measure A) had the following commitments with respect to unfinished capital projects:

<u>MEASURE 39 PROJECTS</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District wide projects	\$ 1,106,832	Within 1 year
Skyline projects	2,449,215	Within 1 year
CSM projects	4,610,007	Within 1 year
Canada projects	1,877,123	Within 1 year
	<u>\$ 10,043,177</u>	

INDEPENDENT AUDITORS' REPORT



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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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***

Measure A Citizens Oversight Committee
San Mateo County Community College District
San Mateo, California

We have audited the accompanying financial statements of the San Mateo County Community College District (the District) Capital Outlay – Bond Fund 2005 Election (Measure A), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Mateo County Community College District's Capital Outlay – Bond Fund 2005 Election (Measure A), internal control over financial reporting as a basis for designing our auditing procedures 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 San Mateo County Community College District's Capital Outlay – Bond Fund 2005 Election (Measure A), internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Mateo County Community College District's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Mateo County Community College District's Capital Outlay – Bond Fund Measure A 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*.

This report is intended solely for the information and use of the governing board, management, and the Measure A Citizen Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
December 9, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2011**

None reported.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

None reported.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**MEASURE A
2005 GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT**

JUNE 30, 2011

**SAN MATEO COMMUNITY COLLEGE DISTRICT
MEASURE A
2005 GENERAL OBLIGATION BONDS**

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Measure A Citizens' Oversight Committee
San Mateo County Community College District
San Mateo, California

We were engaged to conduct a performance audit of the San Mateo County Community College District (the District), Measure A General Obligation Bond funds for the year ended June 30, 2011.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

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

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

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 9, 2011

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

JUNE 30, 2011

AUTHORITY FOR ISSUANCE

The Measure A Bonds are 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 are authorized to be issued by a resolution adopted by the Board of Trustees of the District on November 8, 2006 (the "Bond Resolution").

The District received authorization at an election held on November 8, 2005, to issue bonds of the District in an aggregate principal amount not to exceed \$468,000,000 to finance specific acquisition, construction and modernization projects approved by the voters. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2005 Authorization). The Bonds represent the first and second series of the authorized bonds to be issued under the 2005 Authorization.

PURPOSE OF ISSUANCE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the Election, which include: to upgrade nursing, health career, science, computer, and biotechnology labs; improve accessibility for disabled students; make earthquake safety improvements; repair/modernized libraries, classrooms, and aging facilities, and other projects.

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

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

JUNE 30, 2011

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Capital Outlay – Bond Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure A.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure A and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2010 to June 30, 2011. 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, 2011 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, 2011 for the Capital Outlay – Bond Fund Measure A. 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 A as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2010 and ending June 30, 2011, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$43,825,755. This represents 51 percent of the total expenditures of \$86,705,384, including expenditures related to transferred funds.
3. We verified that funds from the Capital Outlay – Bond Fund Measure A were generally expended for the authorized bond projects. In addition, we verified that funds held in the Capital Outlay – Bond Fund Measure A were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our tests indicated that, in all significant respects, the San Mateo County Community College District has properly accounted for the expenditures held in the Capital Outlay – Bond Fund Measure A and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Capital Outlay – Bond Fund Measure A, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
CAPITAL OUTLAY – BOND FUND 2005 ELECTION (MEASURE A)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

None reported.