BUTTE-GLENN
COMMUNITY COLLEGE DISTRICT

Oroville, California

PROPOSITION 39 AND MEASURE A
GENERAL OBLIGATION BONDS
FINANCIAL AND PERFORMANCE AUDITS

June 30, 2011
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FINANCIAL AUDIT
INDEPENDENT AUDITORS’ REPORT

To the Board of Trustees
Butte-Glenn Community College District
Oroville, California

We have audited the accompanying schedule of proceeds and use of general obligation bonds (Election of 2002, Series A, B, and C) – cash basis (the Schedule) of the Butte-Glenn Community College District (the District) for the year ended June 30, 2011. The Schedule is the responsibility of the District’s management. Our responsibility is to express an opinion on this 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of proceeds and uses of general obligation bonds is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the Schedule. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2, the Schedule was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the schedule of proceeds and use of general obligation bonds – cash basis referred to in the first paragraph presents fairly, in all material respects, the proceeds and use of the District’s General Obligation Bonds (Election 2002, Series A, B, and C) for the year ended June 30, 2011, on the basis of accounting described in note 2.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2012, on our consideration of the District’s internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

January 5, 2012
## SCHEDULE OF PROCEEDS AND USE OF GENERAL OBLIGATION BONDS
### (ELECTION OF 2002, SERIES A, B, AND C)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance - Unspent Bond Proceeds as of July 1, 2010</strong></td>
<td>$6,631,148</td>
</tr>
<tr>
<td>Interest received</td>
<td>21,977</td>
</tr>
<tr>
<td><strong>Project expenditures:</strong></td>
<td></td>
</tr>
<tr>
<td>Renovations and repairs of deteriorating, outdated facilities</td>
<td>(5,900,618)</td>
</tr>
<tr>
<td>Rewire and upgrade systems to accommodate computers and internet access</td>
<td>(134,679)</td>
</tr>
<tr>
<td>Build permanent classrooms and structures to replace deteriorating 25-40 year-old, temporary portable buildings</td>
<td>(617,828)</td>
</tr>
<tr>
<td><strong>Total Project Expenditures</strong></td>
<td>(6,653,125)</td>
</tr>
<tr>
<td><strong>Ending Balance - Unspent Bond Proceeds as of June 30, 2011</strong></td>
<td>$-</td>
</tr>
</tbody>
</table>
1. GENERAL INFORMATION

To increase educational opportunities, raise student achievement, and improve conditions in its neighborhood campuses throughout Butte and Glenn counties, the voters of Butte and Glenn counties approved a $84.9 million General Obligation Bond (Bonds) issue for the Butte-Glenn Community College District (the District) on March 5, 2002, 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 Education Code of the State of California (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 $30.01 million, $38.35 million, and $17.9 million from the Bonds Series A, B, and C respectively, received by the District (including premium and net of bond issuance costs) 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 specific projects approved by the District Board of Trustees to be funded by the bond proceeds include:

I. Upgrade the fire-police training center
II. Renovations and repairs to deteriorating, outdated facilities
III. Learning Resource Center project
IV. Install energy efficient heating and air conditioning
V. Rewire and upgrade systems to accommodate computers and internet access
VI. Improvements needed for health and safety
VII. Build permanent classrooms and structures to replace deteriorating 25-40 year-old, temporary portable buildings

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.

Bond Proceeds  Bond proceeds are recorded at face value with bond premiums and issuance costs shown as separate items.

Project Expenditures  Expenditures are recognized when payments for approved projects are made.
3. BONDED DEBT

The information presented below is for informational purposes only.

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>Outstanding July 1, 2010</th>
<th>Accretion/Amortization/Reductions</th>
<th>Bonds June 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 G.O. Bond, Series A</td>
<td>$27,268,795</td>
<td>$71,488</td>
<td>$26,770,283</td>
</tr>
<tr>
<td>2002 G.O. Bond, Series B</td>
<td>$37,723,130</td>
<td>18,569</td>
<td>$37,486,699</td>
</tr>
<tr>
<td>2002 G.O. Bond, Series C</td>
<td>$18,166,258</td>
<td>-</td>
<td>$18,158,326</td>
</tr>
<tr>
<td>Total</td>
<td>$83,158,183</td>
<td>$90,057</td>
<td>$82,415,308</td>
</tr>
</tbody>
</table>

Long-term debt consists of the following individual debt issues at June 30, 2011:

GENERAL OBLIGATION BONDS

2002 General Obligation Bonds Series A, issued in the original amount of $29,999,445, including current interest bonds and capital appreciation bonds. Final maturity in 2027. Interest rates range from 3.000% to 8.125%, effective rate based on issuance premium 4.990%. $28,295,000

Capital appreciation bond discount net of issuance premium on 2002 general obligation bonds, Series A (1,524,717)

Total 2002 General Obligation Bonds, Series A 26,770,283

2002 General Obligation Bonds Series B, issued in the original amount of $36,998,634, including current interest bonds and capital appreciation bonds. Final maturity in 2029. Interest rates range from 3.000% to 5.000%, effective rate based on issuance premium 4.370%. 38,420,000

Capital appreciation bond discount net of issuance premium on 2002 general obligation bonds, Series B (933,301)

Total 2002 General Obligation Bonds, Series B 37,486,699

2002 General Obligation Bonds Series C, issued in the original amount of $17,900,000, including current interest bonds. Final maturity in 2031. Interest rates range from 5.000% to 5.500%, effective rate based on issuance premium 5.108%. 17,900,000

Unamortized premium on 2002 general obligation bonds, Series C 258,326

Total 2002 General Obligation Bonds, Series C 18,158,326

Total $82,415,308
NOTES TO THE SCHEDULE

Butte-Glenn
Community College District
General Obligation Bonds
Financial and Performance Audits

June 30, 2011

<table>
<thead>
<tr>
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<th>Accreted Interest</th>
<th>Current Interest</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,020,000</td>
<td>$ -</td>
<td>$3,809,347</td>
<td>$4,829,347</td>
</tr>
<tr>
<td>2013</td>
<td>1,225,000</td>
<td>-</td>
<td>3,766,390</td>
<td>4,991,390</td>
</tr>
<tr>
<td>2014</td>
<td>1,455,000</td>
<td>-</td>
<td>3,713,883</td>
<td>5,168,883</td>
</tr>
<tr>
<td>2015</td>
<td>1,695,000</td>
<td>-</td>
<td>3,652,457</td>
<td>5,347,457</td>
</tr>
<tr>
<td>2016</td>
<td>1,960,000</td>
<td>-</td>
<td>3,576,338</td>
<td>5,536,338</td>
</tr>
<tr>
<td>2017-2021</td>
<td>14,740,000</td>
<td>-</td>
<td>15,097,494</td>
<td>29,837,494</td>
</tr>
<tr>
<td>2022-2026</td>
<td>25,790,000</td>
<td>-</td>
<td>10,988,875</td>
<td>36,778,875</td>
</tr>
<tr>
<td>2027-2031</td>
<td>30,963,079</td>
<td>5,766,921</td>
<td>3,909,313</td>
<td>40,639,313</td>
</tr>
<tr>
<td>Total</td>
<td>$78,848,079</td>
<td>$5,766,921</td>
<td>$48,514,097</td>
<td>$133,129,097</td>
</tr>
</tbody>
</table>

Less: Current interest (48,514,097)
Less: Unaccreted interest - net (2,199,692)
Net Outstanding Debt - June 30, 2011 $82,415,308

4. RECONCILIATION BETWEEN CASH AND ACCRUAL BASIS

The following is a reconciliation of project expenditures between the cash and accrual basis of accounting for the period from July 1, 2010, through June 30, 2011:

<table>
<thead>
<tr>
<th></th>
<th>Expenditures - cash basis $6,653,125</th>
<th>Change in accounts payable 10,436</th>
</tr>
</thead>
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<tr>
<td>Expenditures - Accrual Basis</td>
<td>$6,710,470</td>
<td>Change in contract retentions payable 46,909</td>
</tr>
<tr>
<td>Interest income - cash basis</td>
<td>$21,977</td>
<td>Change in interest receivable (10,264)</td>
</tr>
<tr>
<td>Interest Income - Accrual Basis</td>
<td>$11,713</td>
<td></td>
</tr>
</tbody>
</table>
OTHER 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

To the Board of Trustees
Butte-Glenn Community College District
Oroville, California

We have audited the schedule of proceeds and use of general obligation bonds (Election of 2002, Series A, B and C) – cash basis (the Schedule) of the Butte-Glenn Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated January 5, 2012. 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 District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is 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.
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

This report is intended solely for the information and use of the Board of Trustees, Citizens’ Bond Oversight Committee, management, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

January 5, 2012

Matson and Isom
PERFORMANCE AUDIT
INDEPENDENT AUDITORS’ REPORT

To the Board of Trustees and Measure A Citizens’ Bond Oversight Committee
Butte-Glenn Community College District
Oroville, California

We have audited the Butte-Glenn Community College District (the District) compliance with the performance requirements for the Proposition 39 and Measure A General Obligation Bonds (the Bonds) for the fiscal year ended June 30, 2011. Our audit was limited to the objectives listed on page 13 of this report. Management is responsible for the District compliance with those requirements. Our responsibility is to express an opinion on the District compliance based on our audit.

We conducted our 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. 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 conclusion based on our audit objectives. Our performance audit does not provide a legal determination on the District compliance with specific requirements.

In planning and performing our performance audit, we obtained an understanding of the District’s Measure A fund’s internal control in order to determine if the internal controls were adequate to help ensure the compliance with the requirements of Proposition 39. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

January 5, 2012
AUTHORITY FOR ISSUE

The Measure A 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 April 24, 2002.

The District received authorization at an election held on March 5, 2002, to issue bonds of the District in an aggregate principal amount not to exceed $84,900,000, 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 2002 Authorization). The Bonds represent the first, second and third series of the authorized bonds to be issued under the 2002 Authorization.

PURPOSE OF ISSUE

The net proceeds of the bonds, and any other series of general obligation bonds issued under the Authorization, will be used for the purposes specified in the District bond proposition submitted at the election, which includes: upgrade the fire-police training center; renovations and repairs to deteriorating, outdated facilities; Learning Resource Center project; install energy efficient heating and air conditioning; rewire and upgrade systems to accommodate computers and internet access; improvements needed for health and safety; and build permanent classrooms and structures to replace deteriorating 25-40 year-old, temporary portable buildings.
AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act, Proposition 39. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community colleges, and county offices of education, "for the 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 the approval of 55% of the electorate. In addition to reducing the approval threshold from two thirds to 55%, Proposition 39 and enacting legislation (AB 1908 and AB 2659), requires the following accountability measures as codified in California 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 I (b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenditures.

2. Requires that the District list the specific facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction, and information technology needs in developing the project list.

3. Requires the District to appoint a citizen’s oversight committee.

4. Requires the District to conduct an annual independent financial audit, and performance audit in accordance with the Governmental Auditing Standards, issued by the Comptroller General of the United States, of the bond proceeds until 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 specified projects listed.

OBJECTIVES

The objectives of our performance audit are:

1. Determine whether proceeds from the sale of the Bonds have been used only for bond projects approved by the voters through the approval of Measure A.

2. Determine whether proceeds from the sale of the Bonds that have been used for salary transactions, were in support of Measure A, and not for District’s general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance procedures covered the period of July 1, 2010, to June 30, 2011. 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 State or other local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2011, were not reviewed or included in 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, 2011, for the Measure A 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 A 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. Verify that the net funds from the sale of the Bonds were deposited in total into the District accounts by obtaining settlement statement for the new bond issue and verifying amounts deposited into the Measure A General Obligation Bonds Fund.
3. Select a representative sample from the population of expenditures in the Measure A 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.
4. 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 A General Obligation Bonds Fund of the District.
2. Not applicable - there were no bond sales during the current year.
3. We reviewed 100% of the salaries and related benefits and 82% of non-salaries expenditures of the Measure A General Obligation Bonds Fund. Our review of the expenditures for the period July 1, 2010, through June 30, 2011, 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 March 5, 2002.
4. 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, in all significant respects, 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 A. 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 of California’s Attorney General.

MANAGEMENT COMMENTS AND RECOMMENDATIONS

None.