

**DRAFT**

**Grossmont-Cuyamaca  
Community College District**

**Proposition R Bond Building Fund**

**El Cajon, California**

*Financial Statements and  
Independent Auditors' Report*

*For the year ended June 30, 2004*

# Grossmont-Cuyamaca Community College District Proposition R Bond Building Fund

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# Grossmont-Cuyamaca Community College District Proposition R Bond Building Fund

## Introduction and Citizens' Oversight Committee Member Listing

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Grossmont-Cuyamaca Community College District (District) consists of two separately accredited colleges supported by a District Office. The District serves approximately 26,000 students per semester. Full-time equivalent students (FTES) enrollment for 2003/2004 was 18,874.

On November 5, 2002, the voters of San Diego County passed ballot measure *Proposition R*, authorizing the issuance and sale of \$207,000,000 of general obligation bonds. The first issuance and sale of general obligation bonds closed on May 29, 2003, for a principal amount of \$55,000,000. After defeasement of a lease revenue bond, the net deposit to the County Treasury was \$46,084,733. All warrants are preaudited and processed by the San Diego County Office of Education. All *Proposition R* building funds are accounted for in Sub Fund 42 of the Capital Projects Construction Fund in the District's general ledger.

*Proposition R* 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.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2004:

|                      |        |                               |
|----------------------|--------|-------------------------------|
| Ernest Ewin          | Chair  | Financial Professional        |
| John Correia         | Member | Grossmont College Student     |
| Charles R. Fouquette | Member | Construction Trades Council   |
| Bill Garrett         | Member | Cuyamaca College Foundation   |
| Harvey J. Goodfriend | Member | Taxpayers' Organization       |
| Kimberly M. Paris    | Member | Cuyamaca College Student      |
| Ken Sobel            | Member | Grossmont College Foundation  |
| Arkan Somo           | Member | Business Organization         |
| Harriet Stockwell    | Member | Senior Citizens' Organization |
| David Waitley        | Member | Construction Professional     |
| Glenn Wilhite        | Member | College Advisory Committee    |

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## INDEPENDENT AUDITORS' REPORT

The Governing Board and  
the Citizens' Bond Oversight Committee  
Grossmont-Cuyamaca Community College District  
El Cajon, California

We have audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the Proposition R Bond Building Fund (Bond Fund) of the Grossmont-Cuyamaca Community College District (District) as of and for the year ended June 30, 2004. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental 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 A, the Bond Fund financial statements present only the bond funds referred to in the second paragraph 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, 2004, in conformity with generally accepted accounting standards in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2004 on our consideration of the District's internal control over Bond Fund financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts governing the bond funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

San Diego, California  
September 10, 2004

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**FINANCIAL STATEMENTS**

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Balance Sheet**  
**For the year ended June 30, 2004**

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**ASSETS**

|                         |                             |
|-------------------------|-----------------------------|
| Cash in County Treasury | \$ 39,391,670               |
| Accounts receivable:    |                             |
| Interest                | <u>155,799</u>              |
| <b>Total assets</b>     | <u><u>\$ 39,547,469</u></u> |

**LIABILITIES AND FUND BALANCES**

**Liabilities:**

|                          |                   |
|--------------------------|-------------------|
| Accounts payable         | \$ <u>666,658</u> |
| <b>Total liabilities</b> | <u>666,658</u>    |

**Fund Balances:**

|  |                             |
|--|-----------------------------|
| Reserved for capital projects              | <u>38,880,811</u>           |
| <b>Total fund balances</b>                 | <u>38,880,811</u>           |
| <b>Total liabilities and fund balances</b> | <u><u>\$ 39,547,469</u></u> |

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2004**

**REVENUES:**

|                       |                |
|-----------------------|----------------|
| Interest income       | \$ 688,528     |
| <b>Total revenues</b> | <u>688,528</u> |

**EXPENDITURES:**

|                                       |                  |
|---------------------------------------|------------------|
| Supplies                              | 799,587          |
| Other operating expenses and services | 4,407,282        |
| Capital outlay                        | <u>1,867,238</u> |
| <b>Total expenditures</b>             | <u>7,074,107</u> |

|   |                    |
|---|--------------------|
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(6,385,579)</u> |
|---|--------------------|

|                                   |             |
|-----------------------------------|-------------|
| <b>Net change in fund balance</b> | (6,385,579) |
|-----------------------------------|-------------|

**FUND BALANCE:**

|                   |                      |
|-------------------|----------------------|
| Beginning of year | <u>45,266,390</u>    |
| End of year       | <u>\$ 38,880,811</u> |

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Statement of Revenues Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2004**

|   | <u>Budget</u>          | <u>Actual</u>        | <u>Variance</u>      |
|---|------------------------|----------------------|----------------------|
| <b>REVENUES:</b>                          |                        |                      |                      |
| Interest income                           | \$ 250,000             | \$ 688,528           | \$ 438,528           |
| <b>Total revenues</b>                     | <u>250,000</u>         | <u>688,528</u>       | <u>438,528</u>       |
| <b>EXPENDITURES:</b>                      |                        |                      |                      |
| Supplies                                  | 908,658                | 799,587              | 109,071              |
| Other operating expenses and services     | 15,048,783             | 4,407,282            | 10,641,501           |
| Capital outlay                            | 28,751,881             | 1,867,238            | 26,884,643           |
| Other expenses                            | 807,068                | -                    | 807,068              |
| <b>Total expenditures</b>                 | <u>45,516,390</u>      | <u>7,074,107</u>     | <u>38,442,283</u>    |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(45,266,390)</u>    | <u>(6,385,579)</u>   | <u>38,880,811</u>    |
| <b>Net change in fund balances</b>        | <u>\$ (45,266,390)</u> | <u>(6,385,579)</u>   | <u>\$ 38,880,811</u> |
| <b>FUND BALANCES:</b>                     |                        |                      |                      |
| Beginning of year                         |                        | <u>45,266,390</u>    |                      |
| End of year                               |                        | <u>\$ 38,880,811</u> |                      |

See accompanying Notes to Basic Financial Statements.

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Notes to Financial Statements**  
**For the year ended June 30, 2004**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Grossmont-Cuyamaca Community College District (District) was established in 1961. The District currently operates Grossmont College and Cuyamaca College, 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. Grossmont College currently serves 18,000 students per semester on its 135 acre campus located in El Cajon. Cuyamaca College currently serves 8,000 students per semester on its 165 acre campus in the Rancho San Diego area. Both colleges are fully accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges.

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

Accounting Policies

The accompanying 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 susceptible to accrual, which is to say, 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).

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2004**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Budget

The Governing Board adopts an operating budget no later than July 1 in accordance with State law. This budget is revised by the Governing Board during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption.

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 basic financial statements of the Grossmont-Cuyamaca Community College District.

Reservations of Fund Balances

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

**NOTE B: CASH IN COUNTY TREASURY**

The District maintains its cash in the San Diego County Treasury as part of the common investment pool. The District's share of the investment pool is \$39,391,670 at June 30, 2004. 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 agreement.

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2004**

**NOTE C: BONDED DEBT OF THE DISTRICT**

**2003 Series A General Obligation Bonds**

| <u>Interest Rate %</u> | <u>Amount of Original Issue</u> | <u>Outstanding July 1, 2003</u> | <u>Issued Current Year</u> | <u>Redeemed Current Year</u> | <u>Outstanding June 30, 2004</u> |
|------------------------|---------------------------------|---------------------------------|----------------------------|------------------------------|----------------------------------|
| 2.5-5.0%               | \$ 55,000,000                   | \$ 55,000,000                   | \$ -                       | \$ (5,400,000)               | \$ 49,600,000                    |

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 \$207,000,000 under Proposition 39. These bonds are issued in multiple series as general obligations of the District. The following information is provided for purposes of additional analysis only.

In May 2003, Series 2003A general obligation bonds in the amount of \$55,000,000 were sold at a premium. The proceeds from the sale of the bonds will be used by the District to (i) finance the acquisition, construction, renovation, repair and modernization of certain District property and facilities, and to refinance certain outstanding indebtedness of the District as specified in a list submitted to and approved by the voters of the District in the November 5, 2002 election, and (ii) to pay certain cost of issuance of the bonds. The proceeds may not be used for District employees' salaries or other administration costs.

A portion of the bond proceeds (\$46,084,733) was deposited in the District's Bond Fund to be used for the District's project list. The rest of the principal proceeds (\$8,915,267) were deposited into an escrow fund to defease the District's portion of the California Community College Financing Authority Lease Revenue Bonds, Series 1999A (Series 1999A Bonds), along with the cash in the Series 1999A Bonds Debt Service Reserve Fund (\$765,892). The Series 1999A Bonds were originally issued in the aggregate principal amount of \$9,705,000, of which amount \$8,940,000 is currently outstanding.

Pursuant to an escrow agreement by the District and U.S. Bank National Association, the District will also deposit certain non-callable U.S. governmental obligations in the escrow fund which, together with interest and earnings thereon, will be sufficient to pay the redemption price of the Series 1999A Bonds on the first optional redemption date of October 1, 2007.

Bond issuance costs of \$1,019,688 were incurred in connection with the issuance of the Series 2003A general obligation bonds.

**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2004**

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**NOTE C: BONDED DEBT OF THE DISTRICT, Continued**

The annual debt service requirements for the Series 2003A general obligation bonds outstanding as of June 30, 2004 are as follows:

| Year Ended<br>June 30, | Principal            | Interest             | Total                |
|------------------------|----------------------|----------------------|----------------------|
| 2005                   | \$ 5,400,000         | \$ 2,334,612         | \$ 7,734,612         |
| 2006                   | 4,000,000            | 2,217,113            | 6,217,113            |
| 2007                   | 1,275,000            | 2,151,175            | 3,426,175            |
| 2008                   | 1,305,000            | 2,115,663            | 3,420,663            |
| 2009                   | 1,345,000            | 2,067,506            | 3,412,506            |
| 2010-2014              | 7,630,000            | 9,405,162            | 17,035,162           |
| 2015-2019              | 9,600,000            | 7,357,500            | 16,957,500           |
| 2020-2024              | 12,250,000           | 4,659,750            | 16,909,750           |
| 2025-2027              | 12,195,000           | 1,256,625            | 13,451,625           |
| <b>Total</b>           | <b>\$ 55,000,000</b> | <b>\$ 33,565,106</b> | <b>\$ 88,565,106</b> |

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**SUPPLEMENTAL INFORMATION**

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

The Governing Board  
and the Citizens' Bond Oversight Committee  
Grossmont-Cuyamaca Community College District  
El Cajon, California

We have audited the financial statements as of and for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004 for the Proposition R Bond Building Fund (the "Bond Fund") of the Grossmont-Cuyamaca Community College District (the "District"). We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's Bond Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District'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 a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

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

San Diego, California  
September 10, 2004

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Governing Board and  
the Citizens' Bond Oversight Committee  
Grossmont-Cuyamaca Community College District  
El Cajon, California

We have audited the financial statements of the Proposition R Bond Building Fund (Bond Fund) of the Grossmont-Cuyamaca Community College District (District) as of and for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. 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 R General Obligation Bond for the fiscal year ended June 30, 2004. 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 R 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 Governing Board 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 R 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 Governing Board, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.

San Diego, California  
September 10, 2004

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**Grossmont-Cuyamaca Community College District**  
**Proposition R Bond Building Fund**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2004**

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There were no findings or questioned costs related to the performance audit of the Proposition R Bond Building Fund for the year ended June 30, 2004.