

**Southwestern Community
College District
Proposition “AA” Bond Fund**

Chula Vista, California

**Financial Statements, Supplemental
Information and Independent Auditor’s Reports**

For the Year Ended June 30, 2015

**Southwestern Community College District
Proposition “AA” Bond Fund**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

Report on Financial Statements

We have audited the accompanying balance sheet and statement of revenues, expenditures, and changes in fund balances for the Proposition "AA" Bond Fund (the "Bond Fund") of the Southwestern Community College District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Bond Fund's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bond Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bond Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and result of operations and change in fund balance of the Bond Fund of the District as of and for the year ended June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California
Page Two

Emphasis of a Matter

As described in Note 2 to the financial statements, the financial statements present only the Proposition AA Bond Fund and are not intended to, and do not, present fairly the financial position of the District as of June 30, 2015, and the results of operations and changes in fund balance thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2015, on our consideration of the District's internal control over financial reporting in regard to the Proposition AA Bond Fund 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.

Other Matters

Other Information

The accompanying Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements and the Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual are not a required part of the basic financial statements but are supplementary information required by the State of California Department of Education. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the supplementary information and express no opinion on these schedules.

A handwritten signature in black ink that reads "Rick E. McGeady LLP". The signature is written in a cursive, flowing style.

San Diego, California
December 31, 2015

FINANCIAL STATEMENTS

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Southwestern Community College District
Proposition "AA" Bond Fund
Balance Sheet
June 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ -
Accounts receivable	<u>-</u>
Total current assets	<u>-</u>
Total assets	<u><u>\$ -</u></u>

**LIABILITIES AND
FUND BALANCE**

Current Liabilities:

Accounts payable	<u>-</u>
Total current liabilities	<u>-</u>
Total liabilities	<u>-</u>

Fund Balance:

Restricted for capital projects	<u>-</u>
Total fund balance	<u>-</u>
Total liabilities and fund balance	<u><u>\$ -</u></u>

Southwestern Community College District
Proposition "AA" Bond Fund
Statement of Revenue, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2015

REVENUES:

Investment income	\$ -
Total revenues	<u>-</u>

EXPENDITURES:

Supplies, materials and other expenses	-
Capital outlay	-
Other	<u>451</u>
Total expenditures	<u>451</u>

Change in fund balance	(451)
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FUND BALANCE:

Beginning of year	<u>451</u>
End of year	<u><u>\$ -</u></u>

Southwestern Community College District
Proposition “AA” Bond Fund
Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 1 – Definition of the Bond Fund

The Proposition AA 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.

Note 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).

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor’s Office’s California Community College *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 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 the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 – Summary of Significant Accounting Policy (Continued)

Cash, Cash Equivalents and Investments

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. 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 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 funds maintained by the County are either secured by federal depository insurance or are collateralized.

Capital Assets 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.

Classification of Fund Balances

Fund balances are classified as follows:

Non-spendable 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 Trustees.

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 Vice President 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.

Southwestern Community College District
Proposition “AA” Bond Fund
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Spending Policy

When expenditures is 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 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.

Note 3 – Expenditures by Project

Bond Fund expenditures by project for the year ended June 30, 2015 consisted of the following:

Project Name	Expenditures
Miscellaneous	\$ 451
Total Bond Fund Expenditures	\$ 451

Southwestern Community College District
Proposition “AA” Bond Fund
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 4 – Bonded Debt of the District

In September 2004, the District authorized the sale and issuance of the 2004 General Obligation Bonds in the amount of \$49,353,974. Proceeds from the sale of the bonds were 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, 2005 at rates ranging from 2.5% to 5.0%. Principal is payable August 1, commencing August 1, 2005 and through the maturity date August 1, 2029.

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 principle 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, 2025.

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, 2006 at 5.25%. Principal is payable August 1, commencing August 1, 2006 and through the maturity date August 1, 2018. The bonds were issued at a premium of \$5,786,135. In addition, there were \$649,857 of bond issuance costs and a \$947,394 refunding adjustment associated with the partial refunding of the 2004 General Obligation Bonds. The District has pledged the property taxes assessed to secure payment of the bonds.

In August 2014, the District authorized the sale and issuance of 2015 General Obligation Refunding Bonds, in the amount of \$27,045,000. Proceeds from the sale of the bonds were used to advance refund a portion of the District’s 2005 General Obligation Bonds, Election of 2000, Series 2005. Interest is payable February 1 and August 1, commencing August 1, 2015 at 5.0%. Principal is payable August 1, commencing August 1, 2015 and through the maturity date February 1, 2026. The bonds were issued at a premium of \$4,030,391. The aggregate debt service payments of the new debt are \$3,698,626 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the present value of the old debt and new debt service payments) of approximately \$3,247,455.

The outstanding bonded debt of the District as of June 30, 2015 is as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>	<u>Due In More</u> <u>Than One Year</u>
Bonds:						
GO Bond 2000, Series 2004	\$ 12,993,974	\$ -	\$ -	\$ 12,993,974	\$ -	\$ 12,993,974
GO Bond 2005	32,670,000	-	(1,520,000)	31,150,000	1,680,000	29,470,000
GO Bond 2005, Refunding Series B	20,555,000	-	(4,165,000)	16,390,000	4,705,000	11,685,000
GO Bond 2015		27,045,000		27,045,000	420,000	26,625,000
Total	\$ 66,218,974	\$ 27,045,000	\$ (5,685,000)	\$ 87,578,974	\$ 6,805,000	\$ 80,773,974
Unamortized bond premium	3,629,159	4,030,391	(664,707)	6,994,843	-	6,994,843
Total	<u>\$ 69,848,133</u>	<u>\$ 31,075,391</u>	<u>\$ (6,349,707)</u>	<u>\$ 94,573,817</u>	<u>\$ 6,805,000</u>	<u>\$ 87,768,817</u>

Southwestern Community College District
Proposition “AA” Bond Fund
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 4 – Bonded Debt of the District (Continued)

The annual requirements for debt service for the general obligation bonds outstanding at June 30, 2015 are as follows:

	GO Bonds, 2000		GO Bonds, 2005		GO Bonds, 2005 Series B		GO Bonds, 2015	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ -	\$ -	\$ 1,680,000	\$ 1,491,725	\$ 4,705,000	\$ 736,969	\$ 420,000	\$ 931,861
2017	-	-	1,875,000	1,402,850	5,290,000	474,600	1,695,000	1,233,025
2018	-	-	2,070,000	1,301,638	5,930,000	180,075	1,850,000	1,170,600
2019	-	-	2,295,000	1,189,925	465,000	12,206	2,040,000	1,092,800
2020	-	-	2,520,000	1,079,650	-	-	2,230,000	996,250
2021-2025	1,434,188	3,847,153	16,490,000	3,236,625	-	-	14,940,000	2,971,000
2026-2030	11,559,786	25,593,873	4,220,000	105,500	-	-	3,870,000	96,750
	<u>\$ 12,993,974</u>	<u>\$ 29,441,026</u>	<u>\$ 31,150,000</u>	<u>\$ 9,807,913</u>	<u>\$ 16,390,000</u>	<u>\$ 1,403,850</u>	<u>\$ 27,045,000</u>	<u>\$ 8,492,286</u>

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SUPPLEMENTARY 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, 2015

A reconciliation of fund balance reported to the State Chancellor’s Office on the Annual Financial and Budget Report (CCFS-311) and the audited financial statements is as follows:

	Prop AA Fund
	<u> </u>
Fund balance per the CCFS-311 at June 30, 2015	<u>\$ -</u>
Miscellaneous adjustments and reclassifications	<u> -</u>
Net adjustments and reclassifications	<u> -</u>
Fund balance per the audited fund financial statements at June 30, 2015	<u><u>\$ -</u></u>

Southwestern Community College District
Proposition "AA" Bond Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Interest income	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Other	-	451	(451)
Total expenditures	<u>-</u>	<u>451</u>	<u>(451)</u>
Change in fund balance	<u>\$ -</u>	(451)	<u>\$ 451</u>
FUND BALANCE:			
Beginning of year		<u>451</u>	
End of year		<u>\$ -</u>	



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**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**

Independent Auditors' Report

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the accompanying 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, 2015, and the related notes to the financial statements, which collectively comprise the Bond Fund's basic financial statements, and have issued our report thereon dated December 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bond Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bond Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Fund's internal control.

A *deficiency in internal control* 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 grant agreements, 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*.

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California
Page Two

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Ron Mc Geady in black ink.

San Diego, California
December 31, 2015

PERFORMANCE AUDIT

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REPORT ON PERFORMANCE

Independent Auditors' Report

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

We conducted a performance audit of the Proposition 39/Proposition "AA" General Obligation Bond ("Bond Fund") of the Southwestern Community College District ("District") for the fiscal year ended June 30, 2015.

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 "AA" 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:

- Obtain documentation detailing the expenditures charged to the District's Proposition "AA" General Obligation Bond-funded capital outlay projects.
- Determine whether the proceeds of the sale of the Proposition "AA" 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 with a performance audit report 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, 2014 to June 30, 2015. 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, 2015 were not reviewed or included within the scope of our audit or in this report.

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 "AA". Accordingly, we express no such opinion.

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California
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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, 2015. In addition, 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*.

Purpose of this Report

The purpose of this report on performance is solely to describe the scope of our testing of the District's performance and the results of that testing based on the state laws and regulations referred to above. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, flowing style.

San Diego, California
December 31, 2015

**Southwestern Community College District
Proposition “AA” Bond Fund
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

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, 2015.

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, 2014.