

Wiseburn School District
Measure AA Oversight Committee
April 22, 2013
District Board Room 7:30 P.M.

- 1) Call to Order & Sign In -- Chairperson Ken Calof
- 2) Review of Minutes, November 26, 2012
- 3) Review of 2011-12 Audit report – Measure AA
- 4) Review of L.A. Times article – Capital Appreciation Bonds
- 5) Review of Measure AA Revenues, Expenditures and Fund Balance
- 6) Review of High School Project
 - a) EIR
 - b) Escrow and Closing
 - c) Site Planning and Design
- 7) Other Discussion/Questions
- 8) Schedule Next Meeting

INDEPENDENT AUDITORS' REPORT

Governing Board
Wiseburn School District
Hawthorne, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wiseburn School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Wiseburn School District's management. Our responsibility is to express opinions 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wiseburn School District, as of June 30, 2012, and the respective changes in financial position thereof 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 December 6, 2012 on our consideration of Wiseburn School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

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Accounting principles generally accepted in the United State of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 10, the budgetary comparison information on page 45, and the schedule of funding progress on page 46 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wiseburn School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
December 6, 2012

WISEBURN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

C. Construction Commitments

As of June 30, 2012, the District had commitments with respect to the following unfinished capital projects:

	<u>Remaining Construction Commitment</u>
Capital Projects	
Burnett Multi-Purpose Room	\$ 2,872,048
Dana Concession Stand	342,767
Total	<u>\$ 3,214,815</u>

WISEBURN SCHOOL DISTRICT
 SCHEDULE OF BOND EXPENDITURES – MEASURE A AND MEASURE AA
 FOR THE YEAR ENDED JUNE 30, 2012

	2011-12	
Measure A Project	Expenditures	
Burnett Classroom Project	\$	50,053
Burnett Multi-Purpose Room		1,395,486
Cabrillo School		170,781
District Wide		78,419
Legal and Bond Fees		26,516
Dana Concession Stand		13,753
Total Expenditures	\$	1,735,008 *

	2011-12	
Measure AA Project	Expenditures	
Legal and Bond Fees	\$	53,190
Consulting Fees		180,768
Total Expenditures	\$	233,958 * ✓

This schedule provides a summary of Measure A and Measure AA expenditures by project subjected to auditing procedures performed in relation to the financial statements taken as a whole.

WISEBURN SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Schedule of Bond Expenditures – Measure A and Measure AA

This schedule provides a summary of Measure A and Measure AA expenditures by project subjected to auditing procedures performed in relation to the financial statements taken as a whole.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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

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Hawthorne, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wiseburn School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 6, 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 Wiseburn School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Wiseburn School 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 the Wiseburn School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wiseburn School District's internal control over financial reporting.

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 over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wiseburn School 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 the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

Christy White Associates

San Diego, California
December 6, 2012

latimes.com/news/local/la-me-school-bond-20121129,0,2358068.story

latimes.com

California school districts face huge debt on risky bonds

About 200 districts have borrowed billions of dollars using so-called capital appreciation bonds. Districts may have to pay 10 to 20 times the amount borrowed.

By Dan Weikel, Los Angeles Times

5:45 PM PST, November 28, 2012

Two hundred school districts across California have borrowed billions of dollars using a costly and risky form of financing that has saddled them with staggering debt, according to a Times analysis.

advertisement

Schools and community colleges have turned increasingly to so-called capital appreciation bonds in the economic downturn, which depressed property values and made it harder for districts to raise money for new classrooms, auditoriums and sports facilities.

Unlike conventional shorter-term bonds that require payments to begin immediately, this type of borrowing lets districts postpone the start of payments for decades. Some districts are gambling the economic picture will improve in the decades ahead, with local tax collections increasingly enough to repay the notes.

DATABASE: Bonds by district

CABs, as the bonds are known, allow schools to borrow large sums without violating state or locally imposed caps on property taxes, at least in the short term. But the lengthy delays in repayment increase interest expenses, in some cases to as much as 10 or 20 times the amount borrowed.

The practice is controversial and has been banned in at least one state. In California, prominent government officials charged with watching the public purse are warning school districts to avoid the transactions.

One sounding the alarm is California Treasurer Bill Lockyer, who compares CABs to the sort of creative Wall Street financing that contributed to the housing bubble, the subsequent debt crisis and the nation's lingering economic malaise.

"They are terrible deals," Lockyer said. "The school boards and staffs that approved of these bonds should be voted out of office and fired."

Most school bonds, like home mortgages, require roughly \$2 to \$3 to be paid back for every \$1

borrowed. But CABs compound interest for much longer periods, meaning repayment costs are often many times that of traditional school bonds.

And property owners — not the school system — are likely to be on the hook for bigger tax bills if the agency's revenues can't cover future bond payments, Lockyer and other critics say.

Several financial consultants who advise school districts on CABs declined to comment, as did the chairman of their trade group. Education officials acknowledge some drawbacks with CABs, but argue that the bonds are funding vital educational projects.

The Newport Mesa Unified School District in Orange County issued \$83 million in long-term notes in May 2011. Principal and interest will total about \$548 million, but officials say they are confident they can pay off the debt.

The bonds "have allowed us to provide for facilities that are needed now," said the district's business manager, Paul Reed. "We could not afford to wait another 10 years."

Overall, 200 school systems, roughly a fifth of the districts statewide, have borrowed more than \$2.8 billion since 2007 using CABs with maturities longer than 25 years. They will have to pay back about \$16.3 billion in principal and interest, or an average of 5.8 times the amount they borrowed.

Nearly 70% of the money borrowed involves extended 30- to 40-year notes, which will cost district taxpayers \$13.1 billion, or about 6.6 times the amount borrowed on average.

State and county treasurers say debt payments of no more than four times principal are considered reasonable, though some recommend a more conservative limit of three times.

"This is part of the 'new' Wall Street," Lockyer said. "It has done this kind of thing on the private investor side for years, then the housing market and now its public entities."

The Poway Unified School District, which serves middle-class communities in north San Diego County, is one of the school systems faced with massive CAB debt payments. In 2011, it issued \$105 million in capital appreciation bonds to complete a school rebuilding program.

Because the recession had depressed property values and tax revenue, Poway district officials realized that using conventional bonds might jeopardize a promise to district voters to limit the tax rate.

So on the advice of an Irvine-based financial consulting firm, they turned to the long-term notes. Under the deal, the school board could keep construction moving, avoid renegeing on its pledge to voters and stay within the legal limits. And it would not have to repay the bonds for decades.

By the maturity date of 2051, however, the \$105 million in Poway notes will cost district taxpayers almost \$1 billion in principal and interest — more than \$9 for every \$1 borrowed.

That deal, first reported by the Voice of San Diego news website, raised alarms. But some Poway officials defend it as necessary to complete much-needed projects.

"It was well worth it," said Jennifer Zaheer, president of the Palomar Council Parent Teachers Assn., which serves Poway Unified. "In my son's experience, there's a big difference between using a trailer and having a new classroom."

Poway Supt. John P. Collins said the bond deal was one of the only options the district had. Property taxes are limited by voter-approved state laws, which cap the amount districts can levy on landowners. In addition, the Legislature cannot raise taxes without a two-thirds majority and state education funding has been cut because of the economic downturn.

"How does the state expect school districts to fund facilities given all the restraints today?" Collins said. "Capital appreciation bonds are a necessary tool right now."

While expensive, Collins said Poway's long-term notes should be viewed in the context of all the bonds issued for its construction program. Because the district also issued conventional notes, he said, the overall debt repayment ratio for \$377 million in bonds is about 4.2 times principal, close to San Diego County treasurer guidelines.

However, Lockyer and some county treasurers say the guidelines apply to individual bond sales, not broader repayment cost averages. They note that the principal and interest of Poway's CABs represent more than half the district's total debt obligations of almost \$1.6 billion.

Poway is not the only school district to sign on for large CAB repayments, according to the Times analysis that examined statewide records for hundreds of bonds issued by school and community colleges. Some of the more extreme cases include:

- The Fairfax Elementary School District in Bakersfield issued \$1.02 million in capital appreciation bonds in 2011. By the final maturity date in 2048, the district will have to pay back \$15.6 million — \$15.25 for every \$1 borrowed.
- The Santee School District in San Diego County issued \$3.53 million in capital appreciation bonds in 2011. By the final maturity date in 2051, it will have to pay back \$58.6 million — \$16.57 for every \$1 borrowed.
- What appears to be the most expensive deal in the state was made by the Rim of the World Unified School District in Lake Arrowhead. It issued \$283,612 in bonds in 2010. By the final maturity date in 2039, the district will have to pay \$6.65 million in principal and interest — \$23.45 for every \$1 borrowed.

In Los Angeles County, 29 districts have issued \$556 million in long-term CABs with repayment obligations totaling \$2.3 billion. Pay-back ratios range from \$2.40 for every dollar borrowed in the El Camino Community College District near Torrance to \$9.20 per dollar borrowed in the Westside Union School District in the Antelope Valley.

"These things are all over the place right now and should be of massive concern to taxpayers," said David Wolfe, the legislative director for the Howard Jarvis Taxpayers Assn. Capital appreciation bonds "kick interest and principal payments 40 years down the line. Property owners who never voted for these bonds will have to pay for them."

School officials cite economic forecasts predicting that the bonds can be repaid without increasing tax rates. That's partly based on the assumption that California's historically high property values will rise over the next 20 to 40 years along with district populations and tax revenues.

Some county treasurers are concerned that those calculations may be overly optimistic or designed to make the CAB deals work.

"The projections can be unrealistic, especially for assessed valuations," said San Bernardino County Treasurer-Tax Collector Larry Walker, noting that the Fontana school system issued CABs at the bottom of the Great Recession.

"They said we'd be back to normal in three years," Walker said. "Property values were down then and it's clear they are not going to come back in any short time period."

Lockyer and county treasurers also say the high debt payments could threaten a school district's ability to borrow for future construction projects or pay for instructional improvements.

"There could be financial and political ramifications that tie the hands of districts," said Jordan Kaufman, a Kern County assistant treasurer who has studied the use of such bonds statewide. "In most cases, taxpayers don't know what has gone on, and in some cases board members do not know what they were doing."

No California school bond can be issued without voter approval, but details of how the money is borrowed is left to district officials.

Problems with CABs prompted Michigan to outlaw them in 1994. One of the first warnings in California came in May 2011 when Los Angeles County Treasurer-Tax Collector Mark Saladino cautioned financial firms that advise school districts to avoid borrowing agreements with pay-back schedules longer than 25 years.

Last month, the California Assn. of County Treasurers and Tax Collectors suggested that legislation be drafted that would limit bonds to 25 years, bar balloon payments, allow future CABs to be refinanced for better terms and increase oversight of such transactions by outside government agencies.

"We want to keep it simple," said Glenn Byers, an assistant treasurer for L.A. County. "If we can limit the term of the debt and level the annual debt payments, we will eliminate the problem."

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Times staff writers Doug Smith and Maloy Moore contributed to this report.

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Measure AA (Election of 2012)

	<u>Series 2010</u>	<u>Series 2011</u>	<u>Series 2012</u>	<u>Program Total</u>
Principal	\$ 10,874,794	\$ 33,191,122	\$ 37,605,135	\$ 81,671,051
Interest	\$ 17,505,826	\$ 79,985,906	\$ 34,657,001	\$ 132,148,734
Total	\$ 28,380,620	\$ 113,177,028	\$ 72,262,136	\$ 213,819,785
Ratio	2.61	3.41	1.92	2.62

Measure A (Election of 2007)

	<u>Series 2007</u>	<u>Series 2008</u>	<u>Program Total</u>
Principal	\$ 20,056,687.40	\$ 12,540,712.50	\$ 32,597,399.90
Interest	\$ 35,442,853.32	\$ 21,799,797.71	\$ 57,242,651.03
Total	\$ 55,499,540.72	\$ 34,340,510.21	\$ 89,840,050.93
Ratio	2.77	2.74	2.76

Beginning Balance 7/1/12	43,440,124.99
<u>Revenues</u>	
Bond proceeds - Series C	37,395,135.00
Interest - 1st Quarter	77,544.91
Interest - 2nd Quarter	70,634.85
Interest - 3rd Quarter	0.00
Interest - 4th Quarter	0.00
Total Income	37,543,314.76
Expenditures - see below	48,211,296.39
Balance per G/L 3/31/13 Final	32,772,143.36

Expenditures2310-0 Salaries - High School

8-Mar Work completed in February

7,125.00

Total

7,125.00

3000-0 Benefits - High School

8-Mar Work completed in February

2,607.64

Total

2,607.64

5800-0 Contracted Services - High School

18-Mar Continental Dev. Corp. - study fees to close excrow

66,517.59

20-Mar Continental Dev. Corp. - study fees to close excrow

15,000.00

22-Mar Continental Dev. Corp. - study fees to close excrow

2,450.00

27-Mar Continental Dev. Corp. - study fees to close excrow

5,800.00

Total

89,767.59

5822-0 Legal - High School

12-Sep Atkinson, Andelson, Loya, Ruud & Romo

20,882.50

10-Oct Atkinson, Andelson, Loya, Ruud & Romo

22,337.72

7-Nov Atkinson, Andelson, Loya, Ruud & Romo

20,493.75

3-Dec Atkinson, Andelson, Loya, Ruud & Romo	1,691.25
11-Jan Atkinson, Andelson, Loya, Ruud & Romo	4,006.25
25-Jan Atkinson, Andelson, Loya, Ruud & Romo	973.75
25-Feb Atkinson, Andelson, Loya, Ruud & Romo	4,098.75

Total

74,483.97

5890-0 Consultants/Contracts - High School

3-Aug US Bank - Bond Fees	250.00
7-Sep US Bank - Bond Fees	250.00
7-Sep The Planning Center - Environmental Research/EIR	28,771.15
28-Sep Dept of Toxic Substances Control - Env. Review	598.68
2-Oct The Planning Center - Environmental Research/EIR	16,005.39
9-Oct Dept of Toxic Substances Control - Env. Review	12,051.50
18-Oct Daily Breeze - Legal Advertising	619.95
30-Oct School Site Solutions - Site acquisition consultants	548.75
30-Oct The Planning Center - Environmental Research/EIR	18,485.81
9-Nov Dept of Toxic Substances Control - Env. Review	6,514.53
14-Nov School Site Solutions - Site acquisition consultants	375.00
3-Dec The Planning Center - Environmental Research/EIR	22,851.71
7-Dec Golden State Water - deposit returned	-4,834.17
11-Dec School Site Solutions - Site acquisition consultants	562.50
17-Dec Daily Breeze - Legal Advertising	504.35
15-Jan School Site Solutions - Site acquisition consultants	312.50
30-Jan The Planning Center - Environmental Research/EIR	106,880.47
6-Feb Dept of Toxic Substances Control - Env. Review	16,793.50
19-Feb Dept of Toxic Substances Control - Env. Review	18,375.87
20-Feb School Site Solutions - Site acquisition consultants	2,586.40
22-Feb Daily Breeze - Legal Advertising	983.75
12-Mar School Site Solutions - Site acquisition consultants	4,656.25
13-Mar US Bank - Bond Fees	250.00

Total

254,393.89

6150-0 Building - High School

14-Sep Continental Development Corporation - Deposit 201 N. Douglas	700,000.00
6-Dec Continental Development Corporation - Extension	75,000.00
31-Jan Continental Development Corporation - Extension	75,000.00

4-Mar Continental Development Corporation - Extension	75,000.00
22-Mar Chicago Title Company - Purchase 201 N. Douglas	46,842,417.58

Total	47,767,417.58
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6210-0 High School

16-Oct Vaughn Architecture & Planning - EIR/NOP	3,157.08
13-Nov Vaughn Architecture & Planning - EIR/NOP	11,576.48
6-Feb Vaughn Architecture & Planning - EIR/NOP	767.16

Total	15,500.72
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Total Expenditures	48,211,296.39
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**Measure AA Summary
Revenue and Expenditures**

Measure AA - Approved by the voters November 2, 2010; Authorized Amount = 87,000,000

Revenues and Expenditures are recorded in Fund 21.4

Summary as of 3-31-13

Revenues (see Revenue Summary - see below))	81,383,732.23
Expenditures (see below)	48,611,588.87
Measure AA Fund 21.4 Balance General Ledger 3-31-13	32,772,143.36

Revenue Summary

Bond Proceeds	80,681,039.36
Bond Proceeds - Refund Escrow Account	12,920.79
Interest	689,772.08
Total	81,383,732.23

High School Expenditure Summary

Salaries	7,125.00
Benefits	2,607.64
Atkinson, Andelson, Loya, Ruud, Reed - Legal	127,197.55
School Site Solutions - Site acquisition consultants	35,671.71
The Planning Center - Environmental Research/EIR	385,890.78
The Goodglick Company - Real Estate Broker	50,000.00
Padre Associates - Environmental Review	6,500.00
Other - Filing Fees	75.00
Election Costs	16,304.42
Vaughn Architecture & Planning	48,004.57
Lund & Assc Engineering - Review Detention Basis	5,026.07
DTSC	71,477.08
US Bank - Bond Fees	1,250.00
Daily Breeze - Legal Advertising	2,108.05
Continental Development Corporation - Deposit - 201 N. Douglas	1,014,767.59
Chicago Title - Purchase 201 N. Douglas	46,842,417.58
Misc.	-4,834.17
Total Expenditures (Net)	48,611,588.87