

PROPOSITION 39 BOND BUILDING FUND  
**MERCED COMMUNITY  
COLLEGE DISTRICT**



**AUDIT REPORT**

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2013

San Diego

Los Angeles

San Francisco  
Bay Area

**christywhite**  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
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June 30, 2013**

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**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Introduction and Citizens' Oversight Committee Member Listing  
June 30, 2013**

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Merced Community College District (the "District") was founded in 1962. The District has two campuses for students. The main campus is located in the city of Merced and has a satellite campus located in Los Banos, California.

**Measure H**

The Measure H Proposition 39 Bond Measure is a facilities and equipment bond measure for the School Facilities Improvement District No. 1 (Merced campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$53,500,000.

- On June 19, 2003, \$20,000,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 5.00 percent and maturing through August 1, 2027.
- On August 1, 2006, \$24,000,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 4.50 percent to 5.00 percent and maturing through August 1, 2031.
- On February 28, 2012, \$13,070,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.00 percent to 4.00 percent and maturing through August 1, 2031.

**Measure J**

The Measure J Proposition 39 Bond Measure is a facilities and equipment bond measure for the School Facilities Improvement District No. 2 (Los Banos campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$11,930,000.

- On June 19, 2003, \$5,140,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 4.50 percent and maturing through August 1, 2027.
- On August 1, 2005, \$6,790,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 3.63 percent to 5.00 percent and maturing through August 1, 2015.
- On November 16, 2006, \$10,740,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 3.50 percent to 5.00 percent and maturing through August 1, 2025.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Introduction and Citizens' Oversight Committee Member Listing, continued  
June 30, 2013**

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Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measures H and J including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Measures H and J Citizens' Oversight Committee had the following members as of June 30, 2013, all of whom were appointed by the District's Board of Education with two year terms of office:

<b>Name</b>	<b>Title</b>	<b>Representation</b>	<b>Education Code Section</b>
James E. Murphy, III	Chairperson	Community -at- Large	15282(a)
Bob Giampaoli	Member	Active in a Business Organization	15282(a)(1)
Demetrius "Dee" Tatum	Member	Active in a Foundation	15282(a)(5)
Robert Matthews	Member	Active in a Senior Citizens Organization	15282(a)(2)
Gil Castillo	Member	Los Banos Campus Student Member	15282(a)(4)
Shawn Conour	Member	Merced Campus Student Member	15282(a)(4)
VACANT*	Member	Active in a Taxpayers' Association	15282(a)(3)

\*Auditor noted that District is actively soliciting applications to fill the vacant positions.

## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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*Licensed by the California  
State Board of Accountancy*

The Board of Trustees  
Merced Community College District  
Merced, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measures H and J Proposition 39 Bond Building Fund of Merced Community College District (the "Measures H and J Proposition 39 Bond Building Fund") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Measures H and J Proposition 39 Bond Building Fund's 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 opinions 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.

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

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measures H and J general obligation bonds as issued by the District, through the County of Merced, 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 Measures H and J Proposition 39 Bond Building Fund of Merced Community College District as of June 30, 2013 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 Matters**

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measures H and J Proposition 39 Bond Building Fund's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the Measures H and J Proposition 39 Bond Building Fund'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 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 Measures H and J Proposition 39 Bond Building Fund's 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 December 5, 2013 on our consideration of the Measures H and J Proposition 39 Bond Building Fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition 39 Bond Building Fund for the Year Ended June 30, 2013 and should be considered in assessing the results of our financial audit.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California  
December 5, 2013

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## **FINANCIAL SECTION**

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**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Balance Sheet  
June 30, 2013**

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	MEASURE H	MEASURE J	TOTAL
<b>ASSETS</b>			
Cash in county treasury	\$ 1,841,603	\$ 458,616	\$ 2,300,219
Investments	6,298,822	-	6,298,822
<b>Total Assets</b>	<b>\$ 8,140,425</b>	<b>\$ 458,616</b>	<b>\$ 8,599,041</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 9,679	\$ 600	\$ 10,279
<b>Total Liabilities</b>	<b>9,679</b>	<b>600</b>	<b>10,279</b>
<b>FUND BALANCE</b>			
Restricted for capital projects	8,130,746	458,016	8,588,762
<b>Total Liabilities and Fund Balance</b>	<b>\$ 8,140,425</b>	<b>\$ 458,616</b>	<b>\$ 8,599,041</b>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Year Ended June 30, 2013**

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	MEASURE H	MEASURE J	TOTAL
<b>REVENUES</b>			
Interest income	\$ 28,201	\$ 3,469	\$ 31,670
<b>Total Revenues</b>	<u>28,201</u>	<u>3,469</u>	<u>31,670</u>
<b>EXPENDITURES</b>			
Capital outlay	796,322	6,494	802,816
<b>Total Expenditures</b>	<u>796,322</u>	<u>6,494</u>	<u>802,816</u>
<b>Net Change in Fund Balance</b>	(768,121)	(3,025)	(771,146)
<b>Fund Balance, July 1, 2012, as originally stated</b>	<u>6,396,160</u>	<u>331,378</u>	<u>6,727,538</u>
<b>Adjustment for restatement</b>	2,502,707	129,663	2,632,370
<b>Fund Balance, July 1, 2012, as restated</b>	<u>8,898,867</u>	<u>461,041</u>	<u>9,359,908</u>
<b>Fund Balance, June 30, 2013</b>	<u>\$ 8,130,746</u>	<u>\$ 458,016</u>	<u>\$ 8,588,762</u>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Merced Community College District (the "District") was founded in 1962. The District has two campuses for students. The main campus is located in the city of Merced and has a satellite campus located in Los Banos, California.

**Measure H**

The Measure H is a facilities and equipment bond measure for the School Facilities Improvement District No. 1 (Merced campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$53,500,000.

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The Measure J is a facilities and equipment bond measure for the School Facilities Improvement District No. 2 (Los Banos campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$11,930,000.

- On June 19, 2003, \$5,140,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 4.50 percent and maturing through August 1, 2027.
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**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. Reporting Entity (continued)**

An oversight committee to the District's Governing Board and Superintendent, called the Citizens' Oversight Committee (COC), was established pursuant to the requirements of state law and the provisions of the Measures H and J Bonds. The COC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The COC provides oversight and advises the public whether the District is spending the Measures H and J bond funds for school capital improvements within the scope of projects outlined in the Measures H and J bond project list. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measures H and J.

The statements presented are for the individual Proposition 39 Bond Building Fund of the District, consisting of the net construction proceeds of the Measures H and J General Obligation Bonds as issued by the District, through the County of Merced, and are not intended to be a complete presentation of the District's financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

**B. Accounting Policies**

The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures 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 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

**D. 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.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Deposits and Investments**

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Merced County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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.

**G. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**H. Fund Balance**

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balances of the Measures H and J Bonds are considered restricted.

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.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS**

**Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

*Cash in County Treasury* – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting 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 balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	40%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

**Authorized Under Debt Agreements**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

**Summary of Cash and Investments**

Cash and investments as of June 30, 2013, consist of Deposits in the Merced County Treasury:

	Measure H	Measure J	Total
Cash in county treasury	\$ 1,841,603	\$ 458,616	\$ 2,300,219
Investments	6,298,822	-	6,298,822
Total Cash and Investments	\$ 8,140,425	\$ 458,616	\$ 8,599,041

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County Investment Pool and in other investment agreements.

**Specific Identification and Credit Risk**

Information about the sensitivity of the fair market values of the District’s investments to market interest rate fluctuations is indicated by the following schedule that shows the distribution of the District’s investment by maturity. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District’s investment in the County pool is not required to be rated, nor has it been rated as of June 30, 2013. Presented below is the minimum rating required by the California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. Since all District investment holdings are governmental securities, per California Government Code there is no minimum legal rating.

Investment or Deposit Type	Fair Market Value	Days to Maturity	Minimum Legal Rating	Rating 6/30/2013
Merced County Investment Pool	\$ 2,300,219	506	Not Applicable	AA+
California Asset Management Program	6,298,822	N/A	Not Applicable	AAAm
	<u>\$ 2,300,219</u>			

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments within the Merced County Investment Pool are rated at least A by Moody's Investors Service.

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 3 – CONSTRUCTION COMMITMENTS**

There were no outstanding construction commitments for Measures H and J as of June 30, 2013.

**NOTE 4 – GENERAL OBLIGATION BONDS**

As of June 30, 2013, the principal balance outstanding on the District's Measures H and J General Obligation Bonds is indicated as follows:

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding, July 1, 2012	Redeemed	Bonds Outstanding, June 30, 2013
Measure H	6/19/2003	8/1 2027	2.50-5.00%	\$ 20,000,000	\$ 355,000	\$ 355,000	\$ -
	8/1/2006	8/1/2031	4.50-5.00%	24,000,000	22,605,000	155,000	22,450,000
	2/28/2012	8/1/2027	2.00-4.00%	13,070,000	13,070,000	115,000	12,955,000
				<u>57,070,000</u>	<u>36,030,000</u>	<u>625,000</u>	<u>35,405,000</u>
Measure J	6/19/2003	8/1/2027	2.50-4.50%	5,140,000	110,000	110,000	-
	8/1/2005	8/1/2015	3.63-5.00%	6,790,000	440,000	85,000	355,000
	11/16/2006	8/1/2025	3.50-5.00%	10,740,000	10,185,000	165,000	10,020,000
				<u>22,670,000</u>	<u>10,735,000</u>	<u>360,000</u>	<u>10,375,000</u>
			Totals	<u>\$ 79,740,000</u>	<u>\$ 46,765,000</u>	<u>\$ 985,000</u>	<u>\$ 45,780,000</u>

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 4 – GENERAL OBLIGATION BONDS (continued)**

**Measure H**

The Measure H Proposition 39 bond measure is a facilities and equipment bond measure for the School Facilities Improvement District No. 1 (Merced campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$53,500,000.

On June 19, 2003, \$20,000,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 5.00 percent and maturing through August 1, 2027.

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**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 4 – GENERAL OBLIGATION BONDS (continued)**

The annual requirements to amortize all Measures H and J General Obligation Bond’s payable outstanding as of June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,025,000	\$ 2,129,963	\$ 3,154,963
2015	1,195,000	2,084,008	3,279,008
2016	1,375,000	2,172,615	3,547,615
2017	1,480,000	2,252,505	3,732,505
2018	1,670,000	2,187,247	3,857,247
2019-2023	11,745,000	9,509,891	21,254,891
2024-2028	15,965,000	5,670,193	21,635,193
2029-2032	11,325,000	1,309,997	12,634,997
Totals	\$ 45,780,000	\$ 27,316,419	\$ 73,096,419

**NOTE 5 – ADJUSTMENT FOR RESTATEMENT**

There was an adjustment for restatement made to the Measure H and Measure J beginning balances of \$2,502,707 and \$129,663, respectively, to remove long-term activity from the fund financials.

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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**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**

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

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*Licensed by the California  
State Board of Accountancy*

Independent Auditors' Report

Governing Board Members and  
Measures H and J Citizens' Oversight Committee  
Merced Community College District  
Merced, 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 Measures H and J Proposition 39 Bond Building Fund, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Measures H and J Proposition 39 Bond Building Fund's basic financial statements, and have issued our report thereon dated December 5, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Measures H and J of Proposition 39 Bond Building Fund'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Measures H and J of Proposition 39 Bond Building Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Measures H and J of Proposition 39 Bond Building Fund's 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 Measures H and J of Proposition 39 Bond Building Fund'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 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California  
December 5, 2013

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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John Dominguez, CPA, CFE

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Governing Board Members and  
Measures H and J Citizens' Oversight Committee  
Merced Community College District  
Merced, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measures H and J of Proposition 39 Bond Building Fund, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Measures H and J of Proposition 39 Bond Building Fund's 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 opinions 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.

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

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measures H and J General Obligation Bonds for the Year Ended June 30, 2013. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measures H and J Bonds were only used for the purposes set forth in the Measures H and J ballot language and not for any other purpose, such as teacher and administrative salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

<b>Internal Control Evaluation</b>
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**Procedures Performed:**

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Measures H and J projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Measures H and J funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2012-13 financial statement balances for the Proposition 39 Bond Building Fund are not materially misstated.

**Results of Procedures Performed:**

The result of our audit tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unqualified opinion was expressed on the financial statements.

<b>Facilities Site Walk</b>
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**Procedures Performed:**

We performed a site walk to verify that Measure H expenditures for the fiscal year ended June 30, 2013 were for valid facilities acquisition and construction purposes. CWA toured the Theater Basement Renovation project at the Merced campus.

## Facilities Site Walk (continued)

### **Results of Procedures Performed:**

Results of the site walk indicate that the major 2012-13 Measures H construction projects at Merced Community College District was successfully completed and advanced into 2013-14 expenditure/construction phases where applicable.

## Test of Expenditures

### **Procedures Performed:**

We tested approximately \$796,322 (69%) of the 2012-13 Measure H expenditures and \$6,494 (67%) of the 2012-13 Measure J expenditures for validity, allowability and accuracy. Expenditures sampled in our test included payments made to contractors, consultants and other vendors.

### **Results of Procedures Performed:**

We found the expenditures and transfers tested to be in compliance with the terms of the Measures H and J ballot measures, Facilities Plan, and applicable state laws and regulations without exception.

## Test of Contracts and Bid Procedures

### **Procedures Performed:**

For the fiscal year ended June 30, 2013, we performed testing of two contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

### **Formal Bids**

- Project: Theater Basement ADA Upgrades & Elevator Installation  
Vendor: JHK Construction Inc.  
Original Contract Award Amount: \$617,700
  
- Project: Los Banos Campus Generator and UPS Installation  
Vendor: Darrale Patrias  
Original Contract Award Amount: \$162,459

### **Results of Procedures Performed:**

We found that the contracts tested above for bidding procedures followed proper bidding procedures and were awarded in all cases to the lowest responsible bidder, except as noted in the accompanying schedule of findings and responses as finding #2013-1.

In addition, we noted that the District has been providing the Governing Board with a listing of change orders to contract that relate to Measures H and J projects in the fiscal year 2012-13 and that no Measures H and J projects have a cumulative change order rate in excess of 10% of contract value.

**Test of Contracts and Bid Procedures (continued)**

Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measures H and J General Obligation Bonds for the fiscal year ended June 30, 2013, as listed and tested above.

This report is intended solely for the information and use of the Measures H and J Citizens' Bond Oversight Committee, the District's Governing Board, management, and the taxpayers of Merced Community College District and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California  
December 5, 2013

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**SCHEDULE OF FINDINGS  
AND RECOMMENDATIONS**

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**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Schedule of Findings and Recommendations  
For the Fiscal Year Ended June 30, 2013**

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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 *Governmental Auditing Standards*.

**FINDING #2013-1: BIDDING PROCEDURES**

**Criteria:** The California Uniform Public Cost Accounting Act (Public Contract Code Section 22000) requires that the District submit formal bid notices to specified trade journals for all projects with contract value exceeding \$175,000.

**Condition:** During our testing of awards of contracts subject to formal and informal bid procedures in 2012-13 we noted that the district did not submit formal bid notices to the required trade journals as required by the California Uniform Public Cost Accounting Act (CUPCAA) for all projects with contract value exceeding \$175,000. This finding affected two (100%) of the formally bid contracts awarded in 2012-13.

**Cause:** Unknown.

**Effect:** Noncompliance with CUPCAA.

**Questioned Costs:** None.

**Recommendation:** The District should ensure that all formal bid notices are properly submitted to the required trade journals in accordance with CUPCAA.

**District Response:** Although the District complied with all Government Code bid guidelines, submission to one specific trade journal was not completed in accordance with CUPCAA. The District subsequently created a checklist to ensure that all formal bid notices are properly submitted to the required trade journals in accordance with CUPCAA.

**PROPOSITION 39 BOND BUILDING FUND  
MERCED COMMUNITY COLLEGE DISTRICT  
Summary Schedule of Prior Year Audit Findings  
For the Fiscal Year Ended June 30, 2013**

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*There were no findings and recommendations related to the financial and performance audit of the Measures H and J Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2012.*