

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2009**

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
YEAR ENDED JUNE 30, 2009**

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SHINAULT BAKER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District (the "District") as of and for the year ended June 30, 2009. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District 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 for Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District as of June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2010, on our consideration of the District's internal control over financial reporting and our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of this audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District taken as a whole. The accompanying supplemental information is presented for additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


Shinault Baker & Company
Certified Public Accountants
February 10, 2010

KERN COMMUNITY COLLEGE DISTRICT
BALANCE SHEET
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
JUNE 30, 2009

ASSETS

Cash	\$	68,269,755
Accounts receivable		365,961
Due from other funds		<u>1,873,239</u>
Total Assets	\$	<u><u>70,508,955</u></u>

LIABILITIES

Accounts payable	\$	2,186,855
Due to other funds		<u>6,900,284</u>
Total Liabilities		9,087,139

FUND BALANCE

Fund balance		<u>61,421,816</u>
Total Liabilities and Fund Balance	\$	<u><u>70,508,955</u></u>

See the accompanying notes and accountants' report.

KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
FOR THE YEAR ENDED JUNE 30, 2009

REVENUES

Interest income	\$	2,416,973
Other revenue		5,055

		2,422,028
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EXPENDITURES

Capital outlay		10,864,678
Supplies and materials		44,503
Professional and consulting		491,126
Rents, leases and repairs		16,041
Salaries and benefits		357,947
Other expenses and services		17,935

		11,792,230
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NON FINANCING SOURCES

Interfund transfers		6,900,284
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		6,900,284
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Net Change in Fund Balance		(16,270,486)
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FUND BALANCE, BEGINNING OF YEAR		77,692,302
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FUND BALANCE, END OF YEAR	\$	61,421,816
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See the accompanying notes and accountants' report.

KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
FOR THE YEAR ENDED JUNE 30, 2009

REVENUES	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Interest income	\$ 3,787,102	\$ 2,416,973	\$ (1,370,129)
Other revenue	-	5,055	5,055
Total Revenues	3,787,102	2,422,028	(1,365,074)
EXPENDITURES			
Capital outlay	12,290,487	10,864,678	1,425,809
Supplies and materials	9,839	44,503	(34,664)
Professional and consulting	567,005	491,126	75,879
Rents, leases and repairs	-	16,041	(16,041)
Salaries and benefits	213,371	357,947	(144,576)
Other expenses and services	-	17,935	(17,935)
Total Expenditures	13,080,702	11,792,230	1,288,472
NON FINANCING SOURCES			
Interfund transfers	-	6,900,284	(6,900,284)
Total Non Financing Sources	-	6,900,284	(6,900,284)
Net Change in Fund Balance	<u>\$ (9,293,600)</u>	<u>\$ (16,270,486)</u>	<u>\$ (6,976,886)</u>

See the accompanying notes and accountants' report.

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants (AICPA).

Fund Structure

The Statement of Revenues, Expenditures and Changes in Fund Balance is a statement of financial activities of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, this statement does not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

Basis of Accounting

The Proposition 39 General Obligation Bonds Safety, Repair and Improvement District Fund of the Kern Community College District is maintained on the modified accrual basis of accounting. As much, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Budget

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual includes a column titled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.

Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are determined by its measurement focus. The Fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the basic financial statements of the Kern Community College District.

KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 – COMMITMENTS AND CONTINGENCIES

The Safety, Repair and Improvement District has commitments in the form of construction contracts. As of June 30, 2009, the remaining unspent portion of these contractual commitments is approximately \$11,391,938 as follows:

Bakersfield College Baseball/Softball Modernization	\$ 541,648
Delano Relocatables	1,335,188
Cerro Coso Community College Science Modernization	3,391,394
Porterville College Wellness Modernization	4,123,002
Porterville College Library Expansion	1,949,806
Other projects	<u>50,900</u>
	<u>\$ 11,391,938</u>



SHINAULT BAKER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District (the "District") as of and for the year ended June 30, 2009, which collectively comprise the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District's financial statements and have issued our report thereon dated February 10, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District's internal control over financial reporting as a basis for designing our auditing procedures 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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District's financial statements that is more than inconsequential will not be prevented or detected by the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Proposition 39 General Obligation Bonds Safety, Repair and Improvement District of the Kern Community College 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 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs at item 2009-1 to 2009-2.

This report is intended solely for the information and use of the Board of Trustees, Citizens' Bond Oversight Committee and management of the Kern Community College District. It is not intended to be and should not be used by anyone other than these specified parties.


Shinault Baker & Company
Certified Public Accountants
February 10, 2010

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

Current Year Findings

2009-1

Condition: Scheduled maintenance expenditures were paid on projects not on bond project list.

Effect: A total of \$710,077 of scheduled maintenance expenditures were paid with bond funds.

Cause: Interpretation of bond language was vague related to scheduled maintenance expenditure projects. Opinion by legal counsel provided guidance for differentiating projects that meet bond criteria.

Criteria: California Constitution Article XIII A, §1(b)(3)(B) requires bond proceeds to be used on the specific school facilities projects to be funded.

Recommendation: Funds need to be reimbursed by the District.

Response: A total of \$355,038 was reimbursed by the District. A receivable was set up to have the remaining balance reimbursed by the colleges. In addition, Facilities management has incorporated in its planning phase a process that will confirm each project meets the specific bond project guidelines prior to funding approval.

2009-2

Condition: Bond funds were used to pay for projects deemed to have met bond criteria but not on bond project list.

Effect: Costs of \$1,518,200 were paid on three Bakersfield College projects not on bond project list.

Cause: Projects were determined by Facilities management to have met bond criteria and therefore were funded from bond proceeds. Upon subsequent review Facilities management determined only projects on bond project list could be funded using bond proceeds.

Criteria: California Constitution Article XIII A, §1(b)(3)(B) requires bond proceeds to be used on the specific school facilities projects to be funded.

Recommendation: Funds need to be reimbursed by the District since projects were not on list.

Response: A receivable was set up to have the funds reimbursed by Bakersfield College. In addition, Facilities management has incorporated in its planning phase a process that will confirm each project meets the specific bond project guidelines prior to funding approval.

Prior Year Findings

None

SUPPLEMENTAL INFORMATION

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
GENERAL OBLIGATION BONDS SCHEDULE
JUNE 30, 2009**

General Obligation Bonds Issued in March 2003 and November 2005

On November 5, 2002, the voters authorized the issuance and sale of general obligation bonds totaling \$180,000,000. On March 6, 2003, \$75,191,548 of general obligation bonds were sold under Proposition 39/Safety Repair and Improvement District which provides that proceeds of the bonds will generally be used for the acquisition, construction, furnishing, and equipping of District facilities.

On November 2, 2005, the District completed refunding of \$54,025,132 on the general obligation bonds sold on March 6, 2003 to reduce its debt service payments over the next 12 years by \$775,000 and obtain an economic gain of \$423,194. Interest rates vary from 2.00% to 6.78%. The final maturity date is March 1, 2028.

The outstanding unrefunded and refunding related bonded debt at June 30, 2009 is:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Additions Current Year	Redeemed Current Year	Outstanding June 30, 2009
2003	2.00-6.78	2028	\$ 75,191,548	\$ 15,146,548	\$ -	\$ 2,890,000	\$ 12,256,548
2005	2.00-6.78	2028	54,025,132	53,525,132	-	400,000	53,125,132

The annual requirements to amortize unrefunded and refunding bonds payable, outstanding as of June 30, 2009 are as follows:

Year Ended June 30,	Unrefunded Principal *	Refunding Principal **	Total Principal
2010	\$ 1,300,000	\$ 1,960,000	\$ 3,260,000
2011	1,610,000	2,060,000	3,670,000
2012	1,915,000	1,533,841	3,448,841
2013	2,275,000	2,250,000	4,525,000
2014	2,655,000	941,110	3,596,110
2015-2019	-	20,950,181	20,950,181
2020-2024	-	23,430,000	23,430,000
2025-2029	2,501,548	-	2,501,548
	<u>\$ 12,256,548</u>	<u>\$ 53,125,132</u>	<u>\$ 65,381,680</u>

* Does not include \$1,300,026 of accreted interest on capital appreciation bonds.

** Does not include \$2,578,133 of accreted interest on capital appreciation bonds.

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
GENERAL OBLIGATION BONDS SCHEDULE
JUNE 30, 2009**

General Obligation Bonds Issued in March 2003 and November 2005 (continued)

Year Ended June 30,	Unrefunded Interest *	Refunding Interest**	Total Interest
2010	\$ 380,480	\$ 2,251,350	\$ 2,631,830
2011	323,830	2,175,850	2,499,680
2012	251,805	2,755,559	3,007,364
2013	149,755	2,046,338	2,196,093
2014	47,790	3,447,415	3,495,205
2015-2019	-	15,366,681	15,366,681
2020-2024	-	1,790,500	1,790,500
2025-2029	10,488,452	-	10,488,452
	<u>\$ 11,642,112</u>	<u>\$ 29,833,693</u>	<u>\$ 41,475,805</u>

The unrefunded bonds were issued at a premium of \$3,201,567 with issuance costs of \$1,163,019 and the refunding bonds were issued at a premium of \$6,923,478 with issuance costs of \$805,251. The proceeds of the bond premium less issuance costs and the repayment of the debt related to the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the District's Bond Interest and Redemption Fund which is part of the Kern Community College District's basic financial statements.

General Obligation Bonds Issued in September 2006

On September 26, 2006, \$49,999,533 of general obligation bonds were sold under Proposition 39/Safety Repair and Improvement District which provides that proceeds of the bonds will generally be used for the acquisition, construction, furnishing, and equipping of District facilities. Interest rates vary from 4.25% to 5.00%. The final maturity date is November 1, 2031.

The outstanding related bonded debt for the Kern Community College District at June 30, 2009 is:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Additions Current Year	Redeemed Current Year	Outstanding June 30, 2009
2006	4.25-5.00	2031	\$ 49,999,533	\$ 49,999,533	\$ -	\$ -	\$ 49,999,533

**KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
SAFETY, REPAIR AND IMPROVEMENT DISTRICT
GENERAL OBLIGATION BONDS SCHEDULE
JUNE 30, 2009**

General Obligation Bonds Issued in September 2006 (continued)

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2009 are:

<u>Year Ended June 30,</u>	<u>Principal *</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 400,000	\$ 737,638	\$ 1,137,638
2011	200,000	724,888	924,888
2012	260,000	715,113	975,113
2013	350,000	702,150	1,052,150
2014	435,000	685,467	1,120,467
2015-2019	6,900,000	2,670,288	9,570,288
2020-2024	16,300,271	12,242,729	28,543,000
2025-2029	16,852,825	27,622,175	44,475,000
2030-2031	8,301,437	18,138,563	26,440,000
	<u>\$ 49,999,533</u>	<u>\$ 64,239,011</u>	<u>\$ 114,238,544</u>

* Does not include \$5,088,123 of accreted interest on capital appreciation bonds.

The bonds were issued at a premium of \$3,354,466 with issuance costs of \$835,832. The proceeds of the bond premium less issuance costs and the repayment of the debt related to the Proposition 39 General Obligation Bonds Safety, Repair and Improvement District are accounted for in the District's Bond Interest and Redemption Fund which is part of the Kern Community College District's basic financial statements.

Combined General Obligation Bonded Debt as of June 30, 2009 is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,660,000	\$ 3,369,468	\$ 7,029,468
2011	3,870,000	3,224,567	7,094,567
2012	3,708,841	3,722,477	7,431,318
2013	4,875,000	2,898,242	7,773,242
2014	4,031,110	4,180,673	8,211,783
2015-2019	27,850,181	18,036,969	45,887,150
2020-2024	39,730,271	14,033,229	53,763,500
2025-2029	19,354,373	38,110,627	57,465,000
2030-2031	8,301,437	18,138,563	26,440,000
	<u>\$ 115,381,213</u>	<u>\$ 105,714,815</u>	<u>\$ 221,096,028</u>