



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

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Board of Trustees
Monterey Peninsula Community College District
Monterey, California

We have audited the financial statements of the Measure I General Obligation Bond Funds (Measure I) of Monterey Peninsula Community College District (the District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 18, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2016-2017 fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the Measure I General Obligation Bond Funds' financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2017.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the information and use of the Board of Trustees and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Vannest Tume Day & Co. LLP

Rancho Cucamonga, California
December 22, 2017

**MONTEREY PENINSULA
COMMUNITY COLLEGE DISTRICT**

**MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

FINANCIAL AND PERFORMANCE AUDITS

JUNE 30, 2017

**MONTEREY PENINSULA
COMMUNITY COLLEGE DISTRICT**

**MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002
FINANCIAL AUDIT**

JUNE 30, 2017

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**FINANCIAL AUDIT
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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees, Management, and
Citizens' Oversight Committee
Monterey Peninsula Community College District
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Peninsula Community College District's (the District), Measure I General Obligation Bond Funds (Measure I), 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 fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 respective financial position of the Measure I General Obligation Bond Funds (Measure I) of the 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 Measure I General Obligation Bond Funds specific to Measure I, and are not intended to present fairly the financial position and changes in financial position of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the District's Measure I General Obligation Bond Funds (Measure I) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the District's General Obligation Bond Funds (Measure I) 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 Measure I General Obligation Bond Funds (Measure I) internal control over financial reporting and compliance.



Rancho Cucamonga, California
December 22, 2017

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**BALANCE SHEET
JUNE 30, 2017**

ASSETS

Investments	\$ 9,625,868
Accounts receivable	<u>30,358</u>
Total Assets	<u>\$ 9,656,226</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	<u>\$ 113,645</u>
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FUND BALANCE

Restricted for capital projects	<u>9,542,581</u>
Total Liabilities and Fund Balance	<u>\$ 9,656,226</u>

See the accompanying notes to financial statements.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

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

REVENUES

Interest revenues	\$ 96,741
Other local revenues	30,358
Total Revenues	<u>127,099</u>

EXPENDITURES

Services and operating expenditures	447,808
Capital outlay	62,653
Total Expenditures	<u>510,461</u>

EXCESS OF EXPENDITURES OVER REVENUES	(383,362)
FUND BALANCE, BEGINNING OF YEAR	<u>9,925,943</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,542,581</u>

See the accompanying notes to financial statements.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting policies of the Measure I General Obligation Bond Funds (Measure I) 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 District's Measure I General Obligation Bond Funds (Measure I) accounts for the financial transactions in accordance with the policies and procedures of the California Community Colleges Budget and Accounting Manual.

Financial Reporting Entity

The audited financial statements include only the Measure I General Obligation Bond Funds (Measure I) of Monterey Peninsula Community College District. This Fund was established to account for the receipt of proceeds of general obligation bond issuances and the expenditures of the proceeds under the General Obligation Bonds Election of November 2008. These financial statements are not intended to present fairly the financial position and changes in financial position of the District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Measure I General Obligation Bond Funds (Measure I) 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 funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Measure I General Obligation Bond Funds (Measure I) 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. These fund financial statements do not include the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as the District was not required to adopt GASB Statement No. 54 under the reporting requirements of GASB Statement No. 35.

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.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Balance

As of June 30, 2017, the fund balance of Measure I General Obligation Bonds was 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 March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. 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 instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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 statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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. 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 to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Monterey County Investment Pool. The District maintains a Measure I General Obligation Bond Funds (Measure I) investment of \$9,625,868 with the Monterey County Investment Pool, with an average maturity of 398 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Monterey County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2017.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Monterey County Investment 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.

The District's fair value measurements are as follows at June 30, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Monterey County Investment Pool	<u>\$ 9,611,536</u>	<u>\$ 9,611,536</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable at June 30, 2017, consists of the following:

Interest	<u>\$ 30,358</u>
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All amounts have been determined by management to be fully collectible.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - ACCOUNTS PAYABLE

The accounts payable at June 30, 2017, consists of the following:

Vendor payables	<u>\$ 113,645</u>
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NOTE 6 - FUND BALANCE

Fund balance is composed of the following element:

Restricted	
Capital projects	<u>\$ 9,542,581</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Measure I General Obligation Bond Funds (Measure I) at June 30, 2017.

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***

Board of Trustees, Management, and
Citizens' Oversight Committee
Monterey Peninsula Community College District
Monterey, 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 Monterey Peninsula Community College District (the District), Measure I General Obligation Bond Funds (Measure I), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2017.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I General Obligation Bond Funds specific to Measure I, and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's Measure I General Obligation Bond Funds (Measure I) 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 District's Measure I General Obligation Bond Funds (Measure I) internal control. Accordingly, we do not express an opinion on the effectiveness of the District's Measure I General Obligation Bond Funds (Measure I) 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 District's Measure I General Obligation Bond Funds (Measure I) financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

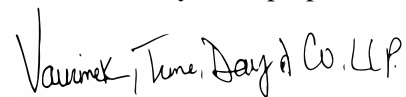
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Measure I General Obligation Bond Funds (Measure I) internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Measure I General Obligation Bond Funds (Measure I) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California
December 22, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There were no audit findings reported in the prior year's Financial Statement Findings.

**MONTEREY PENINSULA
COMMUNITY COLLEGE DISTRICT**

**MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002
PERFORMANCE AUDIT**

JUNE 30, 2017

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
ELECTION 2002**

**PERFORMANCE AUDIT
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JUNE 30, 2017**

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

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees, Management, and
Citizens' Oversight Committee
Monterey Peninsula Community College District
Monterey, California

We were engaged to conduct a performance audit of Monterey Peninsula Community College District's (the District) General Obligation Bond Funds (Measure I) 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 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. 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's General Obligation Bond Funds (Measure I) funds are in compliance with Proposition 39 as outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 22, 2017

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BOND
ELECTION 2002**

**PERFORMANCE AUDIT
JUNE 30, 2017**

AUTHORITY FOR ISSUANCE

The Measure I General Obligation Bond Funds 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 pursuant to a request of the District made by a resolution adopted by the Board of Trustees of the District.

The District received authorization from an election held on November 5, 2002, to issue bonds of the District in an aggregate principal amount not to exceed \$145,000,000 to finance the construction and modernization of certain District property and facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The proposition required approval by at least 55 percent of votes cast by eligible voters within the District (the Authorization).

In December 2005, the District issued the 2005 General Obligation Refunding Bonds in the amount of \$33,304,385. The Bonds were used to advance refund a portion of the outstanding Bonds from the first series of the authorized Bonds, Series A. The second and third series of authorized Bonds issued was in January 2008; the District issued Series B in the amount of \$9,004,530 and Series C in the amount of \$95,994,770, respectively.

In April 2013, the District issued the \$33,820,000 2013 General Obligation Refunding Bonds, Series A and B. The bonds have a final maturity to occur on August 1, 2021, with interest rates from .335 to 4.00 percent. The net proceeds of \$36,975,456 (representing the principal amount of \$33,820,000 plus premium on issuance of \$3,155,456) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series C and to pay the cost of issuance associated with the refunding bonds. In addition, the net proceeds were used to advance refund a portion of the District's outstanding 2005 General Obligation Refunding Bonds and to pay the cost of the issuance associated with the refunding bonds.

In May 2016, the District issued the \$105,348,522 2016 General Obligation Refunding Bonds. The Bonds have a final maturity to occur on August 1, 2033, with interest rates from 1.65 to 4.00 percent. The net proceeds of \$106,531,137 (representing the principal amount of \$105,348,522 plus premium on issuance of \$1,182,615) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series C and to pay the cost of issuance associated with the refunding bonds.

PURPOSE OF ISSUANCE

The net proceeds of the Bonds issued under the 2002 Authorization will be used for the purposes specified in the District bond proposition submitted at the Election, which include the financing of the construction, and modernization of certain District property and facilities, the acquisition of equipment and to pay the costs of issuance associated with the Bonds.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BOND
ELECTION 2002**

**PERFORMANCE AUDIT
JUNE 30, 2017**

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 community college 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 community college district to appoint a citizens' oversight committee.
4. Requires the community college 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 community college district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Measure I General Obligation Bond Funds have been made in accordance with the Bond project list approved by the voters through the approval of Measure I.
2. Determine whether salary transactions charged to the Measure I General Obligation Bond Funds were in support of Measure I 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.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BOND
ELECTION 2002**

**PERFORMANCE AUDIT
JUNE 30, 2017**

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 Measure I General Obligation Bond Funds (Measure I). 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 the Measure I as to the approved Bond projects list. We performed the following procedures:

1. Determine District procedures for disbursement of funds related to the voter approved Measure I General Obligation Bonds were applied in accordance with laws and regulations, as well as policies approved by the Board of trustees. This will be accomplished through the inspection of specified documents evidencing certain types of transactions and detailed attributes thereof; including, but not limited to, the specific documents related to bid procedures for contracts and services, invoices for services rendered, and other appropriate documents deemed necessary to provide a basis for the results of our objective.
2. Review the detailed accounting of expenditures to determine if proceeds are being spent on administrative salaries or any other expense that would otherwise be the obligation of the General Fund.
3. From a sample of construction expenditures from the detailed accounting of expenditures, review expenditures to determine if proceeds expended are for specific projects as listed in the voter approved bond language. Expenditures from all projects will be included in the sample.

CONCLUSION

We reviewed construction expenditures totaling 55 percent of all expenditures from the detailed accounting of expenditures. Our sample included transactions totaling \$280,904 of the total expenditures of \$510,461. The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Measure I General Obligation Bond Funds (Measure I) and that such expenditures were made for authorized Bond projects. There were no salaries of administrators charged to the Measure I General Obligation Bond Funds (Measure I) for District general administration or operations. District procedures for disbursement of funds were applied in accordance with laws and regulations, as well as policies approved by the Board of Trustees.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BOND
ELECTION 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

None reported.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT
MEASURE I GENERAL OBLIGATION BOND
ELECTION 2002**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.