

San Diego Community College District

Proposition N Bond Building Fund

San Diego, California

*Financial Statements, Supplemental
Information and Independent Auditors' Reports*

For the year ended June 30, 2009

San Diego Community College District Proposition N Bond Building Fund

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San Diego Community College District Proposition N Bond Building Fund

Introduction and Citizens' Oversight Committee Member Listing

San Diego Community College District (District) is located entirely within San Diego County and consists of three two-year colleges and six continuing education centers. All three colleges are fully accredited by the Accrediting Commission for the Community and Junior Colleges of the Western Association of Schools and Colleges.

The District is governed by an elected five member Board of Trustees. The five Trustees are elected in even-numbered years to four-year terms by the voters in the District. The boundaries of the District did not change during the year ended June 30, 2009.

On November 7, 2006, by majority election of the Districts' registered voters, \$870,000,000 in general obligation bonds (Proposition N) were authorized to be issued and sold for the benefit of the District. Proceeds from the bonds are to be used for acquisition, construction, renovation, repair and modernization of certain District property and facilities and to refund or advance refund certain obligations of the District. Under the terms of Proposition N, a Citizens' Oversight Committee was established to oversee the expenditures of the Proposition N proceeds. The bonds are scheduled to be issued in four increments over a ten-year period. The first issuance and sale of general obligation bonds closed on July 18, 2007 for a principal amount of \$224,996,823 along with a premium of \$8,448,575. After issuance costs and establishment of a debt service fund, the net deposit to the Building Fund at the County Treasury was \$224,996,823.

Proposition N was a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual, independent performance audit to ensure that funds have been expended only on the specific projects listed [Article XIII A, §1(b) (3) (C)] as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects [Article XIII A, §1(b) (3) (D)].

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908, was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

San Diego Community College District Proposition N Bond Building Fund

Introduction and Citizens' Oversight Committee Member Listing, Continued

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2009:

<u>Name</u>	<u>Office</u>	<u>Affiliation</u>
Bobby G. Glaser	Chair	Senior Citizen's Organization
Jeff Marston	Vice Chair	College Advisory Board Member
Clemente Valdez	Member	Student Organization
Linda Caballero-Sotelo	Member	Business Organization
Jonathan A. Walz	Member	Taxpayer Organization
John L. Morrell	Member	Taxpayer Organization
Houshmand Aftahi	Member	At Large
Matthew Anderson	Member	At Large
George Hawkins	Member	At Large
Phillip Nerhood	Member	At Large
Tom Lemmon	Member	At Large
Rocky Bragg	Member	At Large
Jaime M. Barton	Member	At Large
Rosalie Schwartz	Member	At Large
Robert Villareal	Member	At Large
Pat Zaharopolous	Member	At Large

INDEPENDENT AUDITORS' REPORT

The Board of Trustees and
the Citizens' Bond Oversight Committee
San Diego Community College District
San Diego, California

We have audited the accompanying balance sheet and statement of revenues, expenditures, and changes in fund balances for the Proposition N Bond Building Fund (Bond Fund) of the San Diego Community College District (District) as of and for the year ended June 30, 2009. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the financial statements present only the Proposition N Bond Building Fund and are not intended to, and do not, present fairly the financial position of San Diego Community College District as of June 30, 2009, and the changes in fund balance thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations and changes in fund balance for the Bond Fund of the District as of June 30, 2009, in conformity with generally accepted accounting principles in the United States.

As described in Note 2 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statements No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 52, *Land and other Real Estate Held as Investments by Endowments*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

Caporicci & Larson

San Diego, California
October 30, 2009

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FINANCIAL STATEMENTS

San Diego Community College District
Proposition N Bond Building Fund
Balance Sheet
June 30, 2009

ASSETS

Cash and investments	\$ 226,240,981
Accounts receivable	<u>962,614</u>
Total assets	<u><u>\$ 227,203,595</u></u>

**LIABILITIES AND
FUND BALANCES**

Liabilities:

Accounts payable and accrued liabilities	\$ <u>8,486,953</u>
Total liabilities	<u>8,486,953</u>

Fund Balances:

Reserved for capital projects	<u>218,716,642</u>
Total fund balances	<u>218,716,642</u>
Total liabilities and fund balances	<u><u>\$ 227,203,595</u></u>

San Diego Community College District
Proposition N Bond Building Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2009

REVENUES:

Investment income, capital	\$ 11,319,038
Other income	213,662
Total revenues	<u>11,532,700</u>

EXPENDITURES:

Salaries	479,143
Employee benefits	159,071
Capital outlays and other expenditures	24,724,378
Total expenditures	<u>25,362,592</u>

REVENUES OVER (UNDER) EXPENDITURES (13,829,892)

Change in net assets (13,829,892)

FUND BALANCES:

Beginning of year	<u>232,546,534</u>
End of year	<u>\$ 218,716,642</u>

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San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements
For the year ended June 30, 2009

1. ORGANIZATION

The San Diego Community College District (District) serves approximately 100,000 students per semester as represented by five voting districts within Greater San Diego. The District currently operates San Diego City College, Miramar College, Mesa College and the Continuing Education Centers, which provide post-secondary instruction in an array of educational classes, programs and services. The colleges offer associate's degrees in the arts and sciences, in addition to advanced and basic certificates of learning.

The accompanying financial statements present the financial position and results of activities for the District Proposition N Bond Building Fund (Bond Fund). Escrow funds, debt service funds, costs of issuance and bonded debt are not presented in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation

The financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*.

Fund Structure

The Statement of Revenues, Expenditures, and Changes in Fund Balances is a statement of financial activities of the Bond Fund related to the current reporting period. Expenditures of the fund frequently include amounts for supplies, buildings, equipment, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

Basis of Accounting

The Bond Fund of the District is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or serviced or services rendered).

Budget

Budgets are based on a project basis as determined by contracts awarded and bond funds available for expenditure. Current project budget information may be obtained by contacting the Vice Chancellor - Facilities Management, 3375 Camino del Rio South, San Diego, CA 92108-6509.

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash in County Treasury

In accordance with Education Code §41001, the District maintains its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the County and invests the cash. Interest earned is deposited quarterly into participating funds.

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Bond Fund are determined by its measurement focus. The Bond Fund is accounted for on a spending or “*financial flow*” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “*available spendable resources*”. Thus, the capital assets and long-term liabilities associated with the Bond Fund are accounted for in the financial statements of the District and are not included in the accompanying financial statements.

Reservations of Fund Balances

The Bond Fund balances have been reserved for capital projects. Reservations were created to either (1) satisfy legal covenants that require a portion of the fund balances to be segregated for a specific purpose or (2) identify the portion of the fund balances that have been appropriated for contractual commitments.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Implementation of New GASB Pronouncements

In fiscal year 2009, the District adopted the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Implementation of New GASB Pronouncements, continued

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The Statement 56 guidance addresses three issues from the AICPA's literature—related party transactions, going concern considerations, and subsequent events.

3. CASH AND INVESTMENTS

At June 30, 2009, cash and investments consist of the following:

Cash with County Treasury	\$	5,694,629
Pallas Capital Corp		<u>220,546,352</u>
Total cash and investments	\$	<u><u>226,240,981</u></u>

The District maintains its cash in the San Diego County Treasury as part of the common investment pool. At June 30, 2009, the carrying value was \$5,694,629. The County is restricted by Government Code §53635 pursuant to §53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit and repurchase or reverse repurchase agreements.

The District invested the unused portion of the bond proceeds in the Pallas Capital Corp. At June 30, 2009, the fair value was \$220,546,352.

See the District's basic financial statements for disclosures related to cash and investments and the related risk disclosures.

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

4. CONSTRUCTION COMMITMENTS

In addition to construction amounts included in the financial statements, the District has construction commitments of approximately \$29,990,000 as of June 30, 2009.

5. BONDED DEBT OF THE DISTRICT

The District received authorization at an election held on November 7, 2006, by more than fifty-five percent of the votes cast by eligible voters within the District, to issue general obligation bonds not to exceed \$870,000,000 under Proposition 39. These bonds are issued in multiple series as general obligations of the District and therefore are not included in the accompanying financial statements. The following information is provided for purposes of additional analysis only.

Schedule of changes in General Obligation Bonds for 2009

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Due within One Year	Due in More Than One Year
General Obligation Bonds:						
2007 Series	\$ 224,996,823	\$ -	\$ (13,500,000)	\$ 211,496,823	\$ 2,515,000	\$ 208,981,823
	<u>\$ 224,996,823</u>	<u>\$ -</u>	<u>\$ (13,500,000)</u>	<u>\$ 211,496,823</u>	<u>\$ 2,515,000</u>	<u>\$ 208,981,823</u>

General Obligation Bonds, Election of 2006, Series 2007

On July 18, 2007, the District issued the general obligation bonds, election of 2006, Series 2007 in the amount of \$224,996,823. The issue is comprised of \$204,805,000 of serial bonds maturing in varying amounts from August 1, 2018 through 2032, with coupon and yield rates ranging 3.60% to 4.51% and \$20,191,823 of capital appreciation bonds maturing in varying amounts from August 1, 2012 through 2017, with coupon and yield rates ranging 4.05% to 4.42%. The purpose of the bonds is to finance the acquisition, construction and modernization of certain property and District facilities.

The bonds are solely payable from *ad valorem* property taxes levied. The District pledged all *ad valorem* property tax levied and collected to repay the outstanding principals and interest of the Tax-Exempt General Obligation Bonds, Election of 2006, Series 2007. Total principal and interest remaining on the bonds is \$384,603,372, payable through 2033.

Present value of minimum lease payments for general obligation bonds, Series 2007, are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 2,515,000	\$ 9,427,150	\$ 11,942,150
2011	2,920,000	9,318,450	12,238,450
2012	3,345,000	9,538,133	12,883,133
2013	3,110,034	9,918,325	13,028,359
2014	3,235,814	10,135,619	13,371,433
2015-2019	19,740,975	51,030,622	70,771,597
2020-2024	40,465,000	39,493,625	79,958,625
2025-2029	63,515,000	26,634,125	90,149,125
2030-2033	72,650,000	7,610,500	80,260,500
Total	<u>\$ 211,496,823</u>	<u>\$ 173,106,549</u>	<u>\$ 384,603,372</u>

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Trustees and
the Citizens' Bond Oversight Committee
San Diego Community College District
San Diego, California

We have audited the financial statements of the Proposition N Bond Building Fund (Bond Fund) of the San Diego Community College District (District) as of and for the year ended June 30, 2009 and have issued our report thereon dated October 30, 2009. Our audit was made in accordance with generally accepted auditing standards in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition 39/Proposition N General Obligation Bond for the fiscal year ended June 30, 2009. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Proposition N Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, including teacher and administrator salaries and other college operating expenses.
- The Board of Trustees of the District, in establishing the approved projects set forth in the ballot measure, evaluated the safety, class-size reduction and information technology needs of the District.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Proposition N Bond proceeds listed and tested above, except as noted in the Schedule of Findings and Questioned Costs attached to this report.

This report is intended solely for the information of the Board of Trustees, management and the Citizens' Bond Oversight Committee and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

San Diego, California
October 30, 2009

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San Diego Community College District
Proposition N Bond Building Fund
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

There were no findings or questioned costs related to the performance audit of the Bond Fund for the year ended June 30, 2009.