HARTNELL COMMUNITY COLLEGE DISTRICT
Salinas, California

MEASURE H GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT
June 30, 2013
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INDEPENDENT AUDITOR’S REPORT

Board of Trustees and Citizens’ Bond Oversight
Bond Oversight Committee for Measure H
Hartnell Community College District
Salinas, California

We have conducted a performance audit of the Hartnell Community College District (the "District") Measure H General Obligation Bond funds for the year ended June 30, 2013.

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

Our audit was limited to the objectives listed on page 4 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure H General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Hartnell Community College District’s compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Hartnell Community College District to determine if internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution. Accordingly, we do not express any assurance on the internal controls.

The results of our tests indicated that, in all significant respects, Hartnell Community College District expended Measure H General Obligation Bond funds for the year ended June 30, 2013 only for the specific projects developed by the District's Board of Trustees and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

Crowe Horwath LLP
Sacramento, California
November 8, 2013
LEGISLATIVE HISTORY

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, “for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”, upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establishes and appoints members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

HARTNELL COMMUNITY COLLEGE DISTRICT MEASURE H GENERAL OBLIGATION BONDS

The Hartnell Community College District, Monterey County, California Election of 2002 General Obligation Bonds, Measure H were authorized at an election of the registered voters of the Hartnell Community College District held on November 5, 2002 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of $131,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the acquisition, construction and modernization of certain District property and facilities. The Bonds are general obligations of the District, payable solely from ad valorem property taxes. A summary of the text of the ballot language was as follows:

“To prepare students for skilled jobs, four-year colleges, train nurses and public safety officer, Hartnell Community College Repair and Safety Measure will upgrade, acquire, construct energy-efficient, technology-driven teaching classrooms, labs, sites, facilities/equipment for health/science, general education/ job-training, upgrade outdated electrical, plumbing, heating/ventilation systems, by issuing $131 million in bonds at legal rates, qualifying for matching funds, with citizen.”

The District's Board of Trustees developed the following Bond Project List for Measure H:

• Upgrade labs for science and medical training programs.
  • Provide classrooms for math, science, writing, and other core academic classes.
  • Update classrooms and facilities for improved job training and career technical education.
  • Update classrooms and educational facilities to meet current fire and safety codes and provide access for students with disabilities.
  • Upgrade facilities to improve energy efficiency and reduce operating expenses, allowing more funding for classroom instruction and student services.
  • Establish a technology endowment to maintain up-to-date computer learning necessary for a 21st Century education.
During April 2003, the District issued the 2002 General Obligation Bonds, Series A in the amount of $35,000,000. The bonds mature beginning on February 1, 2004 through August 1, 2013, with interest yields ranging from 2.00 to 5.00 percent.

During March 2005, the District issued 2005 General Obligation Refunding Bonds in the amount of $29,062,042. The bonds mature beginning August 1, 2005 through August 1, 2025, with interest yields ranging from 4.50 to 5.25 percent.

During June 2006, the District issued 2002 General Obligation Bonds, Series B in the amount of $34,995,518. The bonds mature beginning on June 1, 2007 through December 1, 2035, with interest yields ranging from 4.10 to 5.25 percent.

During June 2009, the District issued the 2002 General Obligation Bonds, Series C in the amount of $12,597,888. The bonds mature beginning on August 1, 2009 through August 1, 2028, with interest yields ranging from 6.13 to 11.50 percent.

During September 2009, the District issued the 2002 General Obligation Bonds, Series D in the amount of $48,405,079. The bonds mature beginning on August 1, 2023 through August 1, 2049, with interest yields ranging from 6.43 to 11.50 percent.
OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure H General Obligation Bond funds for the year ended June 30, 2013 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure H General Obligation Bond project expenditures for the year ended June 30, 2013 (the "List"). An approximate total of 300 transactions were identified, representing $8,709,535 in expenditures from July 1, 2012 through June 30, 2013.

METHODOLOGY

We performed the following procedures to the List of Measure H General Obligation Bond project expenditures for the year ended June 30, 2013:

- Interviewed District management related to controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Documented District procedures and controls over planning, bidding, contracting, expenditure of bond funds and financial reporting.
- Performed tests to determine that the District controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Verified the mathematical accuracy of the List.
- Selected a sample of 40 expenditures totaling $6,381,708. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented 13% of the number of expenditures and 73% of the total expenditure value. Verified that the expenditures were for the approved projects and were expended for the construction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities and that funds were not spent for District administrative or instructional salaries or other administrative expenses.

CONCLUSIONS

The results of our tests indicated that, in all significant respects, Hartnell Community College District expended Measure H General Obligation Bond funds for the year ended June 30, 2013 only for the specific projects developed by the District's Board of Trustee and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.