

San Diego Community College District

Proposition N Bond Building Fund

San Diego, California

*Financial Statements and
Independent Auditors' Reports*

For the year ended June 30, 2011

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

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 (the "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, 2011.

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, 2011:

<u>Name</u>	<u>Office</u>	<u>Affiliation</u>
George Hawkins	Chair	Taxpayer Organization
Evonne Seron Schulze	Vice Chair	Senior Citizens Organization
Houshmand Aftahi	Member	At Large
Wendell Bass	Member	At Large
Leslie Bruce	Member	At Large
Allen Chan	Member	Business Organization
Sunita Cooke	Member	At Large
Scott Srosby	Member	Taxpayer Organization
Berit Durler	Member	Foundation/Support Organization
Alex Hu	Member	At Large
Lucia Matthew	Member	At Large
Ed Oremen	Member	At Large
Jesseca Saenz-Gonzalez	Member	Business Organization
Jonathan A. Walz	Member	Taxpayer Organization
David Campbell	Student Member	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 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, 2011. 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 auditing standards generally accepted in the United States of America, and the standards applicable to financial 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 the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. 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, 2011, and the changes in fund balance thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2011, in conformity with accounting principles generally accepted in the United States of America.

The Board of Trustees and
the Citizens' Bond Oversight Committee
San Diego Community College District
San Diego, California
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The Bond Fund adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Bond Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Caporicci & Larson, Inc.

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Certified Public Accountants
San Diego, California
November 30, 2011

FINANCIAL STATEMENTS

**San Diego Community College District
Proposition N Bond Building Fund
Balance Sheet
June 30, 2011**

ASSETS

Cash and investments	\$ 93,667,769
Accounts receivable	<u>138,851</u>
Total assets	<u>\$ 93,806,620</u>

**LIABILITIES AND
FUND BALANCES**

Liabilities:

Accounts payable and accrued liabilities	\$ <u>13,562,424</u>
Total liabilities	<u>13,562,424</u>

Fund Balances:

Restricted for capital projects	<u>80,244,196</u>
Total fund balances	<u>80,244,196</u>
Total liabilities and fund balances	<u>\$ 93,806,620</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, 2011

REVENUES:

Investment income, capital	\$ 856,136
Other income	1,904,695
Total revenues	<u>2,760,831</u>

EXPENDITURES:

Salaries	653,879
Employee benefits	225,010
Capital outlays and other expenditures	88,160,336
Total expenditures	<u>89,039,225</u>
Change in net assets	(86,278,394)

FUND BALANCES:

Beginning of year	<u>166,522,590</u>
End of year	<u>\$ 80,244,196</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, 2011

1. ORGANIZATION

The San Diego Community College District (the "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 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's 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 accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are as follows.

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, 2011

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.

Classification of Fund Balances

Fund balances are classified as follows:

Nonspendable Fund Balance - This amount indicates the portion of funds balances which cannot be spent because they are either not in spendable form, such as prepaid items, inventories or loans receivable, or legally or contractually required to be maintained intact, such as the principal portion of an endowment.

Restricted Fund Balance - This amount indicates the portion of fund balances which has been restricted a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance - This amount indicate the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the Board of Trustee.

Assigned Fund Balance - This amount indicates the portion of fund balances which is constrained by the District’s intent to be used for specific purpose, but is neither restricted nor committed. The Chancellor is authorized to determine and define the amount of assigned fund balances.

Unassigned Fund Balance - This amount indicates the portion of fund balance that do not fall into one of the above categories.

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Spending Policy

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the District's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

3. CASH AND INVESTMENTS

The District maintains its cash in the San Diego County Treasury as part of the common investment pool. At June 30, 2011, the carrying value was \$93,667,769. 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.

4. CONSTRUCTION COMMITMENTS

In addition to construction amounts included in the financial statements, the District has construction commitments of approximately \$169,127,159 as of June 30, 2011.

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2011

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 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>	<u>Due In More</u> <u>Than One Year</u>
General Obligation Bonds:						
Proposition N:						
2007 Series	\$ 208,981,823	\$ -	\$ (2,920,000)	\$ 206,061,823	\$ 3,345,000	\$ 202,716,823
Total	<u>\$ 208,981,823</u>	<u>\$ -</u>	<u>\$ (2,920,000)</u>	<u>\$ 206,061,823</u>	<u>\$ 3,345,000</u>	<u>\$ 202,716,823</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 from 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 from 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 \$360,422,772, payable through 2033.

San Diego Community College District
Proposition N Bond Building Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2011

5. BONDED DEBT OF THE DISTRICT, Continued

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

Year Ending June 30,	Principal	Interest	Total
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	3,340,445	10,376,766	13,717,211
2016	3,433,522	10,641,224	14,074,746
2017-2021	26,812,008	47,001,257	73,813,265
2022-2026	48,865,000	35,033,625	83,898,625
2027-2031	74,830,000	19,725,000	94,555,000
2032-2034	39,090,000	1,991,000	41,081,000
Total	\$ 206,061,823	\$ 154,360,949	\$ 360,422,772

6. SUBSEQUENT EVENTS

General Obligation Bonds, Election of 2006, Series 2011

On July 7, 2011, the District issued the general obligation bonds, election of 2006, Series 2011 in the amount of \$250,000,000. The issue is comprised of \$109,495,000 of current interest serial bonds maturing in varying amounts from August 1, 2012 through 2031, with coupon and yield rates ranging from .027% to 5.00%, \$61,060,000 of current interest term bonds due August 1, 2026 yielding 4.80%, and \$79,445,000 of current interest term bonds due August 1, 2041 yielding 4.86%. The purpose of the bonds is to finance the acquisition, construction, modernization, and equipping of certain property and District facilities.

The bonds are solely payable from *ad valorem* property taxes levied and collected by the County of San Diego. 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 2011.

2011 General Obligation Refunding Bonds

On July 7, 2011, the District issued the 2011 general obligation refunding bonds in the amount of \$22,230,000. The issue is comprised of \$22,230,000 of current interest serial bonds maturing in varying amounts from August 1, 2012 through 2032, with coupon and yield rates ranging from .038% to 5.00%. The purpose of the bonds is to advance refund a portion of the District's outstanding general obligation bonds, election of 2002, series 2003A, and to pay the costs associated with the issuance of the refunding bonds.

The bonds are solely payable from *ad valorem* property taxes levied and collected by the County of San Diego. The District pledged all *ad valorem* property tax levied and collected to repay the outstanding principal and interest of the 2011 General Obligation Refunding Bonds.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the accompanying financial statements of the Prop N Bond Fund ("Bond Fund") of the San Diego Community College District ("District") as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bond Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bond Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Bond Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

The Board of Trustees and
the Citizens' Bond Oversight Committee
San Diego Community College District
San Diego, California
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
November 30, 2011

PERFORMANCE AUDIT

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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 conducted a performance audit of the Proposition 39/Proposition N General Obligation Bond ("Bond Fund") of the San Diego Community College District ("District") for the fiscal year ended 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 below, which includes determining the District's compliance with the performance requirements for the Proposition 39/Proposition N General Obligation Bonds under the applicable provisions of Section 1 (b)(3)(C) of Article XIII A of the California Constitution and Proposition as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements.

OBJECTIVES:

The objectives of our performance audit were to:

- Document the expenditures charged to the District's Proposition N General Obligation Bond Funded Capital Outlay Projects.
- Determine whether the proceeds of the sale of the Proposition N Bonds were 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.
- Provide the District Board of Trustees and the Citizens' Bond Oversight Committee with a performance audit as required under the provision of the California Constitution and Proposition 39.

SCOPE OF THE AUDIT:

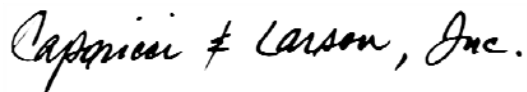
The scope of our performance audit covered the period of July 1, 2010 to June 30, 2011. The expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other state or local funding sources, other than the proceeds of the bonds, 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.

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

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal control of the District to determine if the internal controls were adequate to 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance with the performance requirements of Proposition 39/Proposition N. Accordingly, we express no such opinion.

In our opinion, the District complied, in all material respects, with the performance requirements of the Proposition 39, as specified by Section 1 (b)(3)(C) of Article XIII A of the California Constitution for the year ended June 30, 2011. However, the results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with *Government Auditing Standards*.

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.



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San Diego, California
November 30, 2011

San Diego Community College District
Proposition N Bond Building Fund
Schedule of Findings and Questioned Costs
For the year ended June 30, 2011

There were no findings or questioned costs related to the performance audit of the Bond Fund for the year ended June 30, 2011.