

**NORTH ORANGE COUNTY  
COMMUNITY COLLEGE DISTRICT**

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**MEASURE J GENERAL OBLIGATION BOND  
CONSTRUCTION FUND**

**AUDIT REPORT**

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**JUNE 30, 2016**

**NORTH ORANGE COUNTY  
COMMUNITY COLLEGE DISTRICT**

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**MEASURE J GENERAL OBLIGATION BOND  
CONSTRUCTION FUND**

**FINANCIAL AUDIT**

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**JUNE 30, 2016**

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**FINANCIAL AUDIT  
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JUNE 30, 2016**

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and Citizens' Oversight Committee  
North Orange County Community College District  
General Obligation Bond  
Anaheim, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Orange County Community College District (the District), General Obligation Bond Construction Fund (Measure J), as of and for the year ended June 30, 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 statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bond Construction Fund (Measure J) of the District at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the General Obligation Bond Construction Fund specific to Measure J and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### Other Information

The unaudited supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the District's General Obligation Bond Construction Fund (Measure J) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 General Obligation Bond Construction Fund (Measure J) internal control over financial reporting and compliance.

*Varrinck, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 6, 2016

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**BALANCE SHEET  
JUNE 30, 2016**

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**ASSETS**

Investments	\$ 98,934,280
Accounts receivable	<u>30,928</u>
<b>Total Assets</b>	<b><u><u>\$ 98,965,208</u></u></b>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	<u>\$ 66,960</u>
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**FUND BALANCE**

Restricted	
Capital projects	<u>98,898,248</u>
<b>Total Liabilities and Fund Balance</b>	<b><u><u>\$ 98,965,208</u></u></b>

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

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>REVENUES</b>	
Local revenues	<u>\$ 30,928</u>
<b>EXPENDITURES</b>	
Current Expenditures	
Services and other expenditures	580,908
Capital outlay	<u>551,772</u>
<b>Total Expenditures</b>	<u>1,132,680</u>
<b>EXCESS OF REVENUES UNDER EXPENDITURES</b>	<u>(1,101,752)</u>
<b>OTHER FINANCING SOURCES</b>	
Other sources - issuance of general obligation bonds	<u>100,000,000</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	<u>98,898,248</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 98,898,248</u></u>

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



# **NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016**

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

#### **Financial Reporting**

The audited financial statements include only the General Obligation Bond Construction Fund (Measure J) of North Orange County Community College District (the District). This Fund was established to account for the receipt of proceeds of general obligation bond issuances and the expenditures of the proceeds under the General Obligation Bond Election of November 4, 2014. These financial statements are not intended to present fairly the financial position and the changes in financial position of the District in compliance with accounting principles generally accepted in the United States of America.

#### **Fund Accounting**

The operations of the General Obligation Bond Construction Fund (Measure J) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to, and accounted for, in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### **Basis of Accounting**

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

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

#### **Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenues and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

#### **Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

# NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### 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.

### Fund Balance - Governmental Funds

As of June 30, 2016, the fund balance of the General Obligation Bond Construction Fund (Measure J) was classified as follows:

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

### Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

# NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

### **NOTE 2 - INVESTMENTS**

#### **Policies and Practices**

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

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements 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 are recorded on the amortized cost basis.

**General Authorizations**

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Educational Investment Pool. The District maintains an investment of \$98,934,280 with the Orange County Educational Investment Pool, with an average maturity of 339 days.

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Orange County Educational Investment Pool is rated AAAM by Standard and Poor's Rating Service.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Orange County Educational Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Orange County Educational Investment Pool	<u>\$ 99,177,980</u>	<u>\$ 99,177,980</u>

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

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 4 - ACCOUNTS RECEIVABLE**

Receivables at June 30, 2016, consisted of accrued interest for a total of \$30,928.

**NOTE 5 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2016, consisted of capital outlay costs for a total of \$66,960.

**NOTE 6 - FUND BALANCE**

The fund balance at June 30, 2016, is restricted for capital projects in the amount of \$98,898,248.

**NOTE 7 - BONDED DEBT**

**Description of Debt**

General obligation bonds were approved by a local election in November 4, 2014. The total amount approved by the voters was \$574,000,000 to be used to finance the acquisition, construction, modernization and equipping of District sites and facilities. At June 30, 2016, \$100,000,000 was outstanding. Interest rates on the bonds range from 2.00 percent to 4.00 percent. The debt is being paid by the District's Bond Interest and Redemption Fund.

A schedule of changes in long-term obligations related to the general obligation bonds for the year ended June 30, 2016, is shown below:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Bonds Payable				
2016A General obligation bonds	\$ -	\$ 100,000,000	\$ -	\$ 100,000,000

**General Obligation Bonds**

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2016
				Bonds Outstanding July 1, 2015	Issued	Redeemed	
2016	2041	2.00%-4.00%	\$ 100,000,000	\$ -	\$ 100,000,000	\$ -	\$ 100,000,000

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Debt Service Requirements**

The 2016A General Obligation Bonds mature through 2041 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 14,375,000	\$ 1,929,680	\$ 16,304,680
2018	16,345,000	2,784,813	19,129,813
2019	16,635,000	2,206,938	18,841,938
2020	15,550,000	1,563,238	17,113,238
2021	585,000	1,243,463	1,828,463
2022-2026	4,225,000	5,818,465	10,043,465
2027-2031	6,975,000	4,776,540	11,751,540
2032-2036	10,390,000	3,362,695	13,752,695
2037-2041	14,920,000	1,190,751	16,110,751
Total	<u>\$ 100,000,000</u>	<u>\$ 24,876,583</u>	<u>\$ 124,876,583</u>

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2016, the General Obligation Bond Construction Fund (Measure J) had the following construction commitment as defined by the bond documents:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Cypress College Science, Engineering, and Math Building Project	<u>\$ 460,690</u>	On-going

**Litigation**

The District is not currently a party to any legal proceedings related to the General Obligation Bond Construction Fund (Measure J).

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***INDEPENDENT AUDITOR'S REPORT***

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governing Board and Citizens' Oversight Committee  
North Orange County Community College District  
General Obligation Bond  
Anaheim, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the North Orange County Community College District (the District), General Obligation Bond Construction Fund (Measure J), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2016.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the General Obligation Bond Construction Fund (Measure J) and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's General Obligation Bond Construction Fund (Measure J) 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the General Obligation Bond Construction Fund (Measure J) 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 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's General Obligation Bond Construction Fund (Measure J) internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's General Obligation Bond Construction Fund (Measure J) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Varrinck, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 6, 2016

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***SUPPLEMENTARY INFORMATION***

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**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**SCHEDULE OF 2015-2016 ASSESSED VALUATION AND 2014-2015  
SECURED TAX CHARGE AND DELINQUENCY - (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

		<u>2015-2016 Assessed Valuation</u>		
<u>Local Secured</u>		<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
<u>Orange County Portion</u>				
2014-15	\$ 99,956,955,618	\$ 5,528,313	\$ 5,424,540,662	\$ 105,387,024,593
2015-16	105,577,012,301	4,948,951	4,917,580,797	110,499,542,049
<u>Los Angeles County Portion</u>				
2014-15	\$ 2,466,598,927	\$ 508	\$ 12,123,874	\$ 2,478,723,309
2015-16	2,584,580,089	508	11,479,138	2,596,059,735
<u>Total District</u>				
2014-15	\$ 102,423,554,545	\$ 5,528,821	\$ 5,436,664,536	\$ 107,865,747,902
2015-16	108,161,592,390	4,949,459	4,929,059,935	113,095,601,784

Secured Tax Charge and Delinquency  
(Orange County Portion Only)

	<u>Secured Tax Charge (1)</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
2014-2015	\$ 59,678,334	\$ 600,995	1.01%
2015-2016	63,363,957	1,444,117	2.28%

Secured Tax Charge and Delinquency  
(Orange County Portion Only)

	<u>Secured Tax Charge (2)</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
2014-2015	\$ 18,106,295	\$ 148,169	0.82%
2015-2016	34,242,029	672,517	1.96%

(1) 1% General Fund apportionment  
(2) District's general obligation debt service levy  
Source: California Municipal Statistics, Inc.

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**SCHEDULE OF TWENTY LARGEST 2015-2016 LOCAL SECURED  
TAXPAYERS - (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

Property Owner	Land Use	2015-2016 Assessed Valuation (2)	% of Total (1)
1. Walt Disney World Co.	Theme Park	\$ 4,165,080,035	3.85%
2. Knotts Berry Farm	Theme Park	312,609,372	0.29%
3. Linn Western Operating, Inc.	Oil and Gas	269,672,060	0.25%
4. Anna Claire Mauerhan LLC	Commercial	263,427,932	0.24%
5. Warland Investment Co.	Industrial	253,698,741	0.23%
6. Retail Property Trust	Commercial	240,984,374	0.22%
7. Rreef America REIT II Corp.	Industrial	229,874,135	0.21%
8. HHC HA Investments II Inc.	Commercial	201,081,636	0.19%
9. Realty Associates Funds	Commercial	173,456,986	0.16%
10. Beckman Instruments Inc.	Industrial	169,043,823	0.16%
11. Irvine Company LLC	Apartments	161,598,631	0.15%
12. Comref So Ca Industrial	Industrial	145,207,567	0.13%
13. Teachers Insurance & Annuity Association	Industrial	124,659,916	0.12%
14. US REIF MG Madison Park CA LLC	Apartments	122,000,000	0.11%
15. Olen Pointe Brea Corp.	Commercial	120,369,864	0.11%
16. CPT Shops at Rossmoor LLC	Commercial	118,415,441	0.11%
17. Prologis California I LLC	Industrial	115,635,214	0.11%
18. FW CA-Brea Marketplace LLC	Commercial	103,879,841	0.10%
19. Alticor Inc.	Industrial	103,231,789	0.10%
20. CVS Pharmacy Inc.	Industrial	98,712,996	0.09%
		<u>\$ 7,492,640,353</u>	<u>6.93%</u>

(1) 2015-2016 Local Secured Assessed Valuation: \$ 108,161,592,390

(2) Source: California Municipal Statistics, Inc.

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

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**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2016**

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None reported.

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
GENERAL OBLIGATION BOND CONSTRUCTION FUND (MEASURE J)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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This is the first fiscal year of the General Obligation Bond Fund (Measure J).



**NORTH ORANGE COUNTY  
COMMUNITY COLLEGE DISTRICT**

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**MEASURE J GENERAL OBLIGATION BOND  
CONSTRUCTION FUND  
PERFORMANCE AUDIT**

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**JUNE 30, 2016**

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
MEASURE J GENERAL OBLIGATION BONDS  
2002 ELECTION**

**PERFORMANCE AUDIT  
TABLE OF CONTENTS  
JUNE 30, 2016**

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**INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE**

Governing Board and Citizens' Oversight Committee  
North Orange County Community College District  
General Obligation Bond  
Anaheim, California

We were engaged to conduct a performance audit of North Orange County Community College District (the District) Measure J General Obligation Bond funds for the year ended June 30, 2016.

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

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

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

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

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 6, 2016

# **NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT MEASURE J GENERAL OBLIGATION BOND**

**JUNE 30, 2016**

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## ***AUTHORITY FOR ISSUANCE AND PURPOSE***

The Measure J General Obligation Bonds (the Bonds) were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The District received authorization from an election held on November 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$574,000,000 to finance the acquisition, construction, modernization, and equipping of District sites and facilities. The Measure required approval by at least 55 percent of the votes cast by eligible voters within the District.

In June 2016, the District issued Election of 2014 General Obligation Bonds, Series 2016A in the amount of \$100,000,000. The Series 2016A Bonds were authorized to be issued by a resolution adopted by the Board of Trustees on May 10, 2016. The Bonds represent the first series of the bonds sold within the Authorization.

## ***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 district, community college districts, or county offices of education for the following: "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 reduction of 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 district operating expenses.
2. The district must list the specific facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety and information technology needs in developing the project list.
3. Requires the district to appoint a citizens' oversight committee.
4. Requires the district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until after all of the proceeds have been expended.
5. Requires the district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

## ***OBJECTIVES OF THE AUDIT***

The objective of our audit is to meet the compliance requirement to perform a "performance audit" as referred to in Proposition 39 and outlined in Subparagraph (C) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. Our audit was conducted in accordance with generally accepted standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the District and other procedures we consider necessary to enable us to provide conclusions to our audit objectives.

# **NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT MEASURE J GENERAL OBLIGATION BOND**

**JUNE 30, 2016**

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

The scope of our performance audit covered the period of July 1, 2015 through June 30, 2016. 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, 2016, 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, 2016, for the Measure J General Obligation Bond Construction Funds. Within the period audited, we obtained the actual invoices and other supporting documentation for all expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure J as to the approved bond projects list. We performed the following procedures:

1. Determined District procedures for disbursement of funds related to the voter approved Measure J General Obligation Bonds were applied in accordance with laws and regulations, as well as policies approved by the Board of Trustees. This was accomplished through the inspection of specified documents evidencing certain types of transactions and detailed attributes thereof; including, but not limited to, the specific documents related to bid procedures for contracts and services, invoices for services rendered, and other appropriate documents deemed necessary to provide a basis for the results of our objective.
2. Reviewed the detailed accounting of expenditures to determine if proceeds were being spent on administrative salaries or any other expense that would otherwise be the obligation of the General Fund.
3. From a sample of construction expenditures from the detailed accounting of expenditures, reviewed expenditures to determine if proceeds expended were for specific projects as listed in the voter approved bond language. Expenditures from all projects were included in the sample.

## ***CONCLUSION***

### **Procedure 1**

Determined District procedures for disbursement of funds related to the voter approved Measure J General Obligation Bonds were applied in accordance with laws and regulations, as well as policies approved by the Board of Trustees. This was accomplished through the inspection of specified documents evidencing certain types of transactions and detailed attributes thereof; including, but not limited to, the specific documents related to bid procedures for contracts and services, invoices for services rendered, and other appropriate documents deemed necessary to provide a basis for the results of our objective.

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
MEASURE J GENERAL OBLIGATION BOND**

**JUNE 30, 2016**

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**Results**

We included 85 percent of all expenditures charged to the Measure J Bond funds for the 2015-2016 fiscal year in our audit. Based upon our audit of actual invoices and purchase orders, there were no exceptions noted in the District's procedures related to the disbursement of Measure J Bond funds. The District used formal bid procedures for those contracts over the construction bid level requirements and informal bid procedures for those contracts below the construction bid level to select contractors for the various projects in accordance with Education Code requirements and District policy. Budgets for specific projects were approved and monitored in accordance with Board requirements.

**Procedure 2**

Reviewed the detailed accounting of expenditures to determine if proceeds were being spent on administrative salaries or any other expense that would otherwise be the obligation of the General Fund.

**Results**

The results of our tests indicated that, in all respects, the District did not spend Measure J proceeds on administrative salaries or any other expense that would otherwise be the obligation of the General Fund.

**Procedure 3**

From a sample of construction expenditures from the detailed accounting of expenditures, reviewed expenditures to determine if proceeds expended were for specific projects as listed in the voter approved bond language. Expenditures from all projects were included in the sample.

**Results**

The results of our tests indicated that, in all respects, the District has expended proceeds exclusively for specific projects as listed in the voter approved bond language. Our audit sample included 85 percent of expenditures for the 2015-2016 fiscal year.

<u>Category of Expense</u>	<u>Expenditures Incurred</u>	<u>Expenditures Tested</u>	<u>Percentage of Total</u>
Services and other expenses	\$ 580,908	\$ 580,000	100%
Capital outlay	551,772	385,681	70%
Total	<u>\$ 1,132,680</u>	<u>\$ 965,681</u>	85%

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
MEASURE J GENERAL OBLIGATION BOND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

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None reported.

**NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT  
MEASURE J GENERAL OBLIGATION BOND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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This is the first fiscal year of the General Obligation Bond Fund (Measure J).