

DESERT COMMUNITY COLLEGE DISTRICT

PROPOSITION 39, GENERAL OBLIGATION BONDS

(MEASURE B, MARCH 2004)

FINANCIAL AUDIT

JUNE 30, 2007 AND 2006

DESERT COMMUNITY COLLEGE DISTRICT

PROPOSITION 39, GENERAL OBLIGATION BONDS

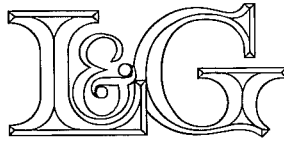
(MEASURE B, MARCH 2004)

FINANCIAL AUDIT

JUNE 30, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees and
the Citizens' Oversight Committee
Desert Community College District
Palm Desert, California

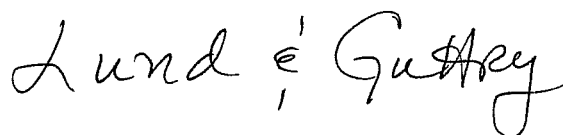
We have audited the accompanying Balance Sheets, Statements of Revenues, Expenditures and Change in Fund Balance and Statements of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Measure B Bond Building Fund (the “Bond Fund”) of the Desert Community College District (the “District”) as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits of the Bond Building Fund in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements for the Bond Fund are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Bond Fund 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the Bond Fund financial statements present only the bond funds referred to in the second paragraph and do not purport to, and do not present fairly the financial position and results of operations of the District as of June 30, 2007 and 2006, and for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Bond Fund of the Desert Community College District as of June 30, 2007 and 2006, 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, 2007 on our consideration of the District's internal control over Bond Fund financial reporting and our test of its compliance with certain provisions of laws, regulations and contracts governing the bond funds. 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 conjunction with this report in considering the results of our audits.

A handwritten signature in cursive script that reads "Lund & Guttrey". The signature is written in dark ink and is positioned to the right of the date.

November 29, 2007

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

BALANCE SHEETS
JUNE 30, 2007 AND 2006

	<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash in County Treasury		\$ 52,375,914	\$ 62,750,229
Accounts receivable		-	328
Interest receivable		<u>704,675</u>	<u>-</u>
TOTAL ASSETS		<u>\$ 53,080,589</u>	<u>\$ 62,750,557</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable		\$ 1,262,380	\$ 1,281,526
Due to other funds		<u>-</u>	<u>967</u>
Total liabilities		<u>1,262,380</u>	<u>1,282,493</u>
FUND BALANCE			
Reserved for special purposes		<u>51,818,209</u>	<u>61,468,064</u>
Total fund balance		<u>51,818,209</u>	<u>61,468,064</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 53,080,589</u>	<u>\$ 62,750,557</u>

(The accompanying notes are an integral part of these financial statements)

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
Revenues from local sources		
Interest income	\$ 2,593,638	\$ 2,458,533
 Total revenues	<u>2,593,638</u>	<u>2,458,533</u>
 EXPENDITURES		
Supplies and materials	61,975	54,408
Other expenses and services	4,236,775	3,523,527
Capital outlay	<u>7,944,743</u>	<u>3,072,799</u>
 Total expenditures	<u>12,243,493</u>	<u>6,650,734</u>
 Deficiency of revenues over expenditures	<u>(9,649,855)</u>	<u>(4,192,201)</u>
 FUND BALANCE, beginning of year	<u>61,468,064</u>	<u>65,660,265</u>
 FUND BALANCE, end of year	<u>\$ 51,818,209</u>	<u>\$ 61,468,064</u>

(The accompanying notes are an integral part of these financial statements)

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Revenues from local sources			
Interest income	\$ 1,400,000	\$ 2,593,638	\$ 1,193,638
Total revenues	<u>1,400,000</u>	<u>2,593,638</u>	<u>1,193,638</u>
EXPENDITURES			
Supplies and materials	15,254	61,975	(46,721)
Other expenses and services	8,656,760	4,236,775	4,419,985
Capital outlay	* <u>48,528,357</u>	<u>7,944,743</u>	<u>40,583,614</u>
Total expenditures	<u>57,200,371</u>	<u>12,243,493</u>	<u>44,956,878</u>
Deficiency of revenues over expenditures	<u>\$ (55,800,371)</u>	(9,649,855)	<u>\$ 46,150,516</u>
FUND BALANCE, beginning of year		<u>61,468,064</u>	
FUND BALANCE, end of year		<u>\$ 51,818,209</u>	

* The budget for capital outlay expenditures reflects amounts remaining and available for current and subsequent year's expenditures and does not necessarily coincide with actual planned expenditures in the current year. All budget expenditures are included in capital outlay due to budgeted expenditures being tracked by project instead of by expense classification.

(The accompanying notes are an integral part of these financial statements)

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Revenues from local sources			
Interest income	\$ 1,020,255	\$ 2,458,533	\$ 1,438,278
Total revenues	<u>1,020,255</u>	<u>2,458,533</u>	<u>1,438,278</u>
EXPENDITURES			
Supplies and materials	45,500	54,408	(8,908)
Other expenses and services	3,611,106	3,523,527	87,579
Capital outlay	<u>3,151,265</u>	<u>3,072,799</u>	<u>78,466</u>
Total expenditures	<u>6,807,871</u>	<u>6,650,734</u>	<u>157,137</u>
Deficiency of revenues over expenditures	<u>\$ (5,787,616)</u>	(4,192,201)	<u>\$ 1,595,415</u>
FUND BALANCE, beginning of year		<u>65,660,265</u>	
FUND BALANCE, end of year		<u>\$ 61,468,064</u>	

(The accompanying notes are an integral part of these financial statements)

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Desert Community College District (the "District") was formed in 1958 to provide access to higher education in the Coachella Valley. The District currently operates College of the Desert which provides post-secondary instruction in an array of educational classes, programs and services.

The accompanying financial statements present the financial position and results of activities for the District's Measure B Bond Building Fund (the "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 Change in Fund Balance is a statement of financial activities of the Bond Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, transfers to other funds, etc. Consequently, these statements do no purport to present the result of operations or the net income or loss for the year 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 services rendered).

Budget

The Board of Trustees (the "Board") adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is the final revised budget that is presented in these financial statements.

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Cash in County Treasury

In accordance with Education Code §41001, the District maintains its cash in the Riverside County Treasury. The County pools these funds with those of other districts in the County and invests the cash. 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, banker's acceptances, commercial paper, negotiable certificates of deposits and repurchase or reverse repurchase agreements. 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 Building Fund are accounted for in the basic financial statements of the 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.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of expenditures over appropriations in the Bond Fund.

3. BONDED DEBT

On March 2, 2004, \$346.5 million in general obligation bonds were authorized by an election held within the District under Proposition 39/Measure B. 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 August, 2004, Series 2004 A general obligation bonds in the amount of \$65,000,000 were sold at a premium. The proceeds from the sale of the bonds will generally be used to finance the construction, acquisition, furnishing and equipping of District facilities. Bond issuance costs of \$1,013,971.48 were incurred in connection with the issuance of the Series 2004 A general obligation bonds.

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

3. BONDED DEBT – (continued)

In June, 2005, a portion of the above bonds were refinanced through the issue of 2005 General Obligation Refunding Bonds (the “Refunding Bonds”). These bonds in the amount of \$55,771,886.25 were also sold at a premium (total proceeds of \$63,734,231.05). A portion of the bond proceeds (\$7,848,411.73) was deposited into the District’s Bond Fund to be used for the District’s project list. The rest of the proceeds (\$55,885,819.32) were deposited into an escrow account to (1) advance refund and defease the bonds maturing on and after August 1, 2015 of the District’s outstanding Election of 2004 General Obligation Bonds, Series 2004 A (the “Refunded Bonds”), (2) pay the debt service on the Refunded Bonds, including principal, due on and prior to August 1, 2014 and (3) pay all legal, financial and contingent costs in connection with the issuance of the Bonds. Bond issuance costs of \$770,375.09 were incurred in connection with the issuance of the Refunding Bonds.

The bond proceeds may not be used for District employees’ salaries or other administration costs. In November, 2004 the Attorney General of California issued an opinion stating that districts may use Proposition 39 bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure. The District did not spend any bond proceeds on salaries of District employees for the years ended June 30, 2007 and 2006.

The following is a summary of the sources and uses of the Series 2004 A and 2005 Refunding Bonds:

Series 2004 A Bonds

Sources of funds:

Principal amount of bonds	\$65,000,000.00
Net original issue premium	<u>1,288,727.55</u>
Total sources of funds	<u>\$66,288,727.55</u>

Uses of funds:

Building fund	\$65,000,000.00
Debt service fund	274,756.07
Costs of issuance	<u>1,013,971.48</u>
Total uses of funds	<u>\$66,288,727.55</u>

2005 Refunding Bonds

Sources of funds:

Principal amount of bonds	\$55,771,886.25
Original issue premium	<u>7,962,344.80</u>
Total sources of funds	<u>\$63,734,231.05</u>

Uses of funds:

Escrow fund	\$55,115,444.23
Building fund	7,848,411.73
Costs of issuance	<u>770,375.09</u>
Total uses of funds	<u>\$63,734,231.05</u>

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

3. BONDED DEBT – (continued)

The outstanding related bonded debt for the District at June 30, 2007 is:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2006	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2007
Aug-04	2.0-4.0%	8/1/2014	<u>\$ 65,000,000</u>	<u>\$14,235,000</u>	\$ -	\$ 4,810,000	<u>\$ 9,425,000</u>
Jun-05	3.0-5.0%	8/1/2024	<u>\$ 55,771,886</u>	<u>\$54,876,886</u>	\$ -	\$ 1,295,000	<u>\$ 53,581,886</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2007, are as follows:

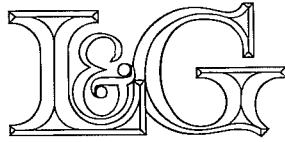
Year Ended June 30,	Unrefunded Series 2004 A Bonds			2005 Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 5,220,000.00	\$ 235,750.00	\$ 5,455,750.00	\$ 1,415,000.00	\$ 2,314,031.25	\$ 3,729,031.25
2009	190,000.00	154,600.00	344,600.00	1,450,000.00	2,267,475.00	3,717,475.00
2010	310,000.00	146,325.00	456,325.00	1,605,000.00	2,217,831.25	3,822,831.25
2011	440,000.00	133,750.00	573,750.00	973,960.25	2,992,789.75	3,966,750.00
2012	580,000.00	116,087.50	696,087.50	922,981.50	3,158,768.50	4,081,750.00
2013-2017	2,685,000.00	173,587.50	2,858,587.50	6,499,944.50	16,845,805.50	23,345,750.00
2018-2022	-	-	-	21,695,000.00	7,686,625.00	29,381,625.00
2023-2025	-	-	-	19,020,000.00	1,484,250.00	20,504,250.00
Totals	<u>\$ 9,425,000.00</u>	<u>\$ 960,100.00</u>	<u>\$10,385,100.00</u>	<u>\$53,581,886.25</u>	<u>\$38,967,576.25</u>	<u>\$92,549,462.50</u>

The repayment of the debt related to the general obligations bonds is accounted for in the District's Bond Debt Service Fund which is part of the District's basic financial statements.

4. SUBSEQUENT EVENTS

In August 2007 the District entered into an agreement with the Riverside County Fire Department, the Redevelopment Agency for the County of Riverside and the Riverside County Sheriffs Department to purchase and construct a new fire station, training facility and burn tower. The District will purchase a parcel of land located in Thousand Palms, California for a total cost of \$175,000. In addition the District agreed to place an additional sum of \$2,500,000 into escrow to finance the construction of the burn tower.

On November 27, 2007, the District issued General Obligation Bonds, Series 2007B (the Series 2007B Bonds) in the amount of \$57,850,000. The Desert Community College District (Riverside and Imperial Counties) General Obligation Bonds, Election of 2004, Series 2007B were authorized at an election of the registered voters of the District held on March 2, 2004, at which more than sixty-nine percent of the persons voting on the proposition voted to authorize the issuance and sale of \$346,500,000 principal amount of the General Obligation bonds for the District. The proceeds of the Series 2007B Bonds will be used to fund the District's Capital Improvement Plan, which includes acquisition, construction, modernization, renovation and equipping of certain District property and facilities, and to pay certain costs of issuance of Bonds.



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INDEPENDENT AUDITOR'S 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

Board of Trustees and
the Citizen's Oversight Committee
Desert Community College District
Palm Desert, California

We have audited the financial statements as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated November 29, 2007 for the Measure B Bond Building Fund (the "Bond Fund") of the Desert Community College District (the "District"). 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.

Compliance

As part of obtaining reasonable assurance about whether 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 non-compliance that are required to be reported under Government Auditing Standards.

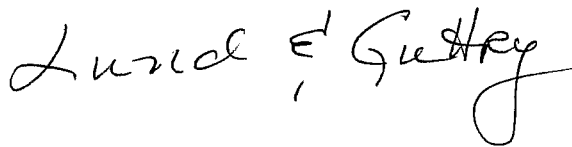
Internal Control over Financial Reporting

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 an opinion on the internal control over financial reporting.

We noted no matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be considered to be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 material weaknesses.

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

A handwritten signature in black ink, reading "Lurid E. Guey". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

November 29, 2007

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

COMPLIANCE

There were no findings or questioned costs noted during our audit relating to compliance.

INTERNAL CONTROL

There were no findings or questioned costs noted during our audit relating to internal control.