

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)**

LEASE REVENUE BONDS (2007)

BOND ANTICIPATION NOTES (2009)

June 30, 2011



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1946 – 2011

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

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June 30, 2011

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Background Information	2-3
Objectives	4
Scope of the Audit.....	4
Procedures Performed	5-6
Results of Procedures	7-13
Conclusion	14



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
The Citizens' Oversight Committee
Mt. San Antonio Community College District
1100 North Grand Avenue
Walnut, CA 91789

We have conducted a performance audit of the Mt. San Antonio Community College District (the "District"), Measure R General Obligation Bond funds for the year ended June 30, 2011. In addition, in anticipation of the District's plan to issue Measure RR General Obligation Bond funds, we have conducted a performance audit of the District's use of proceeds from lease revenue bonds (2007) for the four fiscal years ended June 30, 2008 through June 30, 2011 and for the bond anticipation notes (2009) for the two fiscal years ended June 30, 2010 through June 30, 2011.

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.

Our audit was limited to the objectives listed on page 4 of this report which includes determining the Mt. San Antonio Community College District's compliance with the performance requirements for the Proposition 39 Measure R/RR 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 the Mt. San Antonio Community College District's compliance with those requirements.

Solely to assist us in planning and performing our performance audits, we obtained an understanding of the internal controls of Mt. San Antonio 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 control.

The results of our tests indicated that, in all significant respects, the Mt. San Antonio Community College District expended Measure R General Obligation Bond funds for the year ended June 30, 2011, 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. In addition, the Mt. San Antonio Community College District expended proceeds from the lease revenue bonds and bond anticipation notes, only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees under Measure RR, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

December 12, 2011

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT
PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

BACKGROUND INFORMATION

Measure R

In November 2000, the voters of the State of California approved Proposition 39 authorizing the issuance of general obligation bonds by California public school districts and community colleges under certain circumstances and subject to certain conditions. In November 2001, a general obligation bond proposition (Measure R) of the Mt. San Antonio Community College District was approved by the voters of the District. Measure R authorized the District to issue up to \$221 million of general obligation bonds to finance various capital projects and related costs, as specified in the bond measure provisions.

Accordingly, the following bonds were issued:

- In May 2002, the first series of bonds, Series A, in the amount of \$40 million was issued.
- In February 2004, the second series of bonds, Series B, in the amount of \$75 million was issued.
- In September 2005, \$75.7 million in general obligation refunding bonds were issued to refund certain outstanding Series A and Series B bonds. In addition, the refunding bonds generated \$8.6 million in proceeds received by the District (net of the original bond issuance costs).
- In September 2006, the third series of bonds, Series C, in the amount of \$80 million was issued.
- In July 2008, the fourth and final series of bonds, Series D, in the amount of \$26 million was issued.

Total proceeds from the bonds were received by the District (less the original bond issuance costs) and are to be used to finance the construction, acquisition, furnishing and equipping of District facilities.

Pursuant to the requirements of Proposition 39 and related State legislation, the Board of Trustees of the District appropriately established a Citizens' Oversight Committee in December 2001. The principal purpose of the Citizens' Oversight Committee, as set out in State law, is to inform the public as to the expenditures made using the proceeds of the bonds issued pursuant to the Measure R bond authorization. The Citizens' Oversight Committee is required to issue at least one report annually as to its activities and findings.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009**

June 30, 2011

BACKGROUND INFORMATION (continued)

Section 1(b)(3)(C), Article XIII A of the California Constitution, requires the District to conduct an annual independent performance audit to ensure that bond construction funds have been expended only for the authorized bond projects under the measure R Bond Program.

Measure RR

In November 2008, voters of the District approved an additional general obligation bond proposition (Measure RR) of the Mt. San Antonio Community College District. Measure RR authorized the District to issue up to \$353 million of general obligation bonds to finance various capital projects and related costs, as specified in the bond measure provisions. As of June 30, 2011 no bonds have been sold under Measure RR as the assessed property values in the District were not sufficient for approval of a bond issuance. In order to continue with planned construction projects, the District sought temporary financing sources until such time that the District can obtain Measure RR bond proceeds.

In June 2008, the District issued \$10.8 million in lease revenue bonds to provide the financing of equipment, relocatable structures, and building projects. In April 2010, the District issued \$64.9 million in bond anticipation notes to (a) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities and (b) refund the District's outstanding lease revenue bonds. In anticipation that the bond anticipation notes, together with the interest thereon, will be paid from the proceeds of the future sale of Measure RR bonds, the District requested that expenditures paid with the proceeds from lease revenue bonds and bond anticipation notes be audited to ensure funds have been expended only for the authorized Measure RR bond projects described in the Official Statement for the Bond Measure.

In January 2009, the Board of Trustees of the District expanded the scope of the current Measure R Citizens' Oversight Committee and designated it to also serve as the independent bond oversight committee for Measure RR.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009**

June 30, 2011

OBJECTIVES

The objectives of our Performance Audit were to:

- Document the expenditures charged to the Mt. San Antonio Community College District bond construction funds, bond anticipation note funds (hereinafter referred to as the “BAN funds”), and lease revenue bond funds (hereinafter referred to as the “lease revenue funds”).
- Determine whether expenditures for the fiscal year ended June 30, 2011, charged to the bond construction funds, have been made in accordance with the bond project authorization approved by the voters through the approval of Measure R in November 2001 (“Measure R Bond Projects”).
- Determine whether expenditures for the fiscal years ending June 30, 2010 through June 30, 2011, charged to the bond anticipation note funds, have been made in accordance with the bond project authorization approved by the voters through the approval of Measure RR in November 2008 (“Measure RR Bond Projects”).
- Determine whether expenditures for the fiscal years ending June 30, 2008 through June 30, 2011, charged to the lease revenue bond funds, have been made in accordance with the bond project authorization approved by the voters through the approval of Measure RR in November 2008 (“Measure RR Bond Projects”).
- Note any incongruities, system weaknesses, or non-compliance with specific Education Code Sections (15278-15282) related to oversight of fund expenditures and provide recommendations for improvement.
- Provide the District Board and the Citizens’ Oversight Committee with a performance audit as required under the requirements of the California Constitution and Proposition 39.

SCOPE OF THE AUDIT

The scope of our Performance Audit covered the fiscal year ended June 30, 2011 for Measure R Bond Projects and the fiscal years ending June 30, 2008 through June 30, 2011 for related Measure RR Bond Projects. All object and project codes associated with the Measure R and related Measure RR Bond Projects were included. The propriety of expenditures for capital projects and maintenance projects funded through sources other than the funds described above, including interest thereon, were not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2011 were not reviewed or included within the scope of our audit or in this report.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT

OF

PROPOSITION 39, GENERAL OBLIGATION BONDS

(MEASURE R, NOVEMBER 2001)

LEASE REVENUE BONDS 2007

BOND ANTICIPATION NOTES 2009

June 30, 2011

PROCEDURES PERFORMED

Measure R Bond Projects – Bond Construction Funds

We obtained the general ledger and the project expenditure summary reports and detail prepared by the District for the fiscal year ended June 30, 2011 for the bond construction funds.

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 Proposition 39/Measure R funding. We performed the following procedures:

- We reviewed the Campus Master Plan Bond Project publicized list of intended projects.
- We selected a sample of expenditures for the fiscal year ended June 30, 2011 and reviewed supporting documentation to ensure that funds were properly expended on the authorized bond projects, met the requirements for bidding, if applicable, and were not used for salaries of school administrators or other operating expenses of the District. Our sample included 38 transactions totaling \$3,894,908. This represents 45% of total expenditures of \$8,643,186. Detailed results of our testing are identified by project beginning on page 7.
- We compared total project expenditures to budgets to determine if there were any expenditures in excess of appropriation.

Related Measure RR Bond Projects – Lease Revenue Funds and BAN Funds

We obtained the general ledger and the project expenditure summary reports and detail prepared by the District for the:

- Fiscal years ended June 30, 2008 through 2011 for the lease revenue funds, and
- Fiscal years ended June 30, 2010 and 2011 for the BAN funds.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT
PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

PROCEDURES PERFORMED (continued)

Within the fiscal years audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Proposition 39/Measure RR funding. We performed the following procedures:

- We reviewed the list of intended projects published in the Official Ballot.
- We selected a sample of expenditures for each fiscal year included in the audit and reviewed supporting documentation to ensure that funds were properly expended on the authorized bond projects, met the requirements for bidding, if applicable, and were not used for salaries of school administrators or other operating expenses of the District. The following table illustrates the sample selected for each source of funding and fiscal year, as well as the percentage of total expenditures tested.

Fund / Fiscal Year	Number of Transactions Tested	Dollar Value of Transactions Tested	Total Project Expenditures	Percentage of Total Expenditures
<i>Lease Revenue Funds</i>				
June 30, 2008	10	\$ 1,864,099	\$ 2,849,785	65%
June 30, 2009	15	1,442,421	2,852,128	51%
June 30, 2010	25	1,245,013	2,800,664	44%
June 30, 2011	15	897,810	1,684,863	53%
<i>BAN Funds</i>				
June 30, 2010	15	912,645	1,385,303*	66%
June 30, 2011	53	5,470,662	11,925,898	46%

*Excludes \$9,596,001 for retirement of lease revenue bonds paid in fiscal year ended June 30, 2010 using BAN proceeds.

Detailed results of our testing are identified by project beginning on page 9.

- We compared total project expenditures to budgets to determine if there were any expenditures in excess of appropriation.

Each of the projects has been given a specific project identification number and budget within the District's financial reporting system. Actual expenditures are matched against the budget to prevent cost overruns.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009**

June 30, 2011

RESULTS OF PROCEDURES

Measure R Bond Projects – Bond Construction Funds

In 2001, the District put forward, as adopted by the Board of Trustees, 17 projects for use with the Measure R bond funding in a Master Plan. During 2005, the Master Plan was reconfigured to better accommodate the projects and improvements associated with bond funding. Several of the original Measure R projects have been modified to balance cost effectiveness of bond funds, state funding priorities and campus needs. Budget amounts below were provided by the District and may be subject to further revision. The District has incurred cumulative total costs of \$235,352,797 through June 30, 2011 of which \$8,643,186 were expended during fiscal year ended June 30, 2011. The projects and related costs are outlined below:

	<u>Total Budget</u>	<u>Actual Costs for Fiscal Year Ended June 30, 2011</u>	<u>Cumulative Costs through June 30, 2011</u>
Project 1 Science Laboratories	\$ 14,382,064	\$ 10,949	\$ 14,284,413
Project 2 Workforce Training Center	290,433		290,433
Project 3 Campus-wide Energy Conservation Program	15,544,445		15,544,445
Project 4 Off-Campus Learning Centers	389		389
Project 5 Agricultural Science	19,614,799	2,061,167	19,428,997
Project 6 Child Development Center	1,815,848	(13,000) (1)	1,748,772
Project 7 Campus Classroom Improvements	32,952,459	178,713	32,759,171
Project 10 Design and Online Technology Center	13,700,125	5,182,917	8,626,552
Project 11 Physical Education/Wellness Facility and Athletic Fields	10,407,791		10,400,851
Project 12 Campus Center	75,132		73,882
Project 13 Student Support Services Renovations	7,366,628	46,985	7,360,327
Project 14 Welding/Air Conditioning Programs	6,181,760		6,181,760
Project 15 Language Center	9,776,059		9,776,059
Project 16 Health Careers Center	9,789,393		9,789,393
Project 17 Campus-wide Improvements	100,329,575	1,175,455	98,930,363
Bond Investment	156,990		156,990
Bond Refunding Reserves/Interest Reserves	118,410		
	<u>\$ 242,502,300</u>	<u>\$ 8,643,186</u>	<u>\$ 235,352,797</u>
Budget Reconciliation:			
Measure R Proceeds	\$ 220,999,812		
Bond Refunding Proceeds	8,600,463		
Bond Investment Funds	12,902,025		
	<u>\$ 242,502,300</u>		

(1) The District reversed an accrual related to the Child Development Center, which created a negative expenditure in this fiscal year.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

RESULTS OF PROCEDURES (continued)

The following list outlines the detailed expenditures tested for the fiscal year ended June 30, 2011.

Project 5 - Agricultural Science

Current year expenditures included architectural services, construction, electrical, concrete and masonry, landscape and irrigation, carpet and tile, and furniture. Costs were tested and appear proper for the project.

Project 7 - Campus Classroom Improvements

Current year expenditures were for construction. Costs were tested and appear proper for the project.

Project 10 - Design and On-line Technology Center

Current year expenditures included architectural services, construction, construction management, electrical, structural steel and metals, concrete and masonry, mechanical, plumbing, and fire sprinklers. Costs were tested and appear proper for this project.

Project 17 - Campus-Wide Improvements

The campus-wide improvement project has been sub-divided into nine categories. Not all project categories had expenditures during this period. Expenditures were reviewed in the following two areas:

- 17e. Campus-wide infrastructure – Expenditures incurred were primarily related to labor and materials for the upper practice field. Costs were tested and appear appropriate for the project.
- 17f. Campus-wide improvements – Expenditures were incurred primarily for parking lot and landscape irrigation. Costs were tested and appear appropriate for the project.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009**

June 30, 2011

RESULTS OF PROCEDURES (continued)

Related Measure RR Bond Projects – Lease Revenue and BAN Funds

In 2008, the District put forward, as adopted by the Board of Trustees, the Official Ballot for Measure RR which describes the projects to be completed with the bond funding. Project costs have been expended using proceeds from lease revenue bonds and bond anticipation notes, which will be repaid using Measure RR proceeds. Budget amounts below were provided by the District and may be subject to further revision. The District has incurred cumulative total costs of \$10,187,440 and \$22,907,202 through June 30, 2011 with the use of lease revenue funds and BAN funds, respectively. The projects and annual costs are outline below:

Lease Revenue Funds

	<u>Total Budget</u>	<u>Actual Costs for Fiscal Year Ended June 30, 2008</u>	<u>Actual Costs for Fiscal Year Ended June 30, 2009</u>	<u>Actual Costs for Fiscal Year Ended June 30, 2010</u>	<u>Actual Costs for Fiscal Year Ended June 30, 2011</u>	<u>Cumulative Costs through June 30, 2011</u>
Project 7 Campus Classroom Improvements	\$ 3,764,170	\$ 1,337,079	\$ 2,244,032	\$ 101,323	\$ 43,273	\$ 3,725,707
Project 17 Campus-wide Improvements	<u>7,261,689</u>	<u>1,512,706</u>	<u>608,096</u>	<u>2,699,341</u>	<u>1,641,590</u>	<u>6,461,733</u>
	<u>\$ 11,025,859</u>	<u>\$ 2,849,785</u>	<u>\$ 2,852,128</u>	<u>\$ 2,800,664</u>	<u>\$ 1,684,863</u>	<u>\$ 10,187,440</u>
Budget Reconciliation:						
Lease Revenue Bond Proceeds	\$ 10,904,256					
Bond Investment Funds	<u>121,603</u>					
	<u>\$ 11,025,859</u>					

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

RESULTS OF PROCEDURES (continued)

The following list outlines the detailed expenditures tested for the four fiscal years ended June 30, 2011.

Project 7 – Campus Classroom Improvements

Project expenditures included general construction, exterior improvements, construction management services, exterior breezeway and stairway improvements, labor, and materials. Costs were tested and appear proper for the project.

Project 17 – Campus-wide Improvements

The campus-wide improvement project has been sub-divided into four categories. Not all project categories had expenditures during the periods tested. Expenditures were incurred in the following areas:

- 17f-31. Parking Improvements – Expenditures included general construction. Costs were tested and appear appropriate for the project.
- 17i. Math/Science – Expenditures were incurred primarily for electrical work. Costs were tested and appear appropriate for the project.
- Admin. Administration Building Remodel – Project expenditures included architectural services, construction management services, general construction, mechanical / HVAC, abatement and demolition, fire sprinkler installation, carpet and rubber base installation, electrical, painting, exterior improvements, labor, and materials. Costs were tested and appear proper for the project.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

RESULTS OF PROCEDURES (continued)

BAN Funds

		Total Budget	Actual Costs for Fiscal Year Ended June 30, 2010	Actual Costs for Fiscal Year Ended June 30, 2011	Cumulative Costs through June 30, 2011
Project A	Library, Learning Resources and Campus Center	\$ 197,529	\$ 59,229	\$ 138,300	\$ 197,529
Project B	Business and Computer Technology	241,082	71,067	139,765	210,832
Project C	Child Development Center	16,481,938	365,959	5,446,381	5,812,340
Project D	Athletics Complex Phase 2	38,772	38,775	(3)	38,772
Project E	Career and Technical Education Building Renovation	200,000	54,607	10,401	65,008
Project F	Classroom Building Renovation	4,612,707	423,032	2,418,645	2,841,677
Project G	Laboratory Building Expansion Sciences	680,260	3,271	20,283	23,554
Project H	Fire Academy	215,030	16,988	89,173	106,161
Project J	Parking, Public Safety, and Traffic Improvements	300,000		280,039	280,039
Project K	Scheduled Maintenance	1,960,002	551	593,908	594,459
Project L1	Infrastructure Improvement Utilities, Site, Traffic, Energy	6,090,329	255,841	380,817	636,658
Project L3	Temporary Space	380,958	30,896	161,477	192,373
Project L4	Demolition	120,000			
Project L5	Administration Building Remodel	1,003,999			
Project L6	Contingency	600,264			
Project L7	Campus-wide Improvement Projects	20,180,943	50,087	1,381,113	1,431,200
Project L8	Construction Support	2,100,000	15,000	865,599	880,599
Lease Revenue Bonds (COPS) Debt Retirement		9,596,001	9,596,001		9,596,001
Bond Investment/Interest Reserves		660,181			
		<u>\$ 65,659,995</u>	<u>\$ 10,981,304</u>	<u>\$ 11,925,898</u>	<u>\$ 22,907,202</u>

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

RESULTS OF PROCEDURES (continued)

The following list outlines the detailed expenditures tested for the two fiscal years ended June 30, 2011.

Project A – Library, Learning Resources and Campus Center

Project expenditures primarily included construction management services. Costs were tested and appear appropriate for this project.

Project B – Business and Computer Technology

Project expenditures primarily included construction management services. Costs were tested and appear appropriate for this project.

Project C – Child Development Center

Project expenditures included architectural and inspection services, demolition labor and materials, HVAC, plumbing and site utilities, building and concrete masonry, general construction, and electrical. Project costs were tested and appear appropriate.

Project E – Career and Technical Education Building Renovation

Project expenditures primarily included construction management services. Costs were tested and appear appropriate for this project.

Project F – Classroom Building Renovation

Project expenditures included construction management services, general construction, moving services to relocate employees, mechanical / HVAC, and electrical. Costs were tested and appear appropriate for the project.

Project J – Parking, Public Safety, and Traffic Improvements

Costs were related to the geoseismic / geotechnical report for the parking structure. Costs were tested and appear appropriate for this project.

Project K – Scheduled Maintenance

The scheduled maintenance project has been sub-divided into 12 categories. Not all project categories had expenditures during the periods tested. Expenditures were reviewed for the following area:

- K2. Cadaver Room HVAC Upgrade – Expenditures incurred related to the upgrade of the HVAC system. Costs were tested and appear appropriate for this project.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009

June 30, 2011

RESULTS OF PROCEDURES (continued)

Project L1 – Infrastructure Improvement (Utilities, Site, Traffic, Energy)

The infrastructure improvement project has been sub-divided into 23 categories. Not all project categories had expenditures during the periods tested. Expenditures were reviewed for the following area:

L1-H1. Temple and Grand Intersection Improvements – Expenditures related to a financial contribution made to the City of Walnut for intersection improvements. Costs were tested and appear appropriate for this project.

Project L7 – Campus-wide Improvement Projects

The campus-wide improvement project has been sub-divided into 16 categories. Not all project categories had expenditures during the periods tested. Expenditures were reviewed in the following areas:

L7-C1. Building 47 Facilities Plan Room and Renovation – Expenditures primarily included architectural services. Costs were tested and appear appropriate for this project.

L7-C11. Administration Remodel – Expenditures included electrical work. Costs were tested and appear appropriate for this project.

L7-C13. Design and Online Technology – Expenditures included general construction. Costs were tested and appear appropriate for this project.

Project L8 – Construction Support

Expenditures related to bond legal expenditures and utility master plan engineering. Costs were tested and appear appropriate.

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

**PERFORMANCE AUDIT
OF
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE R, NOVEMBER 2001)
LEASE REVENUE BONDS 2007
BOND ANTICIPATION NOTES 2009**

June 30, 2011

CONCLUSION

The results of our tests indicated that, in all significant respects, the Mt. San Antonio Community College District has properly accounted for the expenditures associated with bond construction funds, lease revenue funds, and BAN funds. Additionally, expenditures associated with bond construction funds were made on authorized Measure R bond projects, and expenditures associated with lease revenue funds and BAN funds were made on authorized Measure RR bond projects. Further, the bond construction funds, lease revenue funds, and BAN funds were not used for salaries of school administrators or other operating expenditures.