

**PALOMAR COMMUNITY COLLEGE DISTRICT**

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**MEASURE M GENERAL OBLIGATION BONDS  
ELECTION 2006**

**FINANCIAL AND PERFORMANCE AUDITS**

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**JUNE 30, 2017**

**PALOMAR COMMUNITY COLLEGE DISTRICT**

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**MEASURE M GENERAL OBLIGATION BONDS  
ELECTION 2006**

**FINANCIAL AUDIT**

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**JUNE 30, 2017**

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

**FINANCIAL AUDIT  
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JUNE 30, 2017**

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***FINANCIAL SECTION***

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**VAVRINEK, TRINE, DAY & CO., LLP**  
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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Citizens' Oversight Committee  
Palomar Community College District  
San Marcos, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Palomar Community College District's (the District) Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006) 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 M General Obligation Bond Fund (General Obligation Bonds, Election 2006) 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 M General Obligation Bond Fund specific to General Obligation Bonds, Election 2006, 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 December 19, 2017, on our consideration of the District's Measure M General Obligation Bond Fund's (General Obligation Bonds, Election 2006) 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 M General Obligation Bond Fund's (General Obligation Bonds, Election 2006) 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 M General Obligation Bond Fund's (General Obligation Bonds, Election 2006) internal control over financial reporting and compliance.

*Vavinek Tume Day & Co. LLP*

San Diego, California  
December 19, 2017

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

**BALANCE SHEET  
JUNE 30, 2017**

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**ASSETS**

Investments	\$ 307,653,499
Accounts receivable	840,632
Prepaid expenditures	210,240
Due from other funds	62
<b>Total Assets</b>	<b><u>\$ 308,704,433</u></b>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	\$ 7,038,826
Due to other funds	33,364
<b>Total Liabilities</b>	<b><u>7,072,190</u></b>

**FUND BALANCE**

Restricted for bond capital projects	<u>301,632,243</u>
<b>Total Fund Equity</b>	<b><u>301,632,243</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 308,704,433</u></b>

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

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**REVENUES**

Local revenues \$ 2,375,736

**EXPENDITURES**

Classified salaries 372,754  
Employee benefits 185,184  
Other expenses and services 3,317,728  
Capital outlay 65,160,260  
**Total Expenditures** 69,035,926

**OTHER FINANCING SOURCES**

Other sources - bond proceeds 139,000,000

**NET CHANGE IN FUND BALANCE**

72,339,810

**FUND BALANCE, BEGINNING OF YEAR**

229,292,433

**FUND BALANCE, END OF YEAR**

\$ 301,632,243

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

# **PALOMAR COMMUNITY COLLEGE DISTRICT MEASURE M GENERAL OBLIGATION BOND FUND**

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

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### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of Palomar Community College District's (the District) Measure M General Obligation Bond Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The District's Measure M 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 M 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 2006. 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 M 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**

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

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on the general obligation bonds, which are recognized when due.

#### **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 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.

# PALOMAR COMMUNITY COLLEGE DISTRICT MEASURE M GENERAL OBLIGATION BOND FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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 during the reporting period. Actual results could differ from those estimates.

### Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

### Fund Balance - Governmental Funds

As of June 30, 2017, the fund balance of the Measure M 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.

### Change in Accounting Principles

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;
- 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;

# PALOMAR COMMUNITY COLLEGE DISTRICT MEASURE M GENERAL OBLIGATION BOND FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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- 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 San Diego 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 accompanying financial statements based on the fair value provided by the San Diego County Treasurer. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**General Authorizations**

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

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

**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 San Diego County Investment Pool. The District maintains an investment of \$307,653,499 with the San Diego County Investment Pool with an average maturity of 417 days.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the San Diego County Investment Pool is rated AA Af/S1 by Standard & Poor's Investor Service.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**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 San Diego County 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>
San Diego County Investment Pool	<u>\$ 306,610,813</u>	<u>\$ 306,610,813</u>

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

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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***NOTE 4 - ACCOUNTS RECEIVABLE***

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

Interest	\$ 839,582
Other receivables	1,050
Total Receivables	<u>\$ 840,632</u>

***NOTE 5 - INTER-FUND RECEIVABLES/BORROWINGS***

The Unrestricted General Fund owes the Measure M General Obligation Bond Fund \$62 for reimbursement of construction related expenditures.

The Measure M General Obligation Bond Fund owes the Unrestricted General Fund \$9,426 for salaries.

The Measure M General Obligation Bond Fund owes the Internal Service Fund \$23,938 for benefit and insurance payments.

***NOTE 6 - ACCOUNTS PAYABLE***

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

Construction payables	\$ 7,031,977
Accrued benefits	6,849
Total Payables	<u>\$ 7,038,826</u>

***NOTE 7 - FUND BALANCE***

Fund balance is composed of the following element:

Restricted Bond capital projects	<u>\$ 301,632,243</u>
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**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2017, the Measure M General Obligation Bond Fund had the following significant construction commitments with respect to unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Parking Improvements	\$ 8,149,384	1/1/2018
Maintenance and Operations Building	10,870,264	4/1/2018
Library/LRC	203,599	6/1/2018
North Education Center	137,962	6/1/2018
South Education Center	31,929,782	6/1/2018
Arboretum	87,770	8/1/2018
Landscape Improvements - San Marcos	219,108	8/1/2018
LL Building - Student Services One-Stop	10,173	12/1/2019
Kinesiology/Athletics	37,502	12/1/2020
	<u>\$ 51,645,544</u>	

**Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Measure M General Obligation Bond Fund at June 30, 2017.

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***INDEPENDENT AUDITOR'S REPORT***

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**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  
Palomar Community College District  
San Marcos, 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 Palomar Community College District's (the District) Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2017.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Measure M General Obligation Bond Fund specific to General Obligation Bonds, Election 2006, 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's Measure M General Obligation Bond Fund (Measure M) 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 M General Obligation Bond Fund (Measure M) internal control. Accordingly, we do not express an opinion on the effectiveness of the District's Measure M General Obligation Bond Fund (Measure M) 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 Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006) 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 M General Obligation Bond Fund (General Obligation Bonds, Election 2006) 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 Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006) internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavineck Tume Day & Co LLP

San Diego, California  
December 19, 2017

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2017**

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None reported.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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

**PALOMAR COMMUNITY COLLEGE DISTRICT**

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**MEASURE M GENERAL OBLIGATION BONDS  
ELECTION 2006**

**PERFORMANCE AUDIT**

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**JUNE 30, 2017**

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

**PERFORMANCE AUDIT  
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JUNE 30, 2017**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees and Citizens' Oversight Committee  
Palomar Community College District  
San Marcos, California

We were engaged to conduct a performance audit of Palomar Community College District's (the District) Measure M General Obligation Bond Fund (General Obligation Bonds, Election 2006) 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 expended Proposition 39 Measure M General Obligation Bond Funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

*Vavrinek Trine Day & Co. LLP*

San Diego, California  
December 19, 2017

# **PALOMAR COMMUNITY COLLEGE DISTRICT MEASURE M GENERAL OBLIGATION BOND FUND**

**JUNE 30, 2017**

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## ***AUTHORITY FOR ISSUANCE***

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

The District received authorization from an election held in November 2006 to issue bonds of the District in an aggregate principal amount not to exceed \$694,000,000 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 Measure M Bond Funds represent the authorized bond issuance of the Series 2006A, Series 2006B, Series 2006C, Series 2006D, and 2015 Refunding bonds.

## ***PURPOSE OF ISSUANCE***

Pursuant to the 2006 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:

- Upgrade nursing and emergency medical career training labs
- Modernize outdated science, computer and job training labs/equipment
- Upgrade electrical and technology infrastructure
- Repair/replace deteriorated roofs, plumbing, lighting, heating, and ventilation systems
- Improve energy efficiency
- Modernize/replace outdated classrooms and student support facilities
- Complete safety upgrades to college buildings and grounds

## ***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.

# **PALOMAR COMMUNITY COLLEGE DISTRICT MEASURE M GENERAL OBLIGATION BOND FUND**

**JUNE 30, 2017**

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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.
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 M.
- Determine whether proceeds received from the issuance of the Bonds has been deposited into the specific fund used to account for Measure M approved projects or for the refunding of previously issued bonds.
- Determine whether salary transactions charged to the Bonds were in support of Measure M and not for District general administration or operations.
- Determine if the Citizens' Oversight Committee was appropriately appointed and met during the year.

## ***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2016 to 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 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 M 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 and expenditure of the funds for the period July 1, 2016 through June 30, 2017.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

**JUNE 30, 2017**

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2. We verified interest revenue in the amount of \$2,375,736 was appropriately deposited into the Bond fund for use for the approved Measure M projects.
3. We reviewed the Citizens' Bond Oversight Committee members and noted that they did not have all of the established members required by the Proposition.
4. We verified the Citizens' Bond Oversight committee met regularly during the year with agendas and/or minutes of the meetings maintained.
5. 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.
6. Our sample included transactions totaling \$49,984,768. This represents 72 percent of the total expenditures of \$69,035,926.
7. We verified that funds from the Bonds were expended for the voter authorized Bond projects as listed in the Approved Bond Project Listing.
8. We verified that the District used formal bid procedures for those contracts over the construction bid level requirements in accordance with the Education Code requirements and District policies.

***CONCLUSION***

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Bond Funds and that such expenditures were made for authorized Bond projects. Further, it was noted that salaries of administrators were charged to the Bonds 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. District procedures for disbursement of funds were applied in accordance with laws and regulations, as well as policies approved by the Board of Trustees.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**2017-001 CITIZENS' BOND OVERSIGHT COMMITTEE**

**Criteria or Specific Requirement**

Pursuant to the Constitution and laws of the State of California, including the provisions of Chapter 1.5 of Part 10, Article 2, Section 15282 of the California *Education Code*, the Citizens' Oversight Committee shall consist of at least seven members to serve for a term of two years without compensation and for no more than two consecutive terms. While consisting of a minimum of at least seven members, the Citizens' Oversight Committee shall be comprised as follows:

1. One member shall be active in a business organization representing the business community located within the district.
2. One member shall be active in a senior citizens' organization.
3. One member shall be active in a bona fide taxpayers' organization.
4. For a school district, one member shall be the parent or guardian of a child enrolled in the district. For a community college district, one member shall be a student who is both currently enrolled in the community college district and active in a community college group, such as student government. The community college student member may, at the discretion of the board, serve up to six months after his or her graduation.
5. For a school district, one member shall be both a parent and guardian of a child enrolled in the district and active in a parent-teacher organization, such as the Parent Teacher Association or schoolsite council. For a community college district, one member shall be active in the support and organization of a community college or the community colleges of the district, such as a member of an advisory council or foundation.

In addition, no employee or official of the District shall be appointed to the Citizens' Oversight Committee. No vendor, contractor, or consultant of the District shall be appointed to the Citizens' Oversight Committee.

**Condition**

During our review of the Citizens' Oversight Committee members, it was noted that the District currently does not have the minimum required number of Citizens' Oversight Committee members. The District does not have an active member in a bona fide taxpayers' organization or an active member of a senior citizen's organization.

**Recommendation**

It is recommended that the Board of Trustees search for and appoint the required members to the Citizens' Oversight Committee to represent the noted constituencies as required by the California Constitution.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**Management's Response and Corrective Action Plan**

In November 2017, the District's Governing Board appointed the required members to the Citizens' Oversight Committee.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**2016-001 CITIZENS' BOND OVERSIGHT COMMITTEE**

**Criteria or Specific Requirement**

Pursuant to the Constitution and laws of the State of California, including the provisions of Chapter 1.5 of Part 10, Article 2, Section 15282 of the California *Education Code*, the Citizens' Oversight Committee shall consist of at least seven members to serve for a term of two years without compensation and for no more than two consecutive terms. While consisting of a minimum of at least seven members, the Citizens' Oversight Committee shall be comprised as follows:

1. One member shall be active in a business organization representing the business community located within the district.
2. One member shall be active in a senior citizens' organization.
3. One member shall be active in a bona fide taxpayers' organization.
4. For a school district, one member shall be the parent or guardian of a child enrolled in the district. For a community college district, one member shall be a student who is both currently enrolled in the community college district and active in a community college group, such as student government. The community college student member may, at the discretion of the board, serve up to six months after his or her graduation.
5. For a school district, one member shall be both a parent and guardian of a child enrolled in the district and active in a parent-teacher organization, such as the Parent Teacher Association or schoolsite council. For a community college district, one member shall be active in the support and organization of a community college or the community colleges of the district, such as a member of an advisory council or foundation.

In addition, no employee or official of the District shall be appointed to the Citizens' Oversight Committee. No vendor, contractor, or consultant of the District shall be appointed to the Citizens' Oversight Committee.

**Condition**

The District currently does not have the minimum required number of Citizens' Oversight Committee members. The District does not have an active member in a bona fide taxpayers' organization or a student who is both concurrently enrolled in the community college district and active in a community college group.

**Recommendation**

It is recommended that the Board of Trustees search for and appoint the required members to the Citizens' Oversight Committee to represent the noted constituencies as required by the California Constitution.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MEASURE M GENERAL OBLIGATION BOND FUND**

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

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**Current Status**

Not implemented. See current year finding 2017-001.