



MATSON
& ISOM

REDWOODS COMMUNITY
COLLEGE DISTRICT

Eureka, California

PROPOSITION 39 AND MEASURE Q
GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT

June 30, 2014

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College District
Proposition 39 and Measure Q
General Obligation Bonds*

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INDEPENDENT AUDITORS' REPORT

Board of Trustees and Measure Q Citizens' Bond Oversight Committee
Redwoods Community College District
Eureka, California

Report on Compliance

We have audited the Redwoods Community College District (the District) compliance with the performance requirements for the Proposition 39 and Measure Q General Obligation Bonds (the Bonds) for the fiscal year ended June 30, 2014.

Management's Responsibility

Management is responsible for the District's compliance with those requirements.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted this 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 reasonable assurance about whether noncompliance with the performance requirements for Proposition 39 and the Bonds that could have a material effect on compliance occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our performance audit does not provide a legal determination on the District's compliance with the specific requirements.

Opinion

In our opinion, the District complied, in all material respects, with the performance requirements for the year ended June 30, 2014.

December 30, 2014
Redding, California

AUTHORITY FOR ISSUE

The Measure Q 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 November 2, 2004.

The District received authorization at an election held on November 2, 2004, to issue bonds of the District in an aggregate principal amount not to exceed \$40,300,000, 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 2004 Authorization). The Bonds represent the first, second, and third series of the authorized bonds to be issued under the 2004 Authorization.

PURPOSE OF ISSUE

The net proceeds of the Bonds, and any other series of general obligation bonds issued under the 2004 Authorization, will be used for the purposes specified in the District bond proposition submitted at the election, which includes:

- I. Expand and renovate the Health Occupation Career Training Center by expanding classrooms, labs, and other facilities needed for the training of dental hygienists.
- II. Renovate and add science and technology labs used for career training, including police and fire science, and for students whose goal it is to transfer to a four-year university.
- III. Expand and renovate career training facilities in the construction trades industry.
- IV. Build, relocate, and renovate career training facilities in the fine woodworking industry.
- V. Expand and renovate career training facilities in the automotive industry.
- VI. Develop modern career training facilities in tourism and hospitality industries.
- VII. Upgrade and renovate computer labs used for career training.
- VIII. Add classrooms to allow for more students to take the classes they need to transfer to a four-year university.
- IX. Make seismic, safety, and American with Disabilities Act upgrades and improvements.
- X. Renovate and repair college buildings.
- XI. Add hi-tech infrastructure to increase the number of distance learning students.

PERFORMANCE AUDIT

June 30, 2014

*Redwoods Community
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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 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 citizens’ oversight committee.
4. Requires the District to conduct an annual independent financial audit and performance audit in accordance with *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 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 Q.
2. Determine whether proceeds from the sale of the Bonds that have been used for salary transactions, were in support of Measure Q, 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, 2013, to June 30, 2014. 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, 2014, were not reviewed or included in the scope of our audit or in this report.

PERFORMANCE AUDIT

June 30, 2014

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PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2014, for the Measure Q 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 Q 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 a settlement statement for the new bond issue and verifying amounts deposited into the Measure Q General Obligation Bonds Fund.
3. Select a representative sample from the population of expenditures in the Measure Q 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 Q General Obligation Bonds Fund of the District.
2. Through our review of the settlement statement for the Series 2013 Bonds we noted that the net funds from the sale of the bonds were deposited in total into the District's accounts and we verified the corresponding amount was deposited into the Measure Q General Obligation Bonds Fund
3. We reviewed 72% of Measure Q General Obligation Bond dollars expended. Our review of the expenditures for the period July 1, 2013, through June 30, 2014, 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 2, 2004.
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 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 Q, in all significant respects. 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.

PERFORMANCE AUDIT

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MANAGEMENT COMMENTS AND RECOMMENDATIONS

None.