

**SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT
MEASURE H
2014 ELECTION GENERAL OBLIGATION BONDS**

FINANCIAL STATEMENTS
June 30, 2017 and 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
MEASURE H - 2014 ELECTION GENERAL OBLIGATION BONDS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
San Mateo County Community College District
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Mateo County Community College District (the "District") Measure H General Obligation Bond Activity included in the Measure H Bond Fund of the District (the "Measure H Bond Fund") as of and for the years ended June 30, 2017 and 2016, 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 statements 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure H General Obligation Bond Activity of the San Mateo County Community College District as of June 30, 2017 and 2016, and the changes in its financial position for the years 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 District's Measure H Bond Fund, and do not purport to, and do not, present fairly the financial position of the San Mateo County Community College District as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended, 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 December 8, 2017, 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 for the Measure H Bond Fund. 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 for the Measure H Bond Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the San Mateo County Community College District's internal control over financial reporting and compliance for the Measure H Bond Fund.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 8, 2017

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
 MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
 BALANCE SHEETS
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 106,206,308	\$ 125,010,580
Accounts receivable	320,169	277,848
Prepaid expenditures	<u>696,557</u>	<u>7,227</u>
Total assets	<u>\$ 107,223,034</u>	<u>\$ 125,295,655</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 4,368,555	\$ 692,248
Due to the District	<u>-</u>	<u>155,589</u>
Total liabilities	<u>4,368,555</u>	<u>847,837</u>
Fund balance:		
Nonspendable	696,557	7,227
Restricted – capital projects	<u>102,157,922</u>	<u>124,440,591</u>
Total fund balance	<u>102,854,479</u>	<u>124,447,818</u>
Total liabilities and fund balance	<u>\$ 107,223,034</u>	<u>\$ 125,295,655</u>

See accompanying notes to financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
 MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
 STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Interest income	\$ <u>625,887</u>	\$ <u>1,395,362</u>
 Expenditures		
Current:		
Salaries and benefits	3,505,512	391,707
Supplies and materials	1,119,110	85,845
Capital construction and improvements	<u>17,594,604</u>	<u>1,335,632</u>
Total expenditures	<u>22,219,226</u>	<u>1,813,184</u>
 Change in fund balance	(21,593,339)	(417,822)
 Restricted & Nonspendable fund balance, beginning of year	<u>124,447,818</u>	<u>124,865,640</u>
 Restricted & Nonspendable fund balance, end of year	<u>\$102,854,479</u>	<u>\$124,447,818</u>

See accompanying notes to financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity: The financial statements include only the Measure H Bond Fund of the District used to account for Measure H projects. This Measure H Bond Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2014. These financial statements are not intended to present fairly the financial position and results of operations of the San Mateo County Community College District in compliance with accounting principles generally accepted in the United States of America.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses 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.

The financial statements represent the Measure H Bond Fund of the District and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Due to District: At June 30, 2016, an interfund payable balance totaling \$155,589 was due to the District's general fund for the reimbursement of payments to vendors. There was no balance due at June 30, 2017.

Fund Balance: Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Measure H Bond Fund in accordance with the Bond Project List for Measure H General Obligation Bonds.

Accounting Estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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.

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations 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.

Reclassifications: Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The reclassifications did not affect the total fund balance of the Bond Fund or the change in fund balance for the year ended June 30, 2016.

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
 MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2017 and 2016

NOTE 2 – CASH

Policies and Practices: The Measure H Bond Fund is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

Investment in County Treasury: The Measure H Bond Fund is considered to be an involuntary participant in an external investment pool as the Measure H Bond Fund is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The Measure H Bond Fund's investment in the pool is reported in the accounting financial statement at amounts based upon the Measure H Bond Fund'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.

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
County Pooled Investment Funds	N/A	None	None

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The Measure H Bond Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of the Measure H Bond Fund's deposits at the County Treasury, at June 30, 2017 and 2017, was \$106,206,308 and \$125,010,580, respectively, and the weighted average maturity of the pool was 532 days and 595 days, respectively.

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 and 2016 consisted of \$320,169 and \$277,848, respectively, due from the County for interest income.

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2017 and 2016 consisted of \$4,368,555 and \$692,248, respectively, in vendor payables.

NOTE 5 – FUND BALANCE CLASSIFICATION

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications are nonspendable, restricted, committed, assigned and unassigned. The nonspendable fund balance reflects amounts that are not in a spendable form, such as prepaid expenditures in the Bond Fund. The remaining fund balance of the Measure H General Obligation Bonds is restricted, as described below.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 6 – PURPOSE OF BOND ISSUANCE

Bond Authorization: The general obligation bonds associated with Measure H 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 are authorized to be issued by a resolution adopted by the Board of Trustees of the District on July 23, 2014 (the “Bond Resolution”).

The District received authorization at an election held on November 11, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$388,000,000 to provide financing for the specific school facilities projects listed in the Bond Project List approved by the voters. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District.

Purpose of Bonds: The proceeds of the Bonds may be used to prepare College of San Mateo, Cañada College and Skyline College students for universities and high-demand jobs; modernize math and science classrooms and labs; upgrade computer, biotechnology and job training facilities; upgrade access for disabled students; ensure classrooms meet earthquake, fire and safety requirements; and replace aging infrastructure with energy efficient systems.

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
 MEASURE H – 2014 ELECTION GENERAL OBLIGATION BONDS
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2017 and 2016

NOTE 7 – GENERAL OBLIGATION BOND ISSUANCES

The Bonds are general obligations of the District, and San Mateo County is obligated to levy ad valorem taxes for the payment of and interest on, the principal of the Bonds. The Bond Interest and Redemption Fund is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the payment of interest and redemption of principal of the bonds issued by the District.

In May 2015, the District issued Measure H General Obligation Bonds, Series A, in the amount of \$127,000,000.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2017 and 2016, the Measure H Bond Fund had the following commitments with respect to unfinished capital projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
<u>2017</u>		
Districtwide projects	\$ 1,554,520	Within 4 years
Skyline projects	133,550,936	Within 5 years
CSM projects	1,931,963	Within 1 year
Cañada projects	<u>81,458,988</u>	Within 4 years
	<u>\$ 218,496,408</u>	
<u>2016</u>		
Districtwide projects	\$ 1,898,722	Within 1 year
Skyline projects	2,758,339	Within 1 year
CSM projects	2,121,484	Within 1 year
Cañada projects	<u>1,574,590</u>	Within 1 year
	<u>\$ 8,353,135</u>	

As the noted commitments exceed available assets as of the year ended June 30, 2017, the District plans on issuing additional bonds and use such future proceeds to meet commitments as they become due.

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*

To the Board of Trustees
San Mateo County Community College District
San Mateo, California

We have audited, 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, the financial statements of San Mateo County Community College District (the "District") Measure H General Obligation Bond Activity included in the Measure H Bond Fund of the District (the "Measure H Bond Fund") 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 8, 2017. The financial statements present only the District's Measure H Bond Fund and do not purport to and do not, present fairly the financial position of the District as of June 30, 2017, and the changes in its financial position for the year then ended.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over Measure H Bond Fund financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control over Measure H Bond Fund financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting for the Measure H Bond Fund.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Measure H Bond Fund financial statements are free of material misstatement, we performed tests of the Measure H Bond Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this 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 entity's internal control or on compliance for the Measure H Bond Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance for the Measure H Bond Fund. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 8, 2017