

MERCED CITY SCHOOL DISTRICT

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

JUNE 30, 2015

MERCED CITY SCHOOL DISTRICT

**BUILDING FUND (MEASURES S AND M)
FINANCIAL AUDIT**

JUNE 30, 2015

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

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FINANCIAL SECTION



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, 2015, 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 statement 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.

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, 2015, 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.

Other Matters

Our audit was conducted for the purpose of forming opinions on the Merced City School District's Building Fund (Measures S and M) financial statements. The Schedule of Long-Term Obligations and Reconciliation of Annual Financial Report with Audited Building Fund are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Long-Term Obligation and Reconciliation of Annual Financial Report with Audited Building Fund are the responsibility of management and were 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 supplementary information is fairly stated, in all material respects, in relation to the Building Fund (Measures S and M) 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 1, 2015, 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. Accordingly, this communication is not suitable for any other purpose.

Vannink, Trine, Day & Co., LLP

Fresno, California
December 1, 2015

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

**BALANCE SHEET
JUNE 30, 2015**

ASSETS

Deposits and investments	\$ 11,954,880
Due from other funds	<u>37,788</u>
Total Assets	<u><u>\$ 11,992,668</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ <u>1,023,039</u>
Total Liabilities	<u>1,023,039</u>

FUND BALANCES

Restricted	<u>10,969,629</u>
Total Fund Balances	<u>10,969,629</u>
Total Liabilities and Fund Balances	<u><u>\$ 11,992,668</u></u>

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, 2015**

REVENUES

Local Sources

Interest income \$ 80,951

Total Revenues 80,951

EXPENDITURES

Current

Services and other operating expenditures 42,151

Capital outlay 7,062,165

Debt service

Interest 258,568

Total Expenditures 7,362,884

DEFICIENCY OF REVENUES OVER EXPENDITURES

(7,281,933)

Other Financing Sources:

Other sources - proceeds from bond issuance 11,623,449

Net Financing Sources 11,623,449

NET CHANGE IN FUND BALANCES

4,341,516

FUND BALANCE - BEGINNING

6,628,113

FUND BALANCE - ENDING

\$ 10,969,629

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

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

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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.

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

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2015, 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 investment of \$11,954,880 with the Merced County Investment Pool. The fair value of this investment is approximately \$11,958,936 with an average maturity of 522 days.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2015, are as follows:

The General Fund owes the Building Fund for Exante. \$ 37,788

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Vendor payables \$ 1,023,039

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2015, 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
Muir relocatable	\$ 472,829	8/25/15
Wright modernization	60,837	8/25/15
Chenoweth modernization	116,400	4/30/16
Franklin modernization	48,465	8/30/16
Rivera new construction project	2,156,121	10/27/15
Rivera modernization - Admin and Library	396,319	12/15/15
Total	<u><u>\$ 3,661,455</u></u>	

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, 2015

All 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. 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.

The Series 2004 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 2004 Bonds. Interest accrues from August 1, 2004, and is payable semiannually on February 1 and August 1 of each year commencing February 1, 2005.

2003 General Obligation Bonds, Series 2005

On May 20, 2005, the Merced City School District Merced City Elementary School District issued \$11,500,303 in General Obligation Bonds, Series 2005. 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 Series 2005 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 2005 Bonds. Interest accrues from June 1, 2005, and is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006.

2013 General Obligation Bonds, Refunding

On June 5, 2013, the Merced City School District refunded the outstanding Merced City School District General Obligation Bonds, Election of 2003, Series 2004, in the amount of \$9,560,000 maturing on August 1 in the years 2014 through 2023.

All 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 August 12, 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.

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

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2015**

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, 2014	Interest Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2015
Capital Appreciation Bonds:							
3/1/04	8/1/28	5.13-5.23%	\$ 2,709,268	\$ 4,617,990	\$ 242,789	\$ -	\$ 4,860,779
Capital Appreciation Bonds:							
5/1/05	6/1/30	4.0-5.07%	8,415,303	13,140,963	676,351	645,000	13,172,314
Current Interest Bonds:							
6/5/13	8/1/23	3.25-5.0%	9,560,000	9,390,000	-	615,000	8,775,000
Capital Appreciation Bonds:							
10/2/14	8/1/37	4.76-5.04%	1,198,568	-	1,245,497	-	1,245,497
Current Interest Bonds:							
10/2/14	8/1/44	3.00-3.25%	10,260,000	-	10,260,000	-	10,260,000
Total			<u>\$ 32,143,139</u>	<u>\$27,148,953</u>	<u>\$12,424,637</u>	<u>\$ 1,260,000</u>	<u>\$ 38,313,590</u>

Series 2004 Bonds

The bonds mature as follows:

Capital Appreciation Bonds:

Maturity	Final Accreted Value	Accreted Liability	Interest to Accrete
2025	\$ 1,550,000	\$ 982,390	\$ 567,610
2026	1,625,000	975,325	649,675
2027	1,710,000	972,306	737,694
2028	1,795,000	967,146	827,854
2029	1,885,000	963,612	921,388
Total	<u>\$ 8,565,000</u>	<u>\$ 4,860,779</u>	<u>\$ 3,704,221</u>

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

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2015**

Series 2005 Bonds

The bonds mature as follows:

Capital Appreciation Bonds:

<u>Maturity</u>	<u>Final Accreted Value</u>	<u>Accreted Liability</u>	<u>Interest to Accrete</u>
2016	\$ 680,000	\$ 680,000	\$ -
2017	720,000	685,296	34,704
2018	765,000	693,090	71,910
2019	805,000	694,071	110,929
2020	850,000	697,680	152,320
2021-2025	5,055,000	3,601,594	1,453,406
2026-2030	11,780,000	6,120,583	5,659,417
Total	<u>\$ 20,655,000</u>	<u>\$ 13,172,314</u>	<u>\$ 7,482,686</u>

Series 2013 Bonds

The bonds mature as follows:

Current Interest Bonds:

<u>Maturity</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 675,000	\$ 189,844	\$ 864,844
2017	740,000	173,925	913,925
2018	810,000	156,488	966,488
2019	880,000	137,476	1,017,476
2020	960,000	116,776	1,076,776
2021-2024	4,710,000	224,414	4,934,414
Total	<u>\$ 8,775,000</u>	<u>\$ 998,923</u>	<u>\$ 9,773,923</u>

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

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2015**

Series 2014 Bonds

The bonds mature through 2038 as follows:

Capital Appreciation Bonds:

<u>Maturity</u>	<u>Final Accreted Value</u>	<u>Accreted Liability</u>	<u>Interest to Accrete</u>
2032	\$ 165,000	\$ 77,748	\$ 87,252
2033	440,000	195,800	244,200
2034	460,000	194,120	265,880
2035	485,000	193,321	291,679
2036	520,000	195,520	324,480
2037	550,000	194,920	355,080
2038	580,000	194,068	385,932
Total	<u>\$ 3,200,000</u>	<u>\$ 1,245,497</u>	<u>\$ 1,954,503</u>

Series 2014 Bonds

The bonds mature through 2045 as follows:

Current Interest Bonds:

<u>Maturity</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 1,125,000	\$ 295,950	\$ 1,420,950
2017	965,000	340,081	1,305,081
2018	-	311,131	311,131
2019	-	311,131	311,131
2020	-	311,131	311,131
2021-2025	660,000	1,528,655	2,188,655
2026-2030	1,465,000	1,326,305	2,791,305
2031-2035	635,000	1,094,656	1,729,656
2036-2040	1,250,000	1,043,688	2,293,688
2041-2045	4,160,000	527,603	4,687,603
Total	<u>\$ 10,260,000</u>	<u>\$ 7,090,331</u>	<u>\$ 17,350,331</u>

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

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
GENERAL OBLIGATION BOND FUND
JUNE 30, 2015**

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, 2015.

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

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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 Financial Statements

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.

INDEPENDENT AUDITOR'S REPORT



**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, 2015, and the related notes of the financial statements, and have issued our report thereon dated December 1, 2015.

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 as a basis for designing our auditing procedures 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 over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

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.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 1, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2015**

None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

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, 2015

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

**PERFORMANCE AUDIT
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JUNE 30, 2015**

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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, 2015.

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 XIII A, 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 XIII A, 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 XIII A, Section 1(b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co., LLP

Fresno, California
December 1, 2015

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

JUNE 30, 2015

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 represent the first and second series of the authorized 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 represent the first series of the authorized bonds to be issued under the 2014 Authorization.

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

JUNE 30, 2015

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 XIII A, 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, 2015

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, 2014 to June 30, 2015. 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, 2015 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, 2015, 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 XIII A, 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, 2014 and ending June 30, 2015, 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 \$4,784,329. This represents 65 percent of the total expenditures of \$7,362,884.
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, 2015**

None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

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