

**MERCED COMMUNITY
COLLEGE DISTRICT
PROPOSITION 39 AND MEASURES H AND J
GENERAL OBLIGATION BONDS**

Merced, California

PERFORMANCE AUDIT

June 30, 2006

TABLE OF CONTENTS

June 30, 2006

*Merced Community College District
Proposition 39 and Measures H and J
General Obligation Bonds*

	Page Number
Independent Auditors' Report	1
Objectives	2
Scope of the Audit	2
Background Information	2
Procedures Performed	3
Results of Procedures	4
Conclusion	5
Management Comments and Recommendations	6

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Community College District
Merced, California

We have examined the Merced Community College District's (the District's) compliance with the performance requirements for the Proposition 39 and Measures H and J General Obligation Bonds for the fiscal year ended June 30, 2006. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specific requirements.

In our opinion, the Merced Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006.

Matson and Isom

October 20, 2006

PERFORMANCE AUDIT

June 30, 2006

Merced Community College District Proposition 39 and Measures H and J General Obligation Bonds

OBJECTIVES

The objectives of our performance audit were to document the expenditures charged to the voter approved Proposition 39 and Measures H and J General Obligation Bonds (the Bonds); determine whether expenditures for the fiscal year ended June 30, 2006, charged to the Bond projects funds, 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, 2006. Expenditures incurred after the issuance of the Bonds and prior to June 30, 2005, were covered in a previous examination. 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, 2006, were not reviewed or included within the scope of our audit.

BACKGROUND INFORMATION

On November 5, 2002, \$53,500,000 and \$11,930,000 for the Merced Campus and Los Banos Campus, respectively, in general obligation bonds were authorized by an election held within the Merced Community College District (the District). A Citizens Oversight Committee (the Committee) was appointed on February 4, 2003, to comply with the California Constitution and the *California Education Code*. The purpose of the Committee is to inform the public, at least annually, regarding the appropriate use of the Bond proceeds. On June 19, 2003, the first series of Bonds in the amount of \$20,000,000 and \$5,140,000 for the Merced and Los Banos Campus, respectively, were issued. On August 1, 2005, the second series of Bonds in the amount of \$6,790,000 for the Los Banos Campus were issued. The total proceeds from the Bond issuance were received by the District (less the original bond issuance costs) and are to be used to finance the construction, acquisition, furnishing, and equipping of District facilities. California Constitution, Article 13A, Section 1(b)(3) requires an annual performance audit be conducted to ensure that funds have been expended only on the specific projects publicized by the District.

On August 1, 2006, the District issued a second series of bonds for the Merced campus in the amount of \$24,000,000.

PERFORMANCE AUDIT

June 30, 2006

Merced Community College District Proposition 39 and Measures H and J General Obligation Bonds

PROCEDURES PERFORMED

We obtained the Bond project funds general ledger and the project expenditure summary reports and detail prepared by the District for the fiscal year ended June 30, 2006. Within the year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with Proposition 39 and Measures H and J General Obligation Bond funding. We performed the following procedures:

- We verified that the proceeds from the sale of the Bonds were deposited in the appropriate School Facilities Improvement Fund and the Debt Service Fund.
- We reviewed the Campus Master Plan Bond Project publicized list of intended projects.
- We selected a sample of expenditures in the fiscal year ended June 30, 2006, and reviewed supporting documentation to ensure that funds were properly expended on the specific projects outlined on the publicized list and met the requirements for bidding, if applicable.
- We compared total project expenditures to budgets to determine if there were any expenditures in excess of appropriation.
- We verified that funds were generally used for the construction, acquisition, furnishing, and equipping of District facilities, and we verified that funding was not used for salaries of school administrators or other operating expenses of the District.

PERFORMANCE AUDIT

June 30, 2006

*Merced Community College District
Proposition 39 and Measures H and J
General Obligation Bonds***RESULTS OF PROCEDURES**

The District utilized Bond funds for 15 projects for the Merced Campus and 4 projects for the Los Banos Campus. The District incurred total expenditures of \$20,788,992 through June 30, 2006, for the following projects:

	Prior Expenditures	June 30, 2006 Expenditures	Total Expenditures	Budget	Status
MERCED CAMPUS					
Agriculture Science and Technology building	\$ 7,530	\$ 35,662	\$ 43,192	\$ 7,362,500	In progress
Allied Health building	42,397	-	42,397	2,084,618	In progress
Business Resource Center	23,835	328,481	352,316	8,000,000	In progress
Central Plant upgrades	837,604	2,663,944	3,501,548	3,323,840	In progress
Child Development Center	738,176	-	738,176	738,176	Completed
Communications building	1,232	-	1,232	1,232	In progress
Eligible bond project costs	200,719	28,543	229,262	300,000	In progress
Fire and safety (North Road Loop)	530,231	1,065,612	1,595,843	2,601,156	In progress
Learning Resource Center	1,361,009	3,769,011	5,130,020	9,257,940	In progress
Leshner building remodel	16,688	254,621	271,309	2,718,880	In progress
Mechanized Agriculture building	13,454	-	13,454	13,454	Completed
Parking Lot J	153,162	402,903	556,065	153,162	Completed
Science building remodel	620,950	196,422	817,372	3,034,069	In progress
Science Swing space	1,900,098	18,237	1,918,335	2,028,564	Completed
Student Union building	44,920	2,283	47,203	977,875	In progress
Subtotal	6,492,005	8,765,719	15,257,724	42,595,466	
LOS BANOS CAMPUS					
Academic/Vocational Technology building	530,436	4,244,473	4,774,909	9,136,420	In progress
Bond issuance costs	133,800	-	133,800	133,800	In progress
Eligible bond project costs	188,359	5,849	194,208	400,000	In progress
New campus site development	106,898	104,519	211,417	131,160	In progress
Operations and maintenance facilities	-	33,248	33,248	-	In progress
Parking lot	146,505	37,181	183,686	1,818,030	In progress
Subtotal	1,105,998	4,425,270	5,531,268	11,619,410	
Total	\$ 7,598,003	\$ 13,190,989	\$ 20,788,992	\$ 54,214,876	

Each project has been given a specific project identification number within the District's Bond project funds. Budgets for each project are included in the financial reporting system and actual expenditures are matched against this budget. The eligible Bond project costs have not been allocated to the applicable projects. Each project will subsequently share a percentage of these costs based upon a generally accepted allocated method.

PERFORMANCE AUDIT

June 30, 2006

*Merced Community College District
Proposition 39 and Measures H and J
General Obligation Bonds*

CONCLUSION

Based upon the procedures performed, we found that for the items tested, the Merced Community College District has properly accounted for the expenditures of the Proposition 39 and Measures H and J General Obligation Bonds. Further, it was noted that the funds were not used for salaries of school administrators or other operating expenditures. Our audit does not provide a legal determination on the District's compliance with specific requirements.

PERFORMANCE AUDIT

June 30, 2006

*Merced Community College District
Proposition 39 and Measures H and J
General Obligation Bonds*

MANAGEMENT COMMENTS AND RECOMMENDATIONS

None.