

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2013**

DRAFT

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
JUNE 30, 2013**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Citizens' Bond Oversight Committee
Kern Community College District
Bakersfield, California

We have audited the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements 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 the 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 Proposition 39 Building Fund, consisting of the net construction proceeds of Measure G general obligation bonds as issued by the District, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of operations for the Proposition 39 Building Fund, General Obligation Bonds Measure G, of Kern Community College District as of June 30, 2013, thereof 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 February 28, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprises the Districts Proposition 39 Building Fund (General Obligation Bonds, Measure G). The Schedule of Long-Term Obligations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Shinault Baker & Company
Certified Public Accountants
February 28, 2014

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
BALANCE SHEET
JUNE 30, 2013

ASSETS

Cash		\$	36,766,300
Accounts receivable			<u>85,394</u>
	Total Assets	\$	<u><u>36,851,694</u></u>

LIABILITIES

Accounts payable		\$	<u>963,293</u>
	Total Liabilities		963,293

FUND BALANCE

Restricted			<u>35,888,401</u>
	Total Liabilities and Fund Balance	\$	<u><u>36,851,694</u></u>

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See independent auditor's report and accompanying notes to the financial statements.

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2013

REVENUES

Interest income	\$	202,886
Other revenue		<u>88,972</u>

Total Revenues 291,858

EXPENDITURES

Capital outlay	3,689,270
Supplies and materials	58,132
Professional and consulting	1,514,777
Rents, leases and repairs	120,521
Salaries and benefits	543,609
Other expenses and services	<u>42,710</u>

Total Expenditures 5,969,019

Net Change in Fund Balance (5,677,161)

FUND BALANCE, BEGINNING OF YEAR 41,565,562

FUND BALANCE, END OF YEAR \$ 35,888,401

See independent auditor's report and accompanying notes to the financial statements.

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The mission of the Kern Community College District is to provide outstanding education programs and services that are responsive to students and communities.

The Kern Community College District (the "District") includes approximately 12,800 square miles and encompasses Kern County, Tulare County and San Bernardino County. The District currently operates three college campuses and three approved instructional centers.

The Kern Community College Safety, Repair and Improvement District (SRID) was formed following a public hearing on August 1, 2002, pursuant to California Education Code and proceedings taken by the District. Measure G was placed on the ballot for November 5, 2002 and the electors of the Improvement District voted on whether \$180 million in bonds should be issued on behalf of the District. More than fifty five percent of the electors voting on the proposition voted in favor of such issuance.

The 2003 A Bonds were the first series of bonds issued under the authorization. The net proceeds of the 2003 A Bonds of \$75,191,548 will be used to finance the improvement, renovation, construction, equipping and acquisition of the buildings and classrooms for Bakersfield, Cerro Coso and Porterville Colleges of the District.

Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants (AICPA).

Fund Structure

The Statement of Revenues, Expenditures and Changes in Fund Balance is a statement of financial activities of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, this statement does not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

Fund Balances

As of June 30, 2013, fund balance of the Building 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 the creditors, grantors, contributors or the laws or regulations of other governments.

Encumbrances

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

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Proposition 39 General Obligation Bonds Safety, Repair and Improvement District Fund of the Kern Community College District is maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains its cash with the Kern County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Budget

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, which can be found in the Supplementary Information Section, page 8, of the financial statements, includes a column titled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.

Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are determined by its measurement focus. The Fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the basic financial statements of the Kern Community College District.

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In November 2010, GASB issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus-an amendment of GASB 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 requirement 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 arose 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.

NOTE - 2 CASH AND 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 and/or obligations with first priority security; and collateralized mortgage obligation. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash 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.

Summary of Cash and Investment

Cash in county treasury as of June 30, 2013, consist of the following:

Cash in county treasury, at cost	<u>\$ 36,766,300</u>
Total cash in treasury	<u>\$ 36,766,300</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair market value of an investment. Generally, the longer of the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The district manages its exposure to interest rate risk by investing all funds in the county investment pool.

**KERN COMMUNITY COLLEGE DISTRICT
 PROPOSITION 39 GENERAL OBLIGATION BONDS
 SAFETY, REPAIR AND IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013**

NOTE - 2 CASH AND INVESTMENTS (Continued)

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 investment with the Kern County Investment Pool is rated, at least, by Moody's Investor Service.

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable totaling \$85,394 for June 30, 2013 consist of interest earned on investments and other receivables.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable totaling \$963,293 consist of services provided by vendors relating to construction projects in fiscal year ended June 30, 2013 but have not been paid as of June 30, 2013.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Safety, Repair and Improvement District have commitments in the form of construction contracts. As of June 30, 2013, the remaining unspent portion of these contractual commitments is approximately \$14,554,962 as follows:

Bakersfield College Performing Arts Modernization	\$ 13,776,971
Porterville College Math Science HVAC	309,562
Porterville College Student Center Re-Roof	239,900
Other Projects	228,529
	\$ 14,554,962

NOTE – 6 SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 28, 2014, which is the date the financial statements were available to be issued. On August 22, 2013, the District issued an additional \$54,805,000 in General Obligation Safety, Repair and Improvement Bonds (SRID). This issue was part of the \$180 million anticipated and approved by the voters via Measure G from November 5, 2002. As of this date no other subsequent events that would cause material misstatements to the financial statements have been brought to our attention.

See independent auditor's report

SUPPLEMENTARY
INFORMATION

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KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Interest income	\$ 585,000	\$ 202,886	\$ (382,114)
Other revenue	<u>-</u>	<u>88,972</u>	<u>88,972</u>
Total Revenues	585,000	291,858	(293,142)
EXPENDITURES			
Capital outlay	3,245,764	3,689,270	(443,506)
Supplies and materials	15,900	58,132	(42,232)
Professional and consulting	2,726,384	1,514,777	1,211,607
Rents, leases and repairs	-	120,521	(120,521)
Salaries and benefits	545,154	543,609	1,545
Other expenses and services	<u>32,008</u>	<u>42,710</u>	<u>(10,702)</u>
Total Expenditures	<u>6,565,210</u>	<u>5,969,019</u>	<u>596,191</u>
Net Change in Fund Balance	<u>\$ (5,980,210)</u>	<u>\$ (5,677,161)</u>	<u>\$ 303,049</u>

See independent auditor's report and accompanying notes to the supplementary information

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SCHEDULE OF LONG-TERM OBLIGATION
SUPPLEMENTARY INFORMATION
JUNE 30, 2013

General Obligation Bonds Issued in March 2003 and November 2005

On November 5, 2002, the voters authorized the issuance and sale of general obligation bonds totaling \$180,000,000. On March 6, 2003, \$75,240,068 of general obligation bonds were sold under Proposition 39/Safety Repair and Improvement District which provides that proceeds of the bonds will generally be used for the acquisition, construction, furnishing and equipping of District facilities. Interest rates vary from 2.00% to 6.78%. The final maturity year is 2028.

On November 2, 2005, the District completed refunding of \$54,025,132 on the general obligation bonds sold on March 6, 2003 to reduce its debt service payments over the next 12 years by \$775,000 and obtain an economic gain of \$423,194. Interest rates vary from 3.00% to 5.00%. The final maturity year is 2021.

The outstanding unrefunded and refunding related bonds payable at June 30, 2013 are:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2012	Additions Current	Redeemed Current Year	Outstanding June 30, 2013
2003	2.00-6.78	2028	\$ 75,240,068	\$ 7,431,548	\$ -	\$ 2,275,000	\$ 5,156,548
2005	3.00-5.00	2021	\$ 54,025,132	\$ 47,571,291		\$ 2,250,000	\$45,321,291

The annual requirements to amortize Series A bonds payable, outstanding as of June 30, 2013 are:

Year Ended June 30,	Unrefunded Principle *	Refunding Principle **	Total Principle
2014	\$ 2,655,000	\$ 941,110	\$ 3,596,110
2015	-	1,680,408	1,680,408
2016	-	1,579,774	1,579,774
2017	-	5,300,000	5,300,000
2018	-	5,895,000	5,895,000
2019-2023	-	29,925,000	29,925,000
2024-2028	2,501,548	-	2,501,548
	<u>\$ 5,156,548</u>	<u>\$ 45,321,292</u>	<u>\$ 50,477,840</u>

* Does not include \$2,460,778 of accreted interest on capital appreciation bonds.

** Does not include \$5,431,649 of accreted interest on capital appreciation bond.

Year Ended June 30,	Unrefunded Interest *	Refunding Interest **	Total Principle
2014	\$ 47,790	\$ 3,447,415	\$ 3,495,205
2015	-	5,113,117	5,113,117
2016	-	5,483,752	5,483,752
2017	-	1,871,025	1,871,025
2018	-	1,596,150	1,596,150
2019-2023	-	3,093,137	3,093,137
2024-2028	10,488,452	-	10,488,452
	<u>\$ 10,536,242</u>	<u>\$ 20,604,596</u>	<u>\$ 31,140,838</u>

See independent auditor's report and accompanying notes to the supplementary information

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SCHEDULE OF LONG-TERM OBLIGATION
SUPPLEMENTARY INFORMATION
JUNE 30, 2013

General Obligation Bonds Issued in March 2003 and November 2005 (Continued)

The unrefunded bonds were issued at a premium of \$3,201,567 with issuance costs of \$1,163,019 and the refunding bonds were issued at a premium of \$6,923,478 with issuance costs of \$805,251. The proceeds of the bond premium, less issuance costs, and the repayment of the debt related to the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the District's Bond Interest and Redemption Fund which is part of the Kern Community College District's basic financial statements.

General Obligation Bonds Issued in September 2006

On September 26, 2006, \$49,999,533 of general obligation bonds were sold under Proposition 39/Safety Repair and Improvement District which provides that proceeds of the bonds will generally be used for the acquisition, construction, furnishing and equipping of District facilities. Interest rates vary from 4.25% to 5.00%. The final maturity year is 2030.

The outstanding related bonded debt for the Kern Community College District at June 30, 2013 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2011</u>	<u>Additions Current</u>	<u>Redeemed Current</u>	<u>Outstanding June 30, 2012</u>
2006	4.25-5.00	2030	\$49,999,533	\$49,139,533	\$ -	\$ 350,000	\$ 48,789,533

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2013 are:

<u>Year Ended June 30,</u>	<u>Principle *</u>	<u>Interest</u>	<u>Total</u>
2014	435,000	685,469	1,120,469
2015	1,000,000	654,975	1,654,975
2016	1,155,000	604,850	1,759,850
2017	1,380,000	541,475	1,921,475
2018	1,570,000	473,612	2,043,612
2019-2023	13,547,524	6,660,851	20,208,375
2024-2028	18,696,092	28,303,908	47,000,000
2029-2030	11,005,917	23,434,083	34,440,000
	<u>\$ 48,789,533</u>	<u>\$ 61,359,223</u>	<u>\$ 110,148,756</u>

* Does not include \$13,663,279 of accreted interest on capital appreciation bonds.

The bonds were issued at a premium of \$3,354,466 with issuance costs of \$835,832. The proceeds of the bond premium, less issuance costs, and the repayment of the debt related to the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the District's Bond Interest and Redemption Fund which is part of the Kern Community College District's basic financial statements.

See independent auditor's report and accompanying notes to the supplementary information

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SCHEDULE OF LONG-TERM OBLIGATION
SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

General Obligation Bonds Issued in September 2006 (Continued)

Combined General Obligation Bonded Debt as of June 30, 2013 is as follows:

<u>Year Ended June 30,</u>	<u>Principle *</u>	<u>Interest</u>	<u>Total</u>
2014	4,031,110	4,180,673	8,211,783
2015	2,680,408	5,768,092	8,448,500
2016	2,734,774	6,088,602	8,823,376
2017	6,680,000	2,412,500	9,092,500
2018	7,465,000	2,069,762	9,534,762
2019-2023	43,472,523	9,753,989	53,226,512
2024-2028	21,197,640	38,792,360	59,990,000
2029-2030	11,005,918	23,434,083	34,440,001
	<u>\$ 99,267,373</u>	<u>\$ 92,500,061</u>	<u>\$ 191,767,434</u>

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See independent auditor's report and accompanying notes to the supplementary information

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTE TO SUPPLEMENATRY INFORMATION
JUNE 30, 2013**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Long-Term Obligations

This schedule provides debt repayment schedule associated with the bond proceeds received through issuance of Proposition 39 General Obligation Bonds.

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See independent auditor's report

INDEPENDENT AUDITORS'
REPORT ON INTERNAL
CONTROL

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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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Citizens' Bond Oversight Committee
Kern Community College District
Bakersfield, California

We have audited the accompanying basic financial statements for the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the Proposition 39 General Obligation Bonds of the District's financial statements and have issued our report thereon dated February 28, 2014. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements, that is more than inconsequential, will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and noncompliance with which could have a direct 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 communication is intended solely for the information and use of the Board of Trustees, Citizens' Bond Oversight Committee and management of the District. It is not intended to be and should not be used by anyone other than these specified parties.

Shinault Baker & Company
Certified Public Accountants
February 28, 2014

PERFORMANCE SECTION

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Board of Trustees
Citizens' Bond Oversight Committee
Kern Community College District
Bakersfield, California

We have audited the basic financial statements of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District (the "District") as of and for the year ended June 30, 2013, and have issued our report thereon dated February 28, 2014. 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.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 test indicated that the District expended Proposition 39 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.

Shinault Baker & Company
Certified Public Accountants
Bakersfield, California
February 28, 2014

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
PERFORMANCE REPORT
JUNE 30, 2013**

AUTHORITY FOR ISSUANCE

The Proposition 39 General Obligation 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 others applicable provision of law. The Bonds are authorized to be issued by a resolution adopted by the board of trustees of the District.

The District received authorization at elections held at various dates as noted in the supplementary information section on pages 9, 10 and 11, to issue bonds of the District in an aggregate principle amount not to exceed \$180,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District.

PURPOSE OF ISSUANCE

The net proceeds of the bonds 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.

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 operation expenses.
2. The school 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 school district to appoint a citizen's oversight committee.
4. Requires the school 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 school 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

1. Determine whether expenditures charges to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Proposition 39.
2. Determine whether salary transactions, if any, charged to the Building Fund were in support of Proposition 39 and not for District general administration or operations.

SCOPE OF THE AUDIT

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
PERFORMANCE REPORT
JUNE 30, 2013

The scope of our performance audit covered the period of July 1, 2012 to June 30, 2013. 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, 2013 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, 2013 for the Building Fund (Proposition 39 General Obligation 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 Proposition 39 as to the approved bond projects list. We performed the following procedures:

1. Inquiries were made of management regarding internal controls to: Prevent fraud or waste regarding projects, including budgetary controls, ensure adequate separation of duties exists in the fiscal services department for funds, prevent material misstatements in the financial statements and to ensure expenditures are allocated to the proper fund.
2. We selected a sample of expenditures for the period starting July 1, 2012 and ending June 30, 2013 and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
 - a. Our sample included transactions totaling \$1,436,245. This represents 24 percent of the total expenditures of \$5,969,019.
 - b. We verified that funds from the Building Fund (Proposition 39) were expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.
3. We performed a site walk to verify that funds expended for the fiscal year ended June 30, 2013 were for valid remodeling, new constructions and renovations purposes. Shinault Baker & Company toured multiple District construction sites where construction work was performed:

Bakersfield College – noted were the following: Bakersfield College Performing Arts Project (we viewed this remodel project under progress). The Science Engineering Building Re-Roofing Project (we viewed the roof and noted new roofing and related aluminum flashing that had been applied to the roof. The Gym, the Business Education, Language Arts, Student Services and Science Engineering Buildings were painted (in areas) and reflected new doors, glass, glazing and flooring.

Porterville College – noted were the following: new HVAC units and related delivery systems in the Science Math and Fine Arts Buildings and the re-roof of the Student Center. We visually inspected these projects and agreed the costs to supporting contracts and paid vouchers from the related contractors who performed these services.

CONCLUSION

The result of our tests indicated that, in all significant respects, the Kern Community College District has properly accounted for the expenditures held in the Building Fund (Proposition 39 General Obligation Bonds) and that such expenditures were made for costs authorized by the voters of the District.

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

Current Year Findings

There were no findings and questioned costs.

Prior Year Findings

None

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