

**MENDOCINO-LAKE
COMMUNITY COLLEGE DISTRICT**

Ukiah, California

**PROPOSITION 39 AND MEASURE W
GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT**

June 30, 2011

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June 30, 2011

*Mendocino-Lake
Community College District
Proposition 39 and Measure W
General Obligation Bonds*

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INDEPENDENT AUDITORS' REPORT

Board of Trustees and Measure W Citizens' Bond Oversight Committee
Mendocino-Lake Community College District
Ukiah, California

We have audited the Mendocino-Lake Community College District (the District) compliance with the performance requirements for the Proposition 39 and Measure W General Obligation Bonds for the fiscal year ended June 30, 2011. Our audit was limited to the objectives listed on page 3 of this report. Management is responsible for the District compliance with those requirements. Our responsibility is to express an opinion on the District compliance based on our audit.

We conducted our performance audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives. Our performance audit does not provide a legal determination on the District compliance with specific requirements.

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

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

Matson and Isom

November 28, 2011

PERFORMANCE AUDIT

June 30, 2011

*Mendocino-Lake
Community College District
Proposition 39 and Measure W
General Obligation Bonds*

AUTHORITY FOR ISSUE

The Measure W General Obligation Bonds (the Bonds) were issued pursuant to the Constitution and Laws of the state of California (the State), including the provisions of Chapters 1 and 1.5, of Part 10, of the *California Education Code*, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Trustees of the District (the Resolution) on February 7, 2007.

The District received authorization at an election held on November 7, 2006, to issue bonds of the District in an aggregate principal amount not to exceed \$67,500,000, to finance specific construction and renovation projects approved by eligible voters within the District. The proposition received approval by at least 55% of the votes cast by eligible voters within the District (the 2006 Authorization). The Bonds represent the first series of the authorized bonds to be issued under the 2006 Authorization.

PURPOSE OF ISSUE

The net proceeds of the bonds, and any other series of general obligation bonds issued under the Authorization, will be used for the purposes specified in the District bond proposition submitted at the election, which includes repair leaky roofs, worn wiring, and plumbing; renovate aging, deteriorating classrooms and libraries; and repair, acquire, construct, and equip college buildings, and computer labs.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act, Proposition 39. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community colleges, and county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities," upon the approval of 55% of the electorate. In addition to reducing the approval threshold from two thirds to 55%, Proposition 39 and enacting legislation (AB 1908 and AB 2659), requires the following accountability measures as codified in *California Education Code*, Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section I (b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenditures.
2. Requires that the District list the specific facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction, and information technology needs in developing the project list.
3. Requires the District to appoint a citizen's oversight committee.
4. Requires the District to conduct an annual independent financial audit, and performance audit in accordance with the *Governmental Auditing Standards*, issued by the Comptroller General of the United States, of the bond proceeds until all of the proceeds have been expended.
5. Requires the District to conduct an annual independent performance audit to ensure that the funds have been expended only on the specified projects listed.

OBJECTIVES

The objectives of our performance audit are:

1. Determine whether proceeds from the sale of the Bonds have been used only for bond projects approved by the voters through the approval of Measure W.
2. Determine whether proceeds from the sale of the Bonds that have been used for salary transactions, were in support of Measure W, and not for District's general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance procedures covered the period of July 1, 2010, to June 30, 2011. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through State or other local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2011, were not reviewed or included in the scope of our audit or in this report.

PERFORMANCE AUDIT

June 30, 2011

*Mendocino-Lake
Community College District
Proposition 39 and Measure W
General Obligation Bonds*

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2011, for the Measure W General Obligation Bonds Fund. Within the fiscal year audited, we obtained the actual invoices, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure W as to the approved bond project list. We performed the following procedures:

1. Verify that the expenditure of funds were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net funds from the sale of the Bonds were deposited in total into the District accounts by obtaining settlement statement for the new bond issue and verifying amounts deposited into the Measure W General Obligation Bonds Fund.
3. Select a representative sample from the population of expenditures in the Measure W General Obligation Bonds Fund to verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election materials and the bond official statement.
4. Verify that District internal control procedures are operating according to District policies.

RESULTS OF PROCEDURES

1. The general obligation bond fund expenditures were accounted for separately in the Measure W General Obligation Bonds Fund of the District.
2. Not applicable - there were no bond sales during the current year.
3. We reviewed 100% of the salaries and related benefits and 73% of non-salaries expenditures of the Measure W General Obligation Bonds Fund. Our review of the expenditures for the period July 1, 2010, through June 30, 2011, did not reveal any items that were paid from the Bonds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on November 7, 2006.
4. Our review of the internal control procedures followed on selected invoices revealed no exceptions to the basic internal control policies of the District.

CONCLUSION

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures of proceeds from the sale of the Bonds and that such expenditures were made for bond projects authorized by the voters through Measure W. Further, it was noted that proceeds from the sale of the Bonds, that were expended by the District for salaries and benefits, were used for salaries of administrators only to the extent that they perform administrative oversight work on construction projects as allowable pursuant to Opinion 04-110 issued on November 9, 2004, by the state of California's Attorney General.

MANAGEMENT COMMENTS AND RECOMMENDATIONS

None.

**MENDOCINO-LAKE
COMMUNITY COLLEGE DISTRICT**

Ukiah, California

**SCHEDULE OF PROCEEDS AND
USE OF GENERAL OBLIGATION BONDS
(ELECTION OF 2006, SERIES A) WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2011

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Community College District
General Obligation Bonds*

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

We have audited the accompanying schedule of proceeds and use of general obligation bonds (Election of 2006, Series A) – cash basis (the Schedule) of the Mendocino-Lake Community College District (the District) for the year ended June 30, 2011. The Schedule is the responsibility of the District's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the Schedule. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the schedule of proceeds and use of general obligation bonds – cash basis referred to in the first paragraph presents fairly, in all material respects, the proceeds and use of the District's General Obligation Bonds (Election 2006, Series A) for the year ended June 30, 2011, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Matson and Isom

November 28, 2011

**SCHEDULE OF PROCEEDS AND USE OF
GENERAL OBLIGATION BONDS
(ELECTION OF 2006, SERIES A) – CASH BASIS**

*Mendocino-Lake
Community College District
General Obligation Bonds*

Beginning Balance - Unspent Bond Proceeds as of July 1, 2010	\$ 15,111,725
Interest received	27,234
Project expenditures:	
Flooring replacement	7,313
Other campus infrastructure	164,644
Renovation for instructional and student service expansion	25,086
Technology - upgrades in the classrooms	34,399
Athletic field improvements and renovation	713,057
Library - Learning Resource Center	7,579,069
Student Center cafeteria	282,890
Maintenance - warehouse	1,601,448
Modernize vocational program facilities and equipment	82,035
Enterprise resource planning and network upgrade	146,452
Lake County Center	582,203
Willits - Northern Mendocino County Center	1,397,887
Bond project management	289,128
Allied health - nursing facility	18,095
Point Arena Field Station	39,695
Energy projects	122,743
Total Project Expenditures	13,086,144
Ending Balance - Unspent Bond Proceeds as of June 30, 2011	\$ 2,052,815

NOTES TO THE SCHEDULE

June 30, 2011

*Mendocino-Lake
Community College District
General Obligation Bonds*

1. GENERAL INFORMATION

To finance the improvement and expansion of academic facilities, the upgrading of computers and technology, and the acquisition and improvement of real property for the Mendocino-Lake Community College District, the voters of Mendocino and Lake counties approved a \$67.5 million General Obligation Bond (Bonds) issue for the Mendocino-Lake Community College District (District) on November 7, 2006 under the provisions of Article XIII A of the Constitution of the State of California and Title I, Division 1, Part 10, Chapter 1 of the Education Code of the State of California (commencing at Section 15100). The Bonds were issued pursuant to provisions of the Constitution of the State of California affected by Proposition 39, the Constitutional initiative passed by voters on November 7, 2000, permitting approval of certain general obligation bonds of school and community college districts by a 55% vote. The total proceeds of \$30 million from the Bonds Series A issuance received by the District (net of \$1.57 million of premium in excess of bond issuance costs which was transferred to a debt service fund of the District for the reduction of future debt service related to this debt) are to be spent on construction, renovation, equipment and land acquisition for various approved projects.

The specific projects approved by the District Board of Trustees to be funded by the bond proceeds include:

- Disabled access improvements
- Flooring replacement
- HVAC upgrades and additions
- Other campus infrastructure
- Renovation for instructional and student service expansion
- Replace equipment - theater, recording studio, physical education
- Solar technology - energy generation
- Technology upgrades in classrooms
- Athletic field improvements and renovation
- Re-roof Agriculture Headhouse
- Re-roof Center for Visual and Performing Arts
- Re-roof Child Care Center
- Re-roof Physical Education building
- Re-roof Vocational - Technology building
- Library - Learning Resource Center
- Student Center Cafeteria (renovate current library building)
- Maintenance – warehouse
- Modernize vocational program facilities and equipment
- Enterprise resource planning and network upgrade
- Lake County Center
- Willits - Northern Mendocino County Center

NOTES TO THE SCHEDULE

June 30, 2011

**Mendocino-Lake
Community College District
General Obligation Bonds**

Bond project management
Re-roof Court Center buildings
Distance education technology
Allied Health - Nursing Facility
Media - Computer Graphics Lab
Point Arena Field Station
Energy Projects
Scheduled maintenance funds for new buildings
Parking lot expansion and upgrades

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The schedule of proceeds and use of general obligation bonds has been prepared on the cash basis of accounting, where the receipts of bond proceeds are reported when received and the disbursements of expenditures from bond funds are reported when paid.

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

Project Expenditures Expenditures are recognized when payments for approved projects are made.

3. BONDED DEBT

The general obligation bond, Series A, beginning March 29, 2007, matures on August 1, 2031, and bears interest ranging from 4.0% to 5.0%. The outstanding balance as of June 30, 2011, is as follows:

	Outstanding June 30, 2010	Issued Current Period	Redeemed Current Period	Outstanding June 30, 2011
Series A	\$ 28,350,000	\$ -	\$ 815,000	\$ 27,535,000

NOTES TO THE SCHEDULE

June 30, 2011

***Mendocino-Lake
Community College District
General Obligation Bonds***

The annual debt service requirements to amortize the Series A bonds payable, outstanding as of June 30, 2011, are as follows:

	Principal	Interest	Total
2012	\$ 145,000	\$ 1,355,250	\$ 1,500,250
2013	210,000	1,348,150	1,558,150
2014	280,000	1,338,350	1,618,350
2015	360,000	1,325,550	1,685,550
2016	440,000	1,309,550	1,749,550
2017-2021	3,880,000	6,104,125	9,984,125
2022-2026	7,130,000	4,744,250	11,874,250
2027-2031	11,955,000	2,392,375	14,347,375
2032	3,135,000	78,375	3,213,375
Total	\$ 27,535,000	\$ 19,995,975	\$ 47,530,975

NOTES TO THE SCHEDULE

June 30, 2011

*Mendocino-Lake
Community College District
General Obligation Bonds*

4. RECONCILIATION BETWEEN CASH AND ACCRUAL BASIS

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

	June 30, 2011 Cash Basis Expenditures	2010 Payables	2010 Receivables	2011 Payables	2011 Receivables	June 30, 2011 Accrual Basis Expenditures	Previous Years Accrual Basis Expenditures	Total Expenditures
Disabled access improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,643	\$ 117,643
Flooring replacement	7,313	(7,079)	-	-	-	234	217,904	218,138
HVAC upgrades and additions	-	-	-	-	-	-	318,542	318,542
Other campus infrastructure	164,644	-	-	-	-	164,644	322,819	487,463
Renovation for instructional and student service expansion	25,086	-	-	-	-	25,086	427,393	452,479
Replace equipment - theater, recording studio, P.E.	-	-	-	-	-	-	477,427	477,427
Solar technology - energy generation	-	-	-	-	-	-	1,427,198	1,427,198
Technology upgrades in classrooms	34,399	-	-	-	-	34,399	264,049	298,448
Re-roof Agriculture Headhouse	-	-	-	-	-	-	59,441	59,441
Re-roof Center for Visual and Performing Arts	-	-	-	-	-	-	333,010	333,010
Re-roof Child Care Center	-	-	-	-	-	-	45,624	45,624
Re-roof Physical Education building	-	-	-	-	-	-	454,327	454,327
Re-roof Voc/Tech building	-	-	-	-	-	-	199,607	199,607
Athletic field improvements and renovation	713,057	(29,587)	-	-	-	683,470	67,195	750,665
Library - Learning Resource Center	7,579,069	(518,864)	-	1,557,888	-	8,618,093	3,118,674	11,736,767
Student Center cafeteria (renovate current Library bldg.)	282,890	(47,918)	-	3,208	-	238,180	101,730	339,910
Maintenance - warehouse	1,601,448	(465,895)	-	7,700	-	1,143,253	3,446,123	4,589,376
Modernize vocational program facilities and equipment	82,035	-	-	117	-	82,152	73,180	155,332
Enterprise resource planning and network upgrade	146,452	(24,194)	-	16,368	-	138,626	4,120,117	4,258,743
Lake County Center	582,203	(16,680)	-	13,236	-	578,759	1,306,222	1,884,981
Willits - Northern Mendocino County Center	1,397,887	-	-	16,490	-	1,414,377	77,275	1,491,652
Bond project management	289,128	(2,958)	-	2,562	-	288,732	936,545	1,225,277
Re-roof Court Center buildings	-	-	-	-	-	-	75,036	75,036
Distance Education Technology	-	-	-	-	-	-	-	-
Allied Health - Nursing Facility	18,095	-	-	-	-	18,095	-	18,095
Media - Computer Graphics Lab	-	-	-	-	-	-	93,977	93,977
Point Arena Field Station	39,695	-	-	-	-	39,695	42,412	82,107
Energy projects	122,743	(1,641)	-	-	-	121,102	240,897	361,999
Scheduled Maintenance Funds for new buildings	-	-	-	-	-	-	-	-
Parking lot expansion and upgrades	-	-	-	-	-	-	-	-
Program Total	\$ 13,086,144	\$ (1,114,816)	\$ -	\$ 1,617,569	\$ -	\$ 13,588,897	\$ 18,364,367	\$ 31,953,264

NOTES TO THE SCHEDULE

June 30, 2011

*Mendocino-Lake
Community College District
General Obligation Bonds*

5. COMMITMENTS AND CONTINGENCIES**Construction Contacts**

The District has outstanding construction commitments related to these bond funds of \$10,387,081 at June 30, 2011.

OTHER REPORT



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

We have audited the schedule of proceeds and use of general obligation bonds (Election of 2006, Series A) – cash basis (the Schedule) of the Mendocino-Lake Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 28, 2011