

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

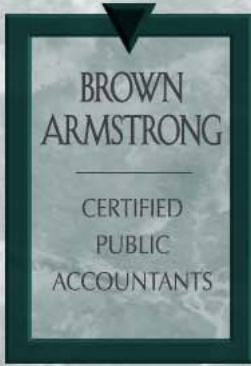
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
JUNE 30, 2015**

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BROWN ARMSTRONG

Certified Public Accountants

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements for the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund 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 statements in accordance with the financial reporting practices prescribed or permitted by the requirements of Article XIII A, Section I (b)(3)(C) of the California Constitution and Proposition 39 and in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for 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 from 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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

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 General Obligation Bonds Safety, Repair, and Improvement District of the Kern Community College District, as of and for the year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

Restriction of Use

This report is intended solely for the information and use of management of the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District of the Kern Community College District, Bakersfield California, others within the District, and the Citizens' Bond Oversight Committee of the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016, on our consideration of the District's internal control over financial reporting relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District. The Budgetary Comparison Information and the Schedule of Long-Term Obligations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 18, 2016

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
BALANCE SHEET
JUNE 30, 2015**

ASSETS

Cash	\$ 69,242,047
Receivables	2,088
Prepaid Expenses	<u>1,020</u>
Total Assets	<u><u>\$ 69,245,155</u></u>

LIABILITIES

Accounts Payable	<u>\$ 444,602</u>
Total Liabilities	444,602

FUND BALANCE

Restricted	<u>68,800,553</u>
Total Liabilities and Fund Balance	<u><u>\$ 69,245,155</u></u>

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
FOR THE YEAR ENDED JUNE 30, 2015**

REVENUES

Interest income	\$ 377,133
Other revenue	<u>69,582</u>
Total Revenues	446,715

EXPENDITURES

Capital outlay	10,149,821
Supplies and materials	19,083
Professional and consulting	883,571
Rents, leases, and repairs	34,646
Salaries and benefits	529,504
Other expenses and services	<u>10,621</u>
Total Expenditures	11,627,246
Net Change in Fund Balance	(11,180,531)

FUND BALANCE, BEGINNING OF YEAR	<u>79,981,084</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 68,800,553</u></u>

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, 2015**

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. Proposition 39, Measure G was placed on the ballot for November 5, 2002, and the electors of the SRID 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, the 2006 A Bonds of \$49,999,533, and the 2014 A Bonds of \$54,815,255 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 accounting principles generally accepted in the United States of America 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 Balances

As of June 30, 2015, fund balance of the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District 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.

Basis of Accounting

The Proposition 39 General Obligation Bonds SRID of the 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 Kern County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains its cash with the Kern County Treasury. The County of Kern pools these funds with those of other districts in the County of Kern and invests the cash. These pooled funds are carried at cost, which approximates fair 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 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.

Budget

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, which can be found in the Supplementary Information Section, page 9, of the financial statements, includes a column titled “Budget.” The amounts in this column represent the budget adopted by the Citizens’ Bond Oversight Committee and all amendments throughout the year.

Amounts over budget appropriations at June 30, 2015, were:

Supplies and materials	\$	3,183
Rents, leases, and repairs		34,646
Other expenses and services		10,621

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 SRID 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 SRID are accounted for in the basic financial statements of the District.

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 obligations. 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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Policies and Practices (Continued)

Cash in Kern 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 its County Treasurer (Education Code Section 4100I). 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 Kern 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 Kern County Treasurer, which is recorded on the amortized cost basis.

Summary of Cash and Investments

Cash in Kern County Treasury as of June 30, 2015, consist of the following:

Cash in Kern County Treasury, at Cost	<u>\$ 69,242,047</u>
Total Cash in Kern County Treasury	<u><u>\$ 69,242,047</u></u>

Interest Rate Risk

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

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 investments with the Kern County Investment Pool are 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 anyone 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 – DUE TO OTHER FUNDS

Due to other funds represent expenditures made by other District operating funds on behalf of Proposition 39 General Obligation Bonds SRID during fiscal year ended June 30, 2015. These related expenditure advances will be repaid in fiscal year ending June 30, 2016. There were no amounts reported as due to other funds as of June 30, 2015, as compared to \$773,595 as of June 30, 2014.

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable totaling \$444,602, which consists of services provided by vendors relating to construction projects in fiscal year ended June 30, 2015, but have not been paid as of June 30, 2015.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The SRID has commitments in the form of construction contracts. As of June 30, 2015, the remaining unspent portion of these contractual commitments is approximately \$2.3 million, as follows:

Bakersfield College Campus Water and Gas Line Replacement	\$ 160,187
Bakersfield College Chairlifts/Elevator Repair and Replacement	178,109
Bakersfield College Performing Arts Modernization	796,423
Bakersfield College Performing Arts Modernization	11,614
Bakersfield College Student Services AirHandler Removal-Chiller Tie-In	724,933
Cerro Coso Occupational Lab Reroof/HVAC/Welding Expansion	98,194
Porterville College Asphalt Plano Fire Lane	<u>306,264</u>
	<u>\$ 2,275,724</u>

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2016, which is the date the financial statements were available to be issued. As of this date no subsequent events that would cause material misstatements to the financial statements have been brought to our attention.

SUPPLEMENTARY INFORMATION

**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
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET</u>
REVENUES			
Transfer in from reserve - budget only	\$ 30,700,221	\$ -	\$ (30,700,221)
Interest income	292,000	377,133	85,133
Other revenue	-	69,582	69,582
	<u>30,992,221</u>	<u>446,715</u>	<u>(30,545,506)</u>
EXPENDITURES			
Capital outlay	22,865,003	10,149,821	12,715,182
Supplies and materials	15,900	19,083	(3,183)
Professional and consulting	7,496,384	883,571	6,612,813
Rents, leases, and repairs	-	34,646	(34,646)
Salaries and benefits	614,934	529,504	85,430
Other expenses and services	-	10,621	(10,621)
	<u>30,992,221</u>	<u>11,627,246</u>	<u>19,364,975</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (11,180,531)</u>	<u>\$ (11,180,531)</u>

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
SCHEDULE OF LONG-TERM OBLIGATIONS
SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

General Obligation Bonds Issued 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, \$75,191,548 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 Kern Community College District (the 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 refunded related bonds payable at June 30, 2015, are:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2014	Additions Current	Reductions Current Year	Outstanding June 30, 2015
2003*	2.00%-6.78%	2028	\$14,945,000	\$ -	\$ -	\$ -	\$ -
2005**	3.00%-5.00%	2021	\$54,025,132	\$ -	\$ -	\$ -	\$ -

* Does not include \$5,669,457 of accreted interest on capital appreciation bonds.

** Does not include \$4,873,847 of accreted interest on capital appreciation bonds.

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 Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund, which is part of the District's basic financial statements.

General Obligation Bonds Issued 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 District at June 30, 2015, is:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2014	Additions Current	Reductions Current Year	Outstanding June 30, 2015
2006*	4.25%-5.00%	2030	\$49,999,533	\$37,979,533	\$ -	\$ 1,000,000	\$ 36,979,533

* Does not include \$18,625,019 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 Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund which is part of the 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
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
SCHEDULE OF LONG-TERM OBLIGATIONS (Continued)
SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

General Obligation Bonds Issued August 2013

On August 22, 2013, \$54,805,000 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 5.75%. Final maturity in 2034.

The outstanding related bonded debt for the District at June 30, 2015, is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2014</u>	<u>Additions Current</u>	<u>Reductions Current Year</u>	<u>Outstanding June 30, 2015</u>
2014	2.00%-5.75%	2034	\$54,805,000	\$54,805,000	\$ -	\$ 1,030,000	\$ 53,775,000

The bonds were issued at a premium of \$3,658,417 with issuance costs of \$347,493. 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 Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund which is part of the District's basic financial statements.

Refunded Debt Issued March 2014

On March 27, 2014, the District issued \$40,035,000 in 2014 Series A Federally Taxable General Obligation Refunding Bonds. The 2014 Series A bonds were issued to refinance a portion of the outstanding 2005 General Obligation Refunding Bonds of the Safety, Repair, and Improvement District. Interest rates vary from 0.0281% to 3.193%. Final maturity in 2021.

On March 27, 2014, the District issued \$14,375,000 in 2014 Series B Federally Taxable General Obligation Refunding Bonds. The 2014 Series B bonds were issued to refinance a portion of the outstanding 2002, Series 2006 General Obligation Bonds of the Safety, Repair, and Improvement District. Interest rates vary from 2.00% to 5.00%. Final maturity in 2021.

The outstanding related refunded bond debt for the District at June 30, 2015, is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2014</u>	<u>Additions Current</u>	<u>Reductions Current Year</u>	<u>Outstanding June 30, 2015</u>
2014	0.0281%-3.193%	2021	\$40,035,000	\$39,245,000	\$ -	\$ 440,000	\$ 38,805,000
2014	2.00%-5.00%	2021	\$14,370,000	\$14,070,000	\$ -	\$ -	\$ 14,070,000

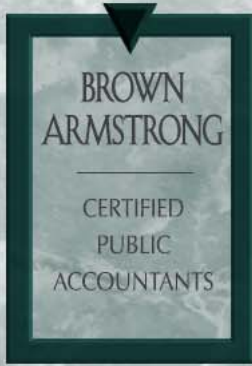
See independent auditor's report and accompanying notes to the supplementary information.

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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.



BROWN ARMSTRONG

Certified Public Accountants

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

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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 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, 2015, and the related notes to the financial statements, which collectively comprise the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District of the District's financial statements and have issued our report thereon dated March 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District (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 internal control relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District. Accordingly, we do not express an opinion on the effectiveness of the District's internal control relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District.

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 entity's financial statement 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District of the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance relating to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District. Accordingly, this report is not suitable for any other purpose.

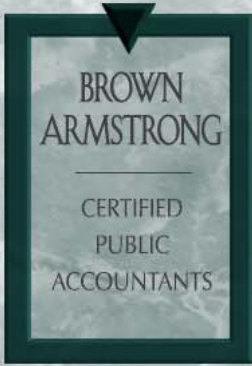
This report is intended solely for the information and use of management of the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District of the Kern Community College District, Bakersfield California, others within the Kern Community College District, and the Citizens' Bond Oversight Committee of the Kern Community College District, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
March 18, 2016

PERFORMANCE SECTION



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

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

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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, 2015, and have issued our report thereon dated March 18, 2015. 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 I (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 I (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 I (b)(3)(C) of the California Constitution.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
March 18, 2016

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
PERFORMANCE REPORT
JUNE 30, 2015**

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 other applicable provisions of law. The bonds are authorized to be issued by a resolution adopted by the Board of Trustees of the Kern Community College District (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 principal 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 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.

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 (Assembly Bill (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 *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.

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
PERFORMANCE REPORT (Continued)
JUNE 30, 2015**

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charges to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District 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 Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund were in support of Proposition 39 and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2014, to June 30, 2015. 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, 2015, 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, 2015, for the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund. 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, 2014, and ending June 30, 2015, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
 - a. Our non-payroll expenditure sample included transactions totaling \$6.2 million. This represents 56 percent of the total non-payroll expenditures of \$11.1 million.
 - b. Our payroll expenditures sample included a test of all employee payroll amounts charged to the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund for 4 out of 12 periods during the 2014-15 fiscal year.
 - c. We verified that funds from the Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund were expended for the construction, renovation, furnishing, and equipping of District facilities constituting authorized bond projects, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR, AND IMPROVEMENT DISTRICT
PERFORMANCE REPORT (Continued)
JUNE 30, 2015**

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 Proposition 39 General Obligation Bonds Safety, Repair, and Improvement District Fund 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, 2015**

Current Year Findings

None.

Prior Year Findings

None.