

San Diego Community College District

Proposition S Bond Building Fund

San Diego, California

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

For the year ended June 30, 2005

San Diego Community College District
Proposition S Bond Building Fund

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San Diego Community College District Proposition S 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, 2005.

On November 5, 2002, by majority election of the Districts' registered voters, \$685,000,000 in general obligation bonds (Proposition S) 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 S a Citizens' Oversight Committee was established to oversee the expenditures of the Proposition S 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 consisted of three series. Series 2003A and Series 2003C which closed on May 29, 2003 for a combined principal amount of \$96,585,000 and Series 2003B which closed on August 27, 2003 for a principal amount of \$8,415,000. The three series totaled \$105,000,000 and after issuance cost, refunding of a Lease Revenue Bond series and defeasement of a Certificate of Participation series, the net deposit to the Building Fund at the County Treasury was \$77,238,522.

Proposition S 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 S 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, 2005:

Name	Office	Affiliation
Evonne Seron Schulze	Chair	Retired Board of Trustees Member/Member at Large
Thomas N. Fat	Member	Little Italy Business Association/Business Organization
Barry I. Newman	Member	San Diego Taxpayers Association/Tax Payer Organization
Vincent Nicholais	Member	Past Mesa College ASB President/Member at Large
Roberta Spoon	Member	College Advisory Board Member/Endowment Trust Advisory Committee
Jim Ryan	Member	Association of General Contractors/Member at Large
Christopher Pearson	Member	San Diego Building Trades/Member at Large
Walter Heiberg	Member	McMillan Land Development/Member at Large
Honorable Federico Castro	Member	Superior Court Judge/Member at Large
Ronald Saathoff	Member	Firefighters Association/Member at Large
Catherine Clarke Stoll	Member	League of Women's Voters/Member at Large
Kimbrally Zillgitt Gibbens	Member	San Diego Center For the Blind/Member at Large
Bobby G. Glaser	Member	The La Jolla Group/Member at Large
Reverend George Walker Smith	Member	AARP/Senior Citizens' Organization
Ryan Schneeberger	Member	Associated Student Body President/Student Organization

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 operations and changes in net assets for the Proposition S Bond Building Fund (Bond Fund) of the San Diego Community College District (District) as of and for the year ended June 30, 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audits.

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 A, the Bond Fund financial statements present only the bond funds referred to above and are not intended to present the financial position and results of operations of the District 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 balances for the Bond Fund of the District as of June 30, 2005, in conformity with generally accepted accounting principles in the United States.

Caporicci & Larson

San Diego, California
September 2, 2005

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

3184-D Airway Avenue
Costa Mesa, California 92626

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 105
San Diego, California 92111

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FINANCIAL STATEMENTS

San Diego Community College District
Proposition S Bond Building Fund
Balance Sheet
June 30, 2005

ASSETS

Cash in County Treasury	<u>\$ 32,622,226</u>
Total assets	<u><u>\$ 32,622,226</u></u>

**LIABILITIES AND
FUND BALANCES**

Liabilities:

Accounts payable	<u>\$ 642,865</u>
Total liabilities	<u>642,865</u>

Fund Balances:

Reserved for capital projects	<u>31,979,361</u>
Total fund balances	<u>31,979,361</u>
Total liabilities and fund balances	<u><u>\$ 32,622,226</u></u>

San Diego Community College District
Proposition S Bond Building Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2005

REVENUES:

Interest income	\$ 648,688
Other income	9,943
Total revenues	<u>658,631</u>

EXPENDITURES:

Capital outlay	20,134,819
Contractual services	302,797
Equipment expenses	3,422,461
Total expenditures	<u>23,860,077</u>

REVENUES OVER (UNDER) EXPENDITURES	<u>(23,201,446)</u>
Net change in fund balances	(23,201,446)

FUND BALANCES:

Beginning of year	<u>55,180,807</u>
End of year	<u><u>\$ 31,979,361</u></u>

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San Diego Community College District
Proposition S Bond Building Fund
Notes to Financial Statements
For the year ended June 30, 2005

NOTE A: 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 S Bond Building Fund (Bond Fund). Escrow funds, debt service funds, costs of issuance and bonded debt are not presented in the accompanying financial statements.

NOTE B: 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 S Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2005

NOTE B: 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 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.

Implementation of New GASB Pronouncements

The Bond Fund adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3

GASB Statement No. 40 updates the custodial credit risk disclosure requirements of Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of deposits and investments of state and local governments, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

NOTE C: CASH IN COUNTY TREASURY

The District maintains its cash in the San Diego County Treasury as part of the common investment pool. At June 30, 2005 the carrying value was \$32,622,226. 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.

San Diego Community College District
Proposition S Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2005

NOTE D: CONSTRUCTION COMMITMENTS

In addition to construction amounts in accounts payable and accrued liabilities, the District has construction commitments of approximately \$39,200,000 as of June 30, 2005. The District is issuing an additional \$244,999,900 in general obligation bonds, and should receive the funds on October 26, 2005 to fund these construction commitments.

NOTE E: BONDED DEBT OF THE DISTRICT

The District received authorization at an election held on November 5, 2002, by more than fifty-five percent of the votes cast by eligible voters within the District, to issue general obligation bonds not to exceed \$685,000,000 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 2005

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Due within One Year
2003 Series A General Obligation	\$ 79,605,000	\$ -	\$ (11,165,000)	\$ 68,440,000	\$ 12,035,000
2003 Series B General Obligation	6,350,000	-	(2,035,000)	4,315,000	2,115,000
2003 Series C General Obligation	7,730,000	-	(2,525,000)	5,205,000	2,575,000
	<u>\$ 93,685,000</u>	<u>\$ -</u>	<u>\$ (15,725,000)</u>	<u>\$ 77,960,000</u>	<u>\$ 16,725,000</u>

Tax-Exempt General Obligation Bonds, Election of 2002, Series 2003A

On May 29, 2003, \$86,345,000 in tax-exempt general obligation bonds (Series 2003A) were delivered to refund the District's Series 2000B Lease Revenue Bonds and to establish a project fund for the acquisition, construction, renovation, repair and modernization of certain District property and facilities. The issue consists of several serial bonds and a term bond. The serial bonds (\$71,195,000) mature in varying amounts from May 1, 2004 through 2024, with coupon rates ranging 3% to 5% and yield rates ranging 0.95% to 4.32%. The remaining \$15,150,000 term bond matures on May 1, 2028 with a 5% coupon rate and yield rate of 4.39%. Debt service consists of interest and principal payable May 1 of each year, commencing on May 1, 2004.

Bond proceeds, net of related issuance costs, were deposited with the trustee for establishment of the building fund, a debt service fund and refunding of the Series 2000B Lease Revenue Bonds. The District had used the original proceeds of the Series 2000B Lease Revenue Bonds to finance the acquisition and construction of new buildings and the renovation of previously existing buildings.

San Diego Community College District
Proposition S Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2005

NOTE E: BONDED DEBT OF THE DISTRICT, Continued

Present value of minimum lease payments for general obligation bonds, Series 2003 A, are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 12,035,000	\$ 2,962,425	\$ 14,997,425
2007	12,940,000	2,555,575	15,495,575
2008	615,000	2,108,625	2,723,625
2009	705,000	2,093,250	2,798,250
2010	800,000	2,065,050	2,865,050
2011 - 2015	5,695,000	9,766,988	15,461,988
2016 - 2020	9,410,000	8,058,250	17,468,250
2021 - 2025	11,090,000	5,230,000	16,320,000
2026 - 2028	15,150,000	1,207,250	16,357,250
Total	<u>\$ 68,440,000</u>	<u>\$ 36,047,413</u>	<u>\$ 104,487,413</u>

Tax-Exempt General Obligation Bonds, Election of 2002, Series 2003B

On August 27, 2003, \$8,415,000 tax-exempt general obligation bonds were delivered to refund the District's 1991 Certificates of Participation. The issue is comprised entirely of serial bonds maturing in varying amounts from May 1, 2004 through 2007, with coupon and yield rates ranging 1.25% to 4.00%. Debt service consists of interest and principal payable May 1 of each year, commencing on May 1, 2004. Net proceeds of \$8,715,399 (after payment of underwriters costs of \$84,150, insurance premiums of \$17,389, respectively) were deposited with \$300,399 of debt service funds in an irrevocable trust with an escrow agent to provide all future debt service payments on the 1991 Certificates of Participation. As a result, the 1991 Certificates of Participation are considered to be defeased and the liability for those certificates has been removed from the Statement of Net Assets.

Present value of minimum lease payments for general obligation bonds, Series 2003B, are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 2,115,000	\$ 172,600	\$ 2,287,600
2007	2,200,000	88,000	2,288,000
Total	<u>\$ 4,315,000</u>	<u>\$ 260,600</u>	<u>\$ 4,575,600</u>

San Diego Community College District
Proposition S Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2005

NOTE E: BONDED DEBT OF THE DISTRICT, Continued

Taxable General Obligation Bonds, Election of 2002, Series 2003C

On May 29, 2003, \$10,240,000 in taxable general obligation bonds were delivered to advance refund the District's 1998 Certificates of Participation. The issue is comprised entirely of serial bonds maturing in varying amounts from May 1, 2004 through 2007, with coupon and yield rates ranging 1.34% to 2.63%. Debt service consists of interest and principal payable May 1 of each year, commencing on May 1, 2004. Net proceeds of \$10,112,270 (after payment of underwriters costs of \$102,400, insurance premiums of \$20,503 and a \$4,800 transfer to the building fund established with the Series 2003A bonds described previously) were deposited with \$1,270,636 of debt service funds in an irrevocable trust with an escrow agent to provide all future debt service payments on the 1998 Certificates of Participation. As a result, the 1998 Certificates of Participation are considered defeased.

Present value of minimum lease payments for general obligation bonds, Series 2003C, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,575,000	\$ 124,532	\$ 2,699,532
2007	2,630,000	69,169	2,699,169
Total	<u>\$ 5,205,000</u>	<u>\$ 193,701</u>	<u>\$ 5,398,701</u>

SUPPLEMENTAL INFORMATION

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 S Bond Building Fund (Bond Fund) of the San Diego Community College District (District) as of and for the year ended June 30, 2005 and have issued our report thereon dated September 2, 2005. 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 S General Obligation Bond for the fiscal year ended June 30, 2005. 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 S 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 S Bond proceeds listed and tested above, except as noted in the Schedule of Findings and Questioned Costs section of this report.

This report is intended for the information of the Board of Trustees, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.

Caporicci & Larson

San Diego, California
September 2, 2005

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland
180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
3184-D Airway Avenue
Costa Mesa, California 92626

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 105
San Diego, California 92111

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San Diego Community College District
Proposition S Bond Building Fund
Schedule of Findings and Questioned Costs
For the year ended June 30, 2005

There were no findings or questioned costs related to the performance audit of the Bond Fund for the year ended June 30, 2005.