

HARTNELL COMMUNITY COLLEGE DISTRICT

**MEASURE T GENERAL OBLIGATION BONDS
FINANCIAL AUDIT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

DRAFT

**HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
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INDEPENDENT AUDITORS' REPORT

Measure T Citizens' Oversight Committee
And Governing Board Members
Hartnell Community College District
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure T General Obligation Bonds of Hartnell Community College District (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Measure T General Obligation Bonds' basic 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.

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.

Auditor's Responsibility (continued)

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

As discussed in Note 1, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure T General Obligation Bonds as issued by the District, through the County of Monterey, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure T General Obligation Bonds of Hartnell Community College District as of June 30, 2020 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2020 on our consideration of the Measure T General Obligation Bonds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure T General Obligation Bonds' internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated October 1, 2020 on our consideration of the Measure T General Obligation Bonds' compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure T General Obligation Bonds' for the fiscal year ended June 30, 2020 should be considered in assessing the results of our financial audit.

San Diego, California
October 1, 2020

FINANCIAL SECTION

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**HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Balance Sheet
June 30, 2020**

ASSETS	
Cash in county treasury	\$ 44,670,465
Accounts receivable	<u>271,747</u>
Total Assets	<u>44,942,212</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>3,302,226</u>
Total Liabilities	<u>3,302,226</u>
Fund Balance	
Restricted for capital projects	<u>41,639,986</u>
Total Liabilities and Fund Balance	<u>\$ 44,942,212</u>

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**HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2020**

REVENUES	
Other local revenue	\$ 1,418,691
Total Revenues	<u>1,418,691</u>
EXPENDITURES	
Current:	
Classified salaries	261,468
Employee benefits	155,586
Supplies and materials	705
Contract services and other operating expenditures	22,014
Capital outlay	<u>21,878,754</u>
Total Expenditures	<u>22,318,527</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(20,899,836)</u>
Net Change in Fund Balance	(20,899,836)
Fund Balance, July 1, 2019	<u>62,539,822</u>
Fund Balance, June 30, 2020	<u>\$ 41,639,986</u>

HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hartnell Community College District (the "District") accounts for the Measure T portion of its Bond Capital Projects Fund's ("Bond Fund") financial transactions in accordance with policies and procedures of the State Chancellor's Office's California Community Colleges Budget and Accounting Manual. The accounting policies of the Bond Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

Financial Reporting Entity: The financial statements include only the Measure T portion of Bond Fund Resources of the District. The fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds (Election of 2016, Series A). The authorized issuance amount of the bonds is \$167,000,000. Series A of the bonds were sold in August 2017, for \$70,000,000. These financial statements are not intended to present fairly the financial position and results of operations of the 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 T portion of the 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.

Cash and Cash Equivalents: For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Monterey County Treasury are considered cash equivalents.

Cash in County Treasury: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest-bearing Monterey County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the 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 cash held in the County Treasury are classified within level 2 of the fair value hierarchy because they are valued using broker or dealer quotations, or alternative pricing sources with reasonable level of price transparency. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2020, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2020, the District had no concentration of credit risk.

Restricted 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 Bond Fund in accordance with the Bond Project List for Measure T 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.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2020 consisted of \$271,747, due from the County for interest income. At June 30, 2020, no allowance for doubtful accounts was deemed necessary.

HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Notes to Financial Statements
June 30, 2020

NOTE 3 – 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 fund balance of the Measure T 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 4 – PURPOSE OF BOND ISSUANCE

Bond Authorization: The Hartnell Community College District, Monterey County, California Election of 2016 General Obligation Bonds, Measure T were authorized at an election of the registered voters of the Hartnell Community College District held on November 8, 2016 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$167,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the acquisition, construction and modernization of certain District property and facilities. The Bonds are general obligations of the District, payable solely from ad valorem property taxes. A summary of the text of the ballot language was as follows:

Purpose of Bonds:

The proceeds of the Bond may be used:

"To repair/upgrade classrooms, expand local access to higher education/training for high-wage jobs, including nursing, agriculture, science, technology/ engineering, by upgrading aging classrooms technology, science labs, repairing outdated, deteriorating mechanical/electrical systems, improving veterans' services, safety, security/ disabled access, removing asbestos, acquiring, constructing repairing sites/facilities/equipment, shall Hartnell Community College District issue \$167,000,000 in bonds at legal rates, requiring citizen oversight, independent audits, all funds used locally?"

HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Notes to Financial Statements
June 30, 2020

NOTE 4 – PURPOSE OF BOND ISSUANCE, continued

The District's Board of Trustees developed the following Bond Project List for the Measure T Bonds:

- Construct or upgrade classrooms for job training in nursing and other health sciences, agriculture science/technology, teaching and computer/information technology.
- Repair and upgrade classrooms, labs and job training centers for 2151 Century jobs.
- Provide adequate libraries, classrooms and labs at District instructional locations for career training and transfer to universities.
- Upgrade computer labs and classroom instructional technology.
- Provide space for universities to offer four-year bachelor's degrees.
- Update campus facilities to provide access for students with disabilities.
- Increase energy efficiency by replacing aging heating, ventilation and air-conditioning systems with energy-efficient models and install energy saving dual pane windows to reduce operating expenses.
- Upgrade and replace existing information technology infrastructure and network systems to improve efficiency and increase capacity.
- Upgrade and construct academic buildings to expand classrooms for job training and career technical education and provide literacy and English language learning centers.
- Construct science, technology, engineering and math (STEM) labs at District instructional locations.
- Repair or replace leaking roofs.
- Renovate, repair or replace deteriorating and outdated laboratories, classrooms, training centers and support facilities.
- Remove hazardous asbestos, lead paint and other hazardous materials.
- Update classrooms and educational facilities to meet current fire and safety codes.
- Update campus facilities to provide access for disabled students.
- Improve student, staff and faculty safety by upgrading emergency management systems, including video surveillance, emergency communication systems, and security systems.
- Upgrade electrical, mechanical, heating, ventilation and air-conditioning systems.

NOTE 5 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District. The Board of Supervisors of Monterey County are obligated to levy ad valorem taxes for the payment, without limitation as to amount, upon all property within the county subject to taxation by the District for the payment of principal of and interest on the Bonds when due. The bonds are included in the audited financial statements of the District.

On August 2017, the District issued the 2016 General Obligation Bonds, Series A in the amount of \$70,000,000. The bonds mature beginning August 1, 2018 through August 1, 2047, with interest yields ranging from 2.00 to 5.00 percent

**OTHER INDEPENDENT
AUDITORS' REPORT**

**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**

Measure T Citizens' Oversight Committee
And Governing Board Members
Hartnell Community College District
Salinas, 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 financial statements of the Measure T General Obligation Bonds, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Measure T General Obligation Bonds' basic financial statements, and have issued our report thereon dated October 1, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Measure T General Obligation Bonds' 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 Measure T General Obligation Bonds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Measure T General Obligation Bonds' 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 a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure T General Obligation Bonds' 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California
October 1, 2020

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FINDINGS AND RESPONSES SECTION

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**HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no audit findings noted during the 2019-20 year.

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**HARTNELL COMMUNITY COLLEGE DISTRICT
MEASURE T GENERAL OBLIGATION BONDS
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2020**

There were no audit findings noted during the 2018-19 year.

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