

**SAN JOSÉ/EVERGREEN COMMUNITY
COLLEGE DISTRICT
San Jose, California**

**2010 MEASURE G GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS**

June 30, 2012

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
CITIZENS' BOND OVERSIGHT COMMITTEE MEMBERS
June 30, 2012

The Board of Trustees of the San José/Evergreen Community College District established the Citizens' Bond Oversight Committee. The Committee shall perform only the following duties: (1) inform the public concerning the District's expenditure of bond proceeds, (2) review quarterly expenditure reports produced by the District to ensure that (a) bond proceeds were expended only for the purposes set forth in the Measure G; and (b) no bond proceeds were used for any teacher or administrative salaries or other operating expenses and (3) present to the Board, in public session, an annual written report which shall include the following: a statement indicating whether the District is in compliance with the requirements of Article XIII A, Section 1(b)(3) of the California Constitution; and a summary of the Committee's proceedings and activities for the preceding year.

The Citizens' Bond Oversight Committee for Measure G members for the fiscal year ended June 30, 2012 were composed of the following members:

Members	Representing	Term Expires
Joseph Becker	Community at-large	February 2013
Carol Lizak	Community at-large	February 2013
Spencer Horowitz	Community at-large	February 2013
Daniel Kojiro	Community at-large	February 2013
Ann Mancuso-Engdahl	Community at-large	February 2013
Kathleen Kyne	Senior Citizen's Organization	February 2013
Jimmy Nguyen	Taxpayer's Association	February 2013
Bob Nunez	Business Community within the District	March 2013
Linda Lam	Student active in a Community College	February 2013
Raymond Porras	Student active in a Community College	February 2013

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT

2010 MEASURE G GENERAL OBLIGATION BONDS
June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

To the Citizens' Bond
Oversight Committee and the Board of Trustees
San José/Evergreen Community College District

We have audited the accompanying basic financial statements of San José/Evergreen Community College District (the "District") 2010 Measure G General Obligation Bonds activity included in the Capital Projects Funds of the District (the "Bond Funds"), as of and for the year ended June 30, 2012, as listed in the Table of Contents. These basic financial statements are the responsibility of San José/Evergreen Community College District's management. Our responsibility is to express an opinion on these basic 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements of the Bonds are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Bond Funds and do not purport to, and do not, present fairly the financial position and results of operations of the San José/Evergreen Community College District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the 2010 Measure G General Obligation Bonds of the District as of June 30, 2012, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012 on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, and other matters. 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 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the San José/Evergreen Community College District 2010 Measure G General Obligation Bonds. The purpose of Bond Issuance on pages 9 and 10 of this report and the Citizen's Bond Oversight Committee Members are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the 2010 Measure G General Obligation Bonds for the San José/Evergreen Community College District. The accompanying Purpose of Bond Issuance listed in the table of contents as Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
November 29, 2012

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2012

ASSETS

Cash and cash equivalents (Note 2)	\$ 79,623,173
Accounts Receivable	<u>143,231</u>
Total assets	<u><u>\$ 79,766,404</u></u>

**LIABILITIES AND
FUND BALANCE**

Liabilities:	
Due to other funds	\$ 2,548,552
Commitments (Note 4)	
Restricted fund balance	<u>77,217,852</u>
Total liabilities and fund balance	<u><u>\$ 79,766,404</u></u>

See accompanying notes to financial statements.

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2012

Revenues:	
Sales of the bonds	\$ 90,000,000
Interest income (Note 2)	<u>203,806</u>
Total revenues	90,203,806
Expenditures:	
Salaries and benefits	51,166
Contract services	1,403,543
Capital outlay	10,067,062
Other outgo	<u>795,728</u>
Total expenditures	<u>12,317,499</u>
Excess of revenues over expenditures	77,886,307
Restricted fund balance, July 1, 2011	<u>(668,455)</u>
Restricted fund balance, June 30, 2012	<u>\$ 77,217,852</u>

See accompanying notes to financial statements.

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San José/Evergreen Community College District (the "District") accounts for its 2010 Bond Capital Projects Fund's ("Bond Funds") financial transactions in accordance with policies and procedures of the State Chancellor's Office's *California Community Colleges Budget and Accounting Manual*. The accounting policies of the Bond Funds conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

The financial statements include only the Bond Funds' 2010 General Obligation Bond Resources of the District. The funds were established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds (Election of 2010, Series A and B). The authorized issuance amount of the bonds is \$268,000,000. Series A and B of the bonds were sold on February 23, 2012, for \$74,817,650 and \$21,815,354, respectively. These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The basic financial statements represent Capital Projects Funds of the District and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Cash and Cash Equivalents: For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Santa Clara County Treasury are considered cash equivalents.

Restricted Fund Balance: Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Capital Projects Funds in accordance with the Bond Project List for 2010 Measure G General Obligation Bonds.

Accounting Estimates: The presentation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

(Continued)

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2012 consisted of \$79,623,173 held in the County Treasury investment pool.

The California Government Code requires California banks and savings and loan associations to secure the Bond Fund's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent 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 percent of an agency's total deposits and collateral is considered to be held in the name of the Bond Funds. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: In accordance with Education Code Section 41001, the Bond Funds maintain substantially all of their cash in the Santa Clara County Treasury. The County Treasurer of Santa Clara County acts as the Measure G General Obligation Bond Fiscal Agent. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the Bond Funds' deposits are maintained in a recognized pooled investment fund under the care of a third party and the Bond Funds' share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2012, the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
County Pooled Investment Fund	None	None	None

Disclosures Relating to Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the maximum average maturity of the investments contained in the County investment pool is five years.

(Continued)

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

<u>Investment Type</u>	<u>Weighted Average Maturity (in Years)</u>
Santa Clara County Investment Pool	1.24

Concentration of Credit Risk: The District's investment policy places limits on the amount it may invest in any one issuer. At June 30, 2012, the District had no concentration of credit risk.

NOTE 3 – GENERAL OBLIGATION BOND ISSUES

The election of 2010 General Obligation Bonds were authorized at a special election of the registered voters of San José/Evergreen Community College District held on November 2, 2010, at which more than 55% of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$268,000,000 principal amount of general obligation bonds of the District. The bonds are included in the audited financial statements of the District. As of June 30, 2012, the District has issued \$90,000,000 of Measure G bonds.

In February 2012, the District issued the 2010 General Obligation Bonds, Series A in the amount of \$70,000,000. The bonds mature beginning on August 1, 2012 through August 1, 2041, with interest yields ranging from two to four percent.

In February 2012, the District issued 2010 General Obligation Bonds, Series B in the amount of \$20,000,000. The bonds mature beginning on August 1, 2012 through August 1, 2032, with interest yields ranging from two to four percent.

The Bonds represent an obligation of the District payable solely from *ad valorem* property taxes levied and collected by the County of Santa Clara on properties within the District. The Board of Supervisors of Santa Clara County has power and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the District without limitation of rate or amount, except as to certain personal property which is taxable at limited rates.

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – GENERAL OBLIGATION BOND ISSUES (Continued)

The general long-term liabilities maturity schedules for the 2004 General Obligation Bonds Series A and B are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013		\$ 1,497,250	\$ 1,497,250
2014		1,497,250	1,497,250
2015		1,497,250	1,497,250
2016		1,497,250	1,497,250
2017		1,497,250	1,497,250
2018-2022	\$ 2,246,630	10,279,620	12,526,250
2023-2027	31,050,224	28,115,401	59,165,625
2028-2030	<u>20,724,620</u>	<u>20,659,630</u>	<u>41,384,250</u>
	<u>\$ 54,021,474</u>	<u>\$ 66,540,901</u>	<u>\$ 120,562,375</u>

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,326,793	\$ 3,926,457	\$ 5,253,250
2014	1,667,195	4,061,056	5,728,251
2015	2,139,466	4,283,784	6,423,250
2016	2,267,913	4,465,337	6,733,250
2017	2,395,168	4,678,082	7,073,250
2018-2022	23,100,384	18,265,116	41,365,500
2023-2027	47,265,000	7,818,500	55,083,500
2028-2030	14,791,615	21,478,135	36,269,750
2033	<u>1,312,989</u>	<u>6,522,011</u>	<u>7,835,000</u>
	<u>\$ 96,266,523</u>	<u>\$ 75,498,478</u>	<u>\$ 171,765,001</u>

NOTE 4 – CONSTRUCTION COMMITMENTS

As of June 30, 2012, the District has approximately \$1.8 million in outstanding commitments on 2010 General Obligation Bond construction contracts.

SUPPLEMENTARY INFORMATION

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
PURPOSE OF BOND ISSUANCE

LEGISLATIVE HISTORY

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities", upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

**SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BONDS, 2010
MEASURE G**

The San José/Evergreen Community College District, Santa Clara County, California Election of 2010 General Obligation Bonds, Measure G were authorized at an election of the registered voters of the San José/Evergreen Community College District held on November 2, 2010 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$268,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the acquisition, construction and modernization of certain District property and facilities. The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes. A summary of the text of the ballot language was as follows:

"To better prepare San Jose City College/ Evergreen Valley College students for good paying jobs and transfer to four-year colleges, shall San Jose Evergreen Community College District upgrade, acquire, construct energy-efficient, technology-driven teaching classrooms, labs, sites, facilities/ equipment for health/ science, general education/ job-training, upgrade outdated electrical, plumbing, heating/ ventilation systems, by issuing \$268 million in bonds at legal rates, qualifying for matching funds, with citizen oversight, no money for administrator salaries, all funds staying local?"

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
2010 MEASURE G GENERAL OBLIGATION BONDS
PURPOSE OF BOND ISSUANCE

**SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BONDS, 2010
MEASURE G (Continued)**

The District's Board of Trustees developed the following Bond Project List for the 2010 Measure G Bonds:

- Upgrade labs for science and medical training programs.
 - Provide classrooms for math, science, writing, and other core academic classes.
 - Update classrooms and facilities for improved job training and career technical education.
 - Update classrooms and educational facilities to meet current fire and safety codes and provide access for students with disabilities.
 - Upgrade facilities to improve energy efficiency and reduce operating expenses, allowing more funding for classroom instruction and student services.
 - Establish a technology endowment to maintain up-to-date computer learning necessary for a 21st Century education.

FURTHER SPECIFICATIONS

No Administrator Salaries

Proceeds from the sale of bonds authorized by this proposition shall be used only for the construction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

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

To the Citizens' Bond
Oversight Committee and the Board of Trustees
San José/Evergreen Community College District

We have audited the basic financial statements of the San José/Evergreen Community College District (the "District") 2010 Measure G General Obligation Bonds (the "Bond Funds"), as of June 30, 2012, and have issued our report thereon dated November 29, 2012. 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

Management of San José/Evergreen Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered San José/Evergreen Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San José/Evergreen Community College District's internal control over Bond Funds financial reporting. Accordingly, we do not express an opinion on the effectiveness of San José/Evergreen Community College District's internal control over financial reporting for the Bond Funds.

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 and correct 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We did identify a deficiency in internal control, described in the accompanying Financial Statement Findings and Recommendations as Finding 2012-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Bond Fund basic financial statements are free of material misstatement, we performed tests of the Bond Fund's 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 amounts shown on the basic financial statements. 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*.

San José/Evergreen Community College District's response to the finding identified in our audit is included in the accompanying Financial Statement Findings and Recommendations. We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information of the Citizens' Bond Oversight Committee for 2010 Measure G, the Board of Trustees and District management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
November 29, 2012

FINDINGS AND RECOMMENDATIONS

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
June 30, 2012

2012-01 DEFICIENCY – RETENTION LIABILITY

Criteria

Internal Controls - Financial Reporting

Condition

The District did not record a liability for contract retention payments withheld for one contractor providing services under 2010 Measure G Series A Bond in the amount of \$386,786.

Effect

Liabilities and expenses were understated by \$386,786 prior to an audit adjustment.

Cause

Effective internal controls have not been designed and implemented.

Fiscal Impact

Not applicable as the District recorded the liability of \$386,786 and re-submitted the CCFS-311.

Recommendation

The District should strengthen the procedures in place for the recording of contract retention liabilities.

Corrective Action Plan

The District will implement additional review control activities to ensure all retention liabilities are recorded.