MERCED CITY SCHOOL DISTRICT

BUILDING FUND (MEASURES S AND M)
FINANCIAL AND PERFORMANCE AUDITS

JUNE 30, 2017

MERCED CITY SCHOOL DISTRICT

BUILDING FUND (MEASURES S AND M)
FINANCIAL AUDIT

JUNE 30, 2017

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

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FINANCIAL SECTION

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens Oversight Committee
Merced City School District
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Merced City School District's (the District), Building Fund (Measures S and M), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

6051 N. Fresno St., Suite 101, Fresno, CA 93710 P 559.248.0871 F 559.248.0875 W vtdcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measures S and M) of the Merced City School District at June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to Measures S and M, and are not intended to present fairly the financial position and changes in financial position of Merced City School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements of the Merced City School District's Building Fund (Measures S and M). The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the 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 12, 2017, on our consideration of the District's Building Fund (Measures S and M) 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 the 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 District's Building Fund (Measures S and M) internal control over financial reporting and compliance.

Fresno, California
December 12, 2017

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

BALANCE SHEET
JUNE 30, 2017

ASSETS		
Deposits and investments	$	18,357,417
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	$	2,941,518
FUND BALANCE		
Restricted		15,415,899
Total Fund Balance		15,415,899
Total Liabilities and Fund Balance	$	18,357,417

The accompanying notes are an integral part of these financial statements.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

REVENUES		
Interest income	$	155,034
EXPENDITURES		
Supplies and equipment		11,497
Services and other operating expenditures		51,746
Capital outlay		16,303,481
Total Expenditures		16,366,724
DEFICIENCY OF REVENUES OVER EXPENDITURES		(16,211,690)
Other Financing Sources:		
Proceeds from bond issuance		11,409,794
NET CHANGE IN FUND BALANCE		(4,801,896)
FUND BALANCE - BEGINNING		20,217,795
FUND BALANCE - ENDING	$	15,415,899

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Merced City School District's (the District) Building Fund (Measures S and M) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Merced City School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the Merced City School District used to account for Measures S and M projects. This Fund was established to account for the expenditures of general obligation bonds issued under Measures S and M. These financial statements are not intended to present fairly the financial position and results of operations of the Merced City School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

Fund Balances - Building Fund (Measures S and M)

As of June 30, 2017, fund balance of the Building Fund is classified as follows:

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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/expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

NOTE 2 - 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 instrument; 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 agreement; 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.

Investment 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 statement 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 schedules 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	25%	10%
Negotiable Certificates of Deposit	5 years	30%	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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Merced County Investment Pool. The District maintains a Building Fund (Measures S and M) investment of $18,357,417 with the Merced County Investment Pool, with an average maturity of 527 days.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Merced County Treasury Investment Pool and SISC GASB 45 Trust Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

Vendor payables	$ 2,941,518

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017, the Building Fund (Measures S and M) had the following commitments with respect to the unfinished capital projects that were fully or partially funded with bond proceeds:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Chenoweth modernization and parking lot	$ 32,791	October 2016
Chenoweth HVAC	798,418	August 2017
Cruickshank roofing	240,241	August 2017
Franklin modernization	1,821,397	January 2018
Fremont modernization and HVAC	3,695,441	August 2018
Hoover modernization and HVAC	846,246	August 2018
Peterson modernization	128,383	August 2018
Rivera elementary preshcool	13,755	August 2018
Sheehy modernization	125,544	August 2018
Tenaya roofing	683,995	August 2018
Wright modernization	4,953,493	March 2018
Chenoweth two new portables	286,063	December 2017
Total	$ 13,625,767	

Litigation

The District is not currently a party to any legal proceedings regarding bond projects.

SUPPLEMENTARY INFORMATION

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Measure S Bonds

Measure S bonds were authorized at an election held on November 4, 2003, at which 55 percent or more of voters authorized the issuance of $26,500,000 in general obligation bonds.

2003 General Obligation Bonds, Series 2004

On March 1, 2004, the Merced City School District issued $14,999,268 in General Obligation Bonds, Series 2004, consisting of 12,290,000 in current interest bonds and 2,709,268 in capital appreciation bonds. The Bonds were issued to renovate and construct school facilities for the District. The Series 2004 Bonds were authorized for the purpose of acquiring and construction of school facilities. On June 5, 2013, the current interest bonds were refunded in full from the proceeds of the District's 2013 General Obligation Bonds.

2003 General Obligation Bonds, Series 2005

On June 1, 2005, the Merced City School District Merced City Elementary School District issued $11,500,303 in General Obligation Bonds, Series 2005, consisting of 3,085,000 in current interest bonds and 8,415,303 in capital appreciation bonds. The Bonds were issued to renovate and construct school facilities for the District. The Series 2005 Bonds were authorized for the purpose of acquiring and construction of school facilities. The final principal payment on the current interest bonds was made on August 1, 2013.

General Obligation Refunding Bonds, Series 2013

On June 5, 2013, the Merced City School District issued General Obligation Refunding Bonds, Series 2013, in the amount of $9,560,000 for the purpose of refunding the outstanding Merced City School District General Obligation Current Interest Bonds, Election of 2003, Series 2004.

Measure M Bonds

Measure M bonds were authorized at an election held on June 3, 2014, at which 55 percent or more of voters authorized the issuance of not to exceed $60,000,000 in general obligation bonds.

2014 General Obligation Bonds, Series 2014

On October 16, 2014, Merced City School District issued $11,458,568 in General Obligation Bonds, Series 2014, consisting of $10,260,000 in current interest bonds and $1,198,568 in capital appreciation bonds. The bonds were issued to finance critical core facility improvements.

The Series 2014 Bonds are payable solely from ad valorem property taxes levied and collected by the County of Merced. The Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes for the payment of interest and principal of the Series 2014 Bonds. Interest accrues from August 1, 2014, and is payable semiannually on February 1 and August 1 of each year commencing February 1, 2015.

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

2014 General Obligation Bonds, Series 2015

On December 17, 2015, the Merced City School District issued $18,264,008 in General Obligation Bonds, Series 2015, consisting of $16,140,000 in current interest bonds and $2,124,008 in capital appreciation bonds. These bonds represent the second series of the Measure M General Obligation Bonds.

The Series 2015 Bonds are payable solely from ad valorem property taxes levied and collected by the County of Merced. The Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes for the payment of interest and principal of the Series 2015 Bonds. Interest is payable semiannually on February 1 and August 1 of each year commencing February 1, 2016.

2014 General Obligation Bonds, Series 2017

On April 25, 2017, the Merced City School District issued $11,639,260 in General Obligation Bonds, Series 2017, consisting of $11,025,000 in current interest bonds and $614,260 in capital appreciation bonds. These bonds represent the third series of the Measure M General Obligation Bonds.

The Series 2017 Bonds are payable solely from ad valorem property taxes levied and collected by the County of Merced. The Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes for the payment of interest and principal of the Series 2017 Bonds. Interest is payable semiannually on February 1 and August 1 of each year commencing August 1, 2017.

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Debt Service Requirements to Maturity

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2017
Capital Appreciation Bonds - 2004 Series:							
3/1/04	8/1/28	5.13-5.23%	$ 2,709,268	$ 5,116,144	$ 268,316	$ -	$ 5,384,460
Capital Appreciation Bonds - 2005 Series:							
6/1/05	6/1/30	4.00-5.07%	8,415,303	13,163,701	624,507	720,000	13,068,208
Current Interest Bonds - 2013 Series:							
6/5/13	8/1/23	3.25-5.00%	9,560,000	8,100,000	-	740,000	7,360,000
Capital Appreciation Bonds - 2014 Series:							
10/16/14	8/1/37	4.76-5.04%	1,198,568	1,307,541	65,629	-	1,373,170
Current Interest Bonds - 2014 Series:							
10/16/14	8/1/44	3.00-3.25%	10,260,000	9,135,000	-	965,000	8,170,000
Capital Appreciation Bonds - 2015 Series:							
12/17/15	8/1/39	2.00-5.00%	2,124,008	2,172,391	79,353	-	2,251,744
Current Interest Bonds - 2015 Series:							
12/17/15	8/1/45	1.94-4.52%	16,140,000	16,140,000	-	-	16,140,000
Capital Appreciation Bonds - 2017 Series:							
4/25/17	8/1/40	3.56-4.38%	614,260	-	619,768	-	619,768
Current Interest Bonds - 2017 Series:							
4/25/17	8/1/47	3.00-4.00%	11,025,000	-	11,025,000	-	11,025,000
Total			$ 62,046,407	$ 55,134,777	$ 12,682,573	$ 2,425,000	$ 65,392,350

Series 2004 Bonds

The bonds mature as follows:

Capital Appreciation Bonds:

Maturity	Accreted Obligation	Interest to Accrete	Final Accreted Value
2025	$ 1,087,170	$ 462,830	$ 1,550,000
2026	1,079,975	545,025	1,625,000
2027	1,077,300	632,700	1,710,000
2028	1,071,974	723,026	1,795,000
2029	1,068,041	816,959	1,885,000
Total	$ 5,384,460	$ 3,180,540	$ 8,565,000

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Series 2005 Bonds

The bonds mature as follows:

Capital Appreciation Bonds:

Maturity	Accreted Obligation	Interest to Accrete	Final Accreted Value
2018	$ 765,000	$ -	$ 765,000
2019	766,199	38,801	805,000
2020	769,930	80,070	850,000
2021	775,980	124,020	900,000
2022	791,695	163,305	955,000
2021-2027	4,007,577	1,637,423	5,645,000
2028-2030	5,191,827	4,143,173	9,335,000
Total	$ 13,068,208	$ 6,186,792	$ 19,255,000

Series 2013 Bonds

The bonds mature as follows:

Current Interest Bonds:

Maturity	Principal	Interest to Maturity	Total
2018	$ 810,000	$ 156,488	$ 966,488
2019	880,000	137,476	1,017,476
2020	960,000	116,776	1,076,776
2021	1,040,000	94,276	1,134,276
2022	1,130,000	69,863	1,199,863
2023-2024	2,540,000	58,275	2,598,275
Total	$ 7,360,000	$ 633,154	$ 7,993,154

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Series 2014 Bonds

The bonds mature through 2038 as follows:

Capital Appreciation Bonds:

Maturity	Accreted Obligation	Interest to Accrete	Final Accreted Value
2018	$ -	$ -	$ -
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023-2027	-	-	-
2028-2032	85,371	79,629	165,000
2033-2037	1,073,547	1,381,453	2,455,000
2038	214,252	365,748	580,000
Total	$ 1,373,170	$ 1,826,830	$ 3,200,000

Series 2014 Bonds

The bonds mature through 2045 as follows:

Current Interest Bonds:

Maturity	Principal	Interest to Maturity	Total
2018	$ -	$ 311,131	$ 311,131
2019	-	311,131	311,131
2020	-	311,131	311,131
2021	-	311,131	311,131
2022	140,000	311,131	451,131
2023-2027	1,000,000	1,470,005	2,470,005
2028-2032	1,620,000	1,217,524	2,837,524
2033-2037	-	1,066,375	1,066,375
2038-2042	2,700,000	922,138	3,622,138
2043-2045	2,710,000	222,603	2,932,603
Total	$ 8,170,000	$ 6,454,300	$ 14,624,300

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Series 2015 Bonds

The bonds mature through 2038 as follows:

Capital Appreciation Bonds:

Maturity	Accreted Obligation	Interest to Accrete	Final Accreted Value
2018	$ -	$ -	$ -
2019	-	-	-
2020	-	-	-
2021	103,796	6,204	110,000
2022	59,527	5,473	65,000
2023-2027	580,983	149,017	730,000
2028-2032	903,365	501,635	1,405,000
2033-2037	289,674	375,326	665,000
2038-2040	314,399	505,601	820,000
Total	$ 2,251,744	$ 1,543,256	$ 3,795,000

Series 2015 Bonds

The bonds mature through 2046 as follows:

Current Interest Bonds:

Maturity	Principal	Interest to Maturity	Total
2018	$ 1,195,000	$ 663,469	$ 1,858,469
2019	-	651,519	651,519
2020	30,000	650,919	680,919
2021	-	650,319	650,319
2022	-	650,319	650,319
2023-2027	-	3,251,595	3,251,595
2028-2032	530,000	3,243,642	3,773,642
2033-2037	2,900,000	2,923,481	5,823,481
2038-2042	4,485,000	2,329,259	6,814,259
2043-2046	7,000,000	780,750	7,780,750
Total	$ 16,140,000	$ 15,795,272	$ 31,935,272

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2017

Series 2017 Bonds

The bonds mature through 2041 as follows:

Capital Appreciation Bonds:

Maturity	Accreted Obligation	Interest to Accrete	Final Accreted Value
2018	$ -	$ -	$ -
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023-2027	-	-	-
2028-2032	143,325	81,675	225,000
2033-2037	198,163	206,837	405,000
2038-2041	278,280	441,720	720,000
Total	$ 619,768	$ 730,232	$ 1,350,000

Series 2017 Bonds

The bonds mature through 2048 as follows:

Current Interest Bonds:

Maturity	Principal	Interest to Maturity	Total
2018	$ 360,000	$ 303,157	$ 663,157
2019	270,000	438,508	708,508
2020	-	416,881	416,881
2021	-	411,481	411,481
2022	-	411,481	411,481
2023-2027	120,000	2,051,356	2,171,356
2028-2032	220,000	2,012,080	2,232,080
2033-2037	235,000	1,980,554	2,215,554
2038-2042	505,000	1,918,013	2,423,013
2043-2047	5,550,000	1,586,400	7,136,400
2048	3,765,000	75,301	3,840,301
Total	$ 11,025,000	$ 11,605,212	$ 22,630,212

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED BUILDING FUND (MEASURES S AND M) JUNE 30, 2017

There were no adjustments to the Unaudited Actual Building Fund (Measures S and M), which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Long-Term Obligations

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Building Fund (Measures S and M) obligations.

Reconciliation of Annual Financial Report With Audited Building Fund (Measures S and M)

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (Measures S and M) reported on the Unaudited Actual Financial Report to the audited financial statements.

OTHER INDEPENDENT AUDITOR'S REPORT

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S 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*

Governing Board and
Citizens Oversight Committee
Merced City School 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 accompanying financial statements of the Merced City School District (the District) Building Fund (Measures S and M), as of and for the year ended June 30, 2017, and the related notes of the financial statements, and have issued our report thereon dated December 12, 2017.

As discussed in Note 1, the financial statements present only the Building Fund specific to Measures S and M, and are not intended to present fairly the financial position and changes in financial position of Merced City School District in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Merced City School District'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 Merced City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced City School District'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 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, significant deficiencies or material weaknesses. 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.

6051 N. Fresno St., Suite 101, Fresno, CA 93710 P 559.248.0871 F 559.248.0875 W vtdcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Merced City School District's Building Fund (Measures S and M) 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.

Fresno, California
December 12, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017

None reported.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

There were no audit findings reported in the prior year's schedule of financial statement findings.

MERCED CITY SCHOOL DISTRICT

BUILDING FUND (MEASURES S AND M)
PERFORMANCE AUDIT

JUNE 30, 2017

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

PERFORMANCE AUDIT
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JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
Citizens Oversight Committee
Merced City School District
Merced, California

We were engaged to conduct a performance audit of the Merced City School District (the District) Building Fund (Measures S and M) for the year ended June 30, 2017.

We conducted this performance audit in accordance with 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 conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Building Fund (Measures S and M) funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co. LLP

Fresno, California
December 12, 2017

6051 N. Fresno St., Suite 101, Fresno, CA 93710 P 559.248.0871 F 559.248.0875 W vtdcpa.com

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

JUNE 30, 2017

AUTHORITY FOR ISSUANCE - MEASURE S

The Proposition 39 Bonds associated with Measure S 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 District received authorization at an election held on November 4, 2003, to issue bonds of the District in an aggregate principal amount not to exceed $26,500,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2003 Authorization). The Bonds issued to date represent the first and second (final) series of bonds to be issued under the 2003 Authorization.

PURPOSE OF ISSUANCE - MEASURE S

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. An excerpt from the ballot language is as follows:

"To improve health and safety conditions of neighborhood elementary schools including replacing worn-out bathrooms, electrical and emergency systems, renovate and construct libraries, classrooms, buildings, support facilities, multipurpose rooms where children can have lunch, P.E. or classes during bad weather, acquire land for and build new schools, but not for salaries or operating expenses; with citizens' oversight, shall the Merced City Elementary School District issue and sell up to $26,500,000 of bonds not to exceed the maximum legal interest rate".

AUTHORITY FOR ISSUANCE - MEASURE M

The Proposition 39 Bonds associated with Measure M 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 District received authorization at an election held on June 3, 2014, to issue bonds of the District in an aggregate principal amount not to exceed $60,000,000 to finance critical core facility improvements approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2014 Authorization). The Bonds issued to date represent the first through third series of bonds to be issued under the 2014 Authorization.

PURPOSE OF ISSUANCE - MEASURE M

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. An excerpt from the ballot language is as follows:

"To improve local elementary and middle school by upgrading classrooms to address overcrowding; meeting modern academic/technology/safety standards; repairing electrical systems, leaky roofs, plumbing and deteriorating restrooms; improving fire safety/school security; removing asbestos/lead paint; repairing, constructing and acquiring educational facilities, sites and equipment; shall the Merced City Elementary School District issue $60,000,000 of bonds, at legal interest rates, with independent citizens' oversight, annual audits, and no money for administrators' salaries/pension".

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or 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 approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *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 XIIIA, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

2. The school district must list the specific school 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 school district to appoint a citizens' oversight committee.

4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government 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 school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

JUNE 30, 2017

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measures S and M.

2. Determine whether salary transactions, if any, charged to the Building Fund were in support of Measures S and M and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2016 to June 30, 2017. 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 other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2017 were not reviewed or included within 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, 2017, for the Building Fund (Measures S and M). 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 XIIIA, Section 1(b)(3)(C) of the California Constitution and Measures S and M as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2016 and ending June 30, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.

2. Our sample included transactions totaling $10,351,965. This represents 63.3 percent of the total expenditures of $16,366,724.

3. We verified that funds from the Building Fund (Measures S and M) were expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Merced City School District has properly accounted for the expenditures held in the Building Fund (Measures S and M) and that such expenditures were made for costs authorized by the voters of the District.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

None reported.

MERCED CITY SCHOOL DISTRICT
BUILDING FUND (MEASURES S AND M)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

There were no audit findings reported in the prior year's schedule of financial statement findings.