

Southwestern Community College District

Proposition AA Bond Fund

Chula Vista, California

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

For the year ended June 30, 2009

Southwestern Community College District Proposition AA Bond Fund

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Southwestern Community College District
Chula Vista, California

We have audited the accompanying financial statements for the Bond Fund of the Southwestern Community College 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 financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of American as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governments* issued by the American Institute of Certified Public Accountants, 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 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 2 to the financial statements, the financial statements present only the Bond Fund and are not intended to, and do not, present fairly the financial position and the results of operation of Southwestern 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 of the Bond Fund of Southwestern Community College District as of June 30, 2009 and the results of operations for the year ended 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
December 21, 2009

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FINANCIAL STATEMENTS

Southwestern Community College District
Proposition AA Bond Fund
Balance Sheet
June 30, 2009

ASSETS

Current assets:

Cash and investments	\$ 13,879,781
Accounts receivable	51,148
Total current assets	<u>13,930,929</u>
Total assets	<u><u>\$ 13,930,929</u></u>

**LIABILITIES AND
FUND BALANCES**

Current Liabilities:

Accounts payable	\$ 110,589
Due to SWCCD	9,745
Total current liabilities	<u>120,334</u>
Total liabilities	<u>120,334</u>

Fund Balances:

Reserved for capital projects	<u>13,810,595</u>
Total fund balances	<u>13,810,595</u>
Total liabilities and fund balances	<u><u>\$ 13,930,929</u></u>

Southwestern Community College District
Proposition AA Bond Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2009

REVENUES:

Interest income	\$ 404,963
Other Local Revenue	16,822
Total revenues	<u>421,785</u>

EXPENDITURES:

Classified salaries	131,221
Employee benefits	22,288
Supplies	273,341
Services and other operating expenditures	-
Capital outlay	6,546,769
Total expenditures	<u>6,973,619</u>

Changes in fund balances (6,551,834)

FUND BALANCES:

Beginning of year	<u>20,362,429</u>
End of year	<u><u>\$ 13,810,595</u></u>

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Southwestern Community College District
Proposition AA Bond Fund
Notes to Financial Statements
For the year ended June 30, 2009

1. DEFINITION OF THE BOND FUND

The Bond Fund (the "Fund") is used to account for acquisition, construction, and renovation of classrooms, science labs, libraries, and other facilities for Southwestern Community College District (the "District"). The Fund is one of the capital projects funds of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) 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 accompanying financial statements are used to account for the transactions of the Fund as defined in Note 1 and are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The 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 fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or serviced or services rendered).

Budgets and Budgetary Accounting

The Board of Trustees (the "Board") adopts an operating budget no later than July 1, in accordance with state law. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of the budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriation by account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

Southwestern Community College District
Proposition AA Bond Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits, and collateral is considered to be held in the name of the District. All District cash held by financial institutions is entirely insured or collateralized.

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 San Diego County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et.seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. Accounts receivables are recorded net of estimated uncollectible amounts. There were no significant receivables which are not scheduled for collection within one year of year-end.

Long-Term Obligations

The District reports long-term debt of the Fund at face value within the liabilities as a current and non-current portion in the financial statements.

Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2009.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period and when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Southwestern Community College District
Proposition AA Bond Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Fund are determined by its measurement focus. The 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 Fund are accounted for in the financial statements of the District and are not included in the accompanying financial statements.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the reported.

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*

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.

Southwestern Community College District
Proposition AA Bond 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. 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

Cash in County Treasury

In accordance with the Education Code Section 41001, the District maintains a significant portion of its cash in the San Diego County Treasury as part of the common investment pool. At June 30, 2009, the carrying value was \$13,879,781. 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. In accordance with GASB No. 31, investments in the cash in County Treasury should be recorded at fair value. However, the District determined that the fair value approximates cost; therefore, no adjustment was made to reflect the difference.

Cash in Banks

Cash balances in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by financial institutions is entirely insured or collateralized.

4. BONDED DEBT OF THE DISTRICT

In January 2005, the District authorized the sale and issuance of 2005 General Obligation Bonds, Refunding of Election 2000, Series 2001, in the amount of \$40,575,000. Proceeds from the sale of the bonds were used to advance refund the entire outstanding principal amount of the District's General Obligation Bonds, Series 2001 and to fund additional capital projects authorized by the initial measure. Interest is payable February 1 and August 1, commencing August 1, 2005 at rates ranging from 3.0% to 5.2%. Principal is payable August 1, commencing August 1, 2005 and through the maturity date August 1, 2005.

Southwestern Community College District
Proposition AA Bond Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2009

4. BONDED DEBT OF THE DISTRICT, Continued

In September 2004, the District authorized the sale and issuance of 2004 General Obligation Bonds, Election of 2000, Series 2004, in the amount of \$49,353,974. Proceeds from the sale of the bonds will be used to finance the renovation of classrooms and other college facilities throughout the District. These bonds were partially refunded in August 2005. Interest on the remaining amount is payable August 1, commencing August 1, 2024 at rates ranging from 3.0% to 5.2%. Principal is payable August 1, commencing August 1, 2024 and through the maturity date August 1, 2009.

In August 2005, the District authorized the sale and issuance of 2005 General Obligation Refunding Bonds, Series B, in the amount of \$37,456,116. Proceeds from the sale of the bonds were used to advance refund a portion of the District's 2004 General Obligation Bonds, Election of 2000, Series 2004. Interest is payable February 1 and August 1, commencing February 1, 2007 at 5.25%. Principal is payable August 1, commencing August 1, 2007 and through the maturity date August 1, 2018. The bonds were issued at a premium of \$5,786,135. In addition, there were \$640,857 of bond issuance costs and a \$947,394 refunding adjustment associated with the partial refunding of the 2004 General Obligation Bonds.

The outstanding bonded debt of the District as of June 30, 2009 is as follows:

	Balance at July 1, 2008	Prior Period Adjustments	Additions	Deletions	Balance at June 30, 2009	Due within One Year	Due in More Than One Year
Bonds:							
GO Bond 2000, Series 2004	\$ 15,446,369	\$ (2,452,395)	\$ -	\$ -	\$ 12,993,974	\$ -	\$ 12,993,974
GO Bond 2005	38,915,000	-	-	(750,000)	38,165,000	855,000	37,310,000
GO Bond 2005, Refunding Series B	36,850,589	(2,300,982)	-	(1,453,618)	33,095,989	1,441,306	31,654,683
Total	\$ 91,211,958	\$ (4,753,377)	\$ -	\$ (2,203,618)	\$ 84,254,963	\$ 2,296,306	\$ 81,958,657
Unamortized bond premium, issuance costs, and refunding adjustments	3,301,979	-	-	(295,635)	3,006,344	295,635	2,710,709
	<u>\$ 94,513,937</u>	<u>\$ (4,753,377)</u>	<u>\$ -</u>	<u>\$ (2,499,253)</u>	<u>\$ 87,261,307</u>	<u>\$ 2,591,941</u>	<u>\$ 84,669,366</u>

The annual requirements for debt service, amortization of the bond premium, discount and the refunding loss adjustment for the general obligation and lease revenue bonds outstanding at June 30, 2009 is as follows:

	GO Bonds, 2000		GO Bonds, 2005		GO Bonds, 2005 Series B		
	Principal	Interest	Principal	Interest	Accretion	Principal	Interest
2010	\$ -	\$ -	\$ 855,000	\$ 1,783,300	\$ 987,006	\$ 1,441,306	\$ 1,587,338
2011	-	-	965,000	1,756,000	560,159	1,419,682	1,587,338
2012	-	-	1,085,000	1,719,825	-	2,795,000	1,513,969
2013	-	-	1,220,000	1,673,725	-	3,215,000	1,356,206
2014	-	-	1,370,000	1,621,925	-	3,670,000	1,175,475
2015-2019	-	-	9,440,000	6,950,263	-	20,555,000	2,373,656
2020-2024	-	1,237,906	15,125,000	4,008,150	-	-	-
2025-2029	11,441,775	26,076,719	8,105,000	413,625	-	-	-
2030	1,552,199	2,126,401	-	-	-	-	-
	<u>\$ 12,993,974</u>	<u>\$ 29,441,026</u>	<u>\$ 38,165,000</u>	<u>\$ 19,926,813</u>	<u>\$ 1,547,165</u>	<u>\$ 33,095,988</u>	<u>\$ 9,593,981</u>

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SUPPLEMENTAL INFORMATION

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Southwestern Community College District
Proposition AA Bond Fund
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements
For the year ended June 30, 2009

No adjustments made.

Southwestern Community College District

Proposition AA Bond Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Interest income	\$ 860,000	\$ 404,963	\$ (455,037)
Other local revenue	<u>-</u>	<u>16,822</u>	<u>16,822</u>
Total revenues	860,000	421,785	(438,215)
EXPENDITURES			
Classified salaries	168,000	131,221	36,779
Employee benefits	20,000	22,288	(2,288)
Supplies	60,000	273,341	(213,341)
Services and other operating expenditures	1,204,000	-	1,204,000
Capital outlay	<u>11,320,548</u>	<u>6,546,769</u>	<u>4,773,779</u>
Total expenditures	<u>12,772,548</u>	<u>6,973,619</u>	<u>5,798,929</u>
Changes in fund balances	<u>\$ (11,912,548)</u>	<u>(6,551,834)</u>	<u>\$ (5,360,714)</u>
FUND BALANCES:			
Beginning of year		<u>20,362,429</u>	
End of year		<u>\$ 13,810,595</u>	



**REPORT ON INTERNAL CONTROL AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Southwestern Community College District
Chula Vista, California

We have audited the financial statements of Southwestern Community College District (the "District") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 21, 2009 for the Bond Fund. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not all management or employees; in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in inter control over financial reporting that we consider to be material weaknesses, as defined above.

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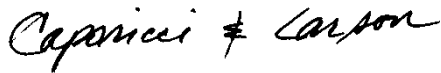
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The Board of Trustees
Southwestern Community College District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Governing Board, others within the District, the federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 21, 2009

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Trustees
Southwestern Community College District
Chula Vista, California

We have audited the financial statements of the Proposition AA Bond Fund (Bond Fund) of the Southwestern Community College District (District) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 21, 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 General Obligation Bonds 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 General Obligation 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 costs.
- 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 General Obligation Bonds 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
December 21, 2009

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Southwestern Community College District
Proposition AA Bond Fund
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

A. CURRENT YEAR FINDINGS AND QUESTIONED COSTS - BOND FUND PERFORMANCE AUDIT

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

B. PRIOR YEAR FINDINGS AND QUESTIONED COSTS - BOND FUND PERFORMANCE AUDIT

There were no findings or questioned costs related to the performance audit of the Bond Fund for the year ended June 30, 2008.