

Redwoods Community College District Proposition 39 and Measure Q General Obligation Bonds

Eureka, California

**SCHEDULE OF PROCEEDS AND USE OF GENERAL OBLIGATION BONDS
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2018



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Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Measure Q Citizens' Bond Oversight Committee
Redwoods Community College District
Eureka, California

Report on the Schedule

We have audited the accompanying schedule of proceeds and use of general obligation bonds (Election of 2004, Series 2005, 2007, 2013, and Refunding Bonds) – cash basis (the Schedule) of the Redwoods Community College District (the District) for the year ended June 30, 2018, and the related notes to the schedule.

Management's Responsibility for the Schedule

The District's management is responsible for the preparation and fair presentation of the Schedule in accordance with the cash basis of accounting described in note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the Schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Schedule 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the Schedule presents fairly, in all material respects, the proceeds and use of the District's General Obligation Bonds (Election of 2004, Series 2005, 2007, 2013 and Refunding Bonds) for the year ended June 30, 2018, on the basis of accounting described in note 2.

Basis of Accounting

We draw attention to note 2 of the Schedule, which describes the basis of accounting. The Schedule was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

KCoe Jam, LLP

March 26, 2019
Redding, California

Redwoods Community College District

Proposition 39 and Measure Q General Obligation Bonds

SCHEDULE OF PROCEEDS AND USE OF GENERAL OBLIGATION BONDS

(ELECTION OF 2004, SERIES 2005, 2007, 2013, AND REFUNDING BONDS) – CASH BASIS

Year Ended June 30, 2018

Restricted Cash and Cash Equivalents - Beginning Balance - July 1, 2017	\$	3,461,310
Interest received		33,586
Subtotal		3,494,896
Project expenditures:		
Physical and life science buildings repurpose or demo		1,707
Portable		1,412
Science wing modernization DN science lab		39,020
Technology network upgrades		334,532
Veterans' center		55,800
Document imaging, retrieval, and secure storage		17,410
ADA and safety upgrades		22,458
Mandatory life safety remediation		604,418
Security and fire alarm upgrades		6,047
Physical education lab upgrades		287,670
Automotive technology lab upgrade		18,723
Construction technology lab upgrade		75
Miscellaneous project expenditures		2,450
Student union upgrade		29,797
CTE computer lab upgrade		467
Project management		150,129
Total Project Expenditures		1,572,115
Restricted Cash and Cash Equivalents - Ending Balance - June 30, 2018	\$	1,922,781

The accompanying notes are an integral part of this schedule.

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds
NOTES TO THE SCHEDULE

1. BACKGROUND INFORMATION

To strengthen local job and vocational training programs, and increase academic classes for students with two-year and four-year college goals, the voters of Humboldt County approved a \$40,320,000 General Obligation Bond (the Bonds) issue for the Redwoods Community College District (the District) on November 2, 2004, under the provisions of Article XIII A of the Constitution of the state of California and Title I, Division 1, Part 10, Chapter 1 of the *California Education Code* (commencing at Section 15100). The Bonds were issued pursuant to provisions of the Constitution of the state of California affected by Proposition 39, the Constitutional initiative passed by voters on November 7, 2000, permitting approval of certain general obligation bonds of school and community college districts by a 55% vote. The total net proceeds of \$18 million, \$15 million, and \$7.32 million, from the Bonds Series 2005, 2007, and 2013, respectively, received by the District are to be spent on construction, renovation, and land acquisition for various approved projects, or for the reduction of debt service related to this debt.

The net proceeds of the Bonds, and any other series of general obligation bonds issued under the 2004 Authorization, will be used for the purposes specified in the District bond proposition submitted at the election, which includes:

- I. Expand and renovate the Health Occupation Career Training Center by expanding classrooms, labs, and other facilities needed for the training of dental hygienists.
- II. Renovate and add science and technology labs used for career training, including police and fire science, and for students whose goal it is to transfer to a four-year university.
- III. Expand and renovate career training facilities in the construction trades industry.
- IV. Build, relocate, and renovate career training facilities in the fine woodworking industry.
- V. Expand and renovate career training facilities in the automotive industry.
- VI. Develop modern career training facilities in tourism and hospitality industries.
- VII. Upgrade and renovate computer labs used for career training.
- VIII. Add classrooms to allow for more students to take the classes they need to transfer to a four-year university.
- IX. Make seismic, safety, and Americans With Disabilities Act upgrades and improvements.
- X. Renovate and repair college buildings.
- XI. Add hi-tech infrastructure to increase the number of distance learning students.

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds

NOTES TO THE SCHEDULE

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The schedule of proceeds and use of general obligation bonds has been prepared on the cash basis of accounting where the receipts of bond proceeds are reported when received and the disbursements of expenditures from bond funds are reported when paid.

Project Expenditures Expenditures are recognized when payments for approved projects are made.

3. BONDED DEBT

The information presented below is for information purposes only.

	Outstanding July 1, 2017	Accretion/ Additions	Amortization/ Reductions	Outstanding June 30, 2018
2004 G.O. Bond, Series 2013	\$ 7,452,370	\$ -	\$ 152,965	\$ 7,299,405
2014 G.O. Refunding Bonds	24,670,334	-	1,349,376	23,320,958
Total	\$ 32,122,704	\$ -	\$ 1,502,341	\$ 30,620,363

June 30, 2018

2014 General Obligation Refunding Bonds, issued in the original amount of \$25,140,000. Final maturity on August 1, 2031. Interest rates range from 2.00% to 4.25%.	\$ 21,420,000
Unamortized issuance premium on 2014 General Obligation Refunding Bonds.	1,900,958
Total 2014 General Obligation Refunding Bonds	23,320,958

2004 General Obligation Bonds, Series 2013, issued in the original amount of \$7,320,000. Final maturity on August 1, 2030. Interest rates range from 2.00% to 5.25%.	7,020,000
Unamortized issuance premium on 2004 General Obligation Bonds, Series 2013.	279,405
Total 2004 General Obligation Bonds, Series 2013	7,299,405
Total General Obligation Bonds	\$ 30,620,363

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds

NOTES TO THE SCHEDULE
(Continued)

The annual debt service requirements to amortize the Series 2013 and General Obligation Refunding Bonds payable, outstanding as of June 30, 2018, are as follows:

Years Ending June 30	Principal	Interest	Total
2019	\$ 1,435,000	\$ 1,281,419	\$ 2,716,419
2020	1,510,000	1,252,719	2,762,719
2021	1,630,000	1,179,419	2,809,419
2022	1,750,000	1,100,619	2,850,619
2023	1,855,000	1,044,819	2,899,819
2024-2028	11,455,000	3,747,694	15,202,694
2029-2032	8,805,000	850,269	9,655,269
Total	\$ 28,440,000	\$ 10,456,958	38,896,958
Less: Interest			(10,456,958)
Add: Unamortized issuance premium			2,180,363
Net Principal			\$ 30,620,363

4. RECONCILIATION BETWEEN CASH AND ACCRUAL BASIS

The following reconciliation is between the cash and accrual basis of accounting:

June 30, 2018	
Expenditures - cash basis	\$ 1,572,115
Change in accounts payable	(27,051)
Total Expenditures - Accrual Basis	\$ 1,545,064

5. COMMITMENTS AND CONTINGENCIES

Bond Fund Compliance

The General Obligation Bonds (Election of 2004, Series 2013 and Refunding Bonds) are subject to annual performance audits. Refer to the District's Proposition 39 and Measure Q General Obligation Bonds Performance Audit report starting on page 10.

Construction Contracts

The District has outstanding construction commitments related to these projects in the amount of \$2,119,555 at June 30, 2018.

OTHER REPORTS SECTION

INDEPENDENT AUDITORS' 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 and Measure Q Citizens' Bond Oversight Committee
Redwoods Community College District
Eureka, 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 of America, the schedule of proceeds and use of general obligation bonds (Election of 2004, Series 2005, 2007, 2013, and Refunding Bonds) – cash basis (the Schedule) of the Redwoods Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the Schedule, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of 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 Schedule 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

INDEPENDENT AUDITORS' 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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of the District'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 Schedule 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 the testing, and not to provide an opinion on the effectiveness of the District's 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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KCoe Jam, LLP

March 26, 2019
Redding, California

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

To the Board of Trustees and Measure Q Citizens' Oversight Committee
Redwoods Community College District
Eureka, California

Report on Compliance

We have audited the Redwoods Community College District's (the District) compliance with the performance requirements for the Proposition 39 and Measure Q General Obligation Bonds (the Bonds) applicable to the District for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for the District's compliance with those requirements.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted this performance audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the performance requirements for the Proposition 39 and the Bonds that could have a material effect on compliance occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our performance audit does not provide a legal determination on the District's compliance with the specific requirements.

Opinion

In our opinion, the District complied, in all material respects, with the performance requirements referred to above that are applicable to the District for the year ended June 30, 2018.

KCoe Isom, LLP

March 26, 2019
Redding, California

PERFORMANCE AUDIT SECTION

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds
PERFORMANCE AUDIT

OBJECTIVES

The objectives of our performance audit were to determine whether the expenditures charged to the voter-approved Proposition 39 and Measure Q General Obligation Bonds (the Bonds) of the District for the fiscal year ended June 30, 2018, have been made in accordance with project budgets and guidelines; note any incongruities or system weaknesses; and provide recommendations for improvements.

SCOPE OF THE AUDIT

The scope of our performance audit covered the fiscal year ended June 30, 2018. The expenditures 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 were not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2018, were not reviewed or included within the scope of our audit.

BACKGROUND INFORMATION

The Measure Q General Obligation Bonds (the Bonds) were issued pursuant to the Constitution and Laws of the State of California (the State), including the provisions of Chapters 1 and 1.5, of Part 10, of the *California Education Code*, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Trustees of the District (the Resolution) on November 2, 2004.

The District received authorization at an election held on November 2, 2004, to issue bonds of the District in an aggregate principal amount, not to exceed \$40,300,000, to finance specific construction and renovation projects approved by eligible voters within the District. The proposition received approval by at least 55% of the votes cast by eligible voters within the District (the 2004 Authorization). The Bonds represent the first, second, and third series of the authorized bonds to be issued under the 2004 Authorization.

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds
PERFORMANCE AUDIT
(Continued)

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2018, for the Measure Q General Obligation Bonds 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 Measure Q as to the approved bond project list. We performed the following procedures:

1. Verify that the expenditure of funds were accounted for separately in the accounting records to allow for accountability.
2. Select a representative sample from the population of expenditures in the Measure Q General Obligation Bonds Fund to verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election materials and the bond official statement.
3. Verify that District internal control procedures are operating according to District policies.

RESULTS OF PROCEDURES

1. The General Obligation Bond Fund expenditures were accounted for separately in the Measure Q General Obligation Bonds Fund of the District.
2. We reviewed 66% of Measure Q General Obligation Bond dollars expended. Our review of the expenditures for the period July 1, 2017, through June 30, 2018, did not reveal any items that were paid from the Bonds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on November 2, 2004.
3. Our review of the internal control procedures followed on selected invoices revealed no exceptions to the basic internal control policies of the District.

CONCLUSION

The results of our tests indicated that the District has properly accounted for the expenditures of proceeds from the sale of the Bonds and that such expenditures were made for bond projects authorized by the voters through Measure Q, in all significant respects. Further, it was noted that proceeds from the sale of the Bonds that were expended by the District for salaries and benefits were used for salaries of administrators only to the extent that they perform administrative oversight work on construction projects as allowable pursuant to Opinion 04-110, issued on November 9, 2004, by the State's Attorney General.

FINDINGS AND RECOMMENDATIONS SECTION

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds
SCHEDULE OF AUDIT FINDINGS
June 30, 2018

None.

Redwoods Community College District
Proposition 39 and Measure Q General Obligation Bonds
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018

None.