

**DESERT COMMUNITY COLLEGE DISTRICT**

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**MEASURE B GENERAL OBLIGATION BONDS  
ELECTION 2004  
FINANCIAL AUDIT**

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**JUNE 30, 2015**

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**FINANCIAL AUDIT  
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JUNE 30, 2015**

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Desert Community College District's (the District) Measure B General Obligation Bond Fund (General Obligation Bonds, Election 2004) as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure B General Obligation Bond Fund (General Obligation Bonds, Election 2004) of the District at June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure B General Obligation Bond Fund specific to General Obligation Bonds, Election 2004, and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the District's Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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* in considering the District's Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Varrick, Dine, Day & Co. LLP*

Riverside, California  
December 18, 2015

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**BALANCE SHEET  
JUNE 30, 2015**

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<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,405
Investments	78,421,939
Accounts receivable	30,231
Due from other funds	2,710
<b>Total Assets</b>	<u>\$ 78,456,285</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 438,146
<b>Total Liabilities</b>	<u>438,146</u>
 <b>FUND BALANCE</b>	
Restricted for capital projects	<u>78,018,139</u>
<b>Total Fund Equity</b>	<u>78,018,139</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 78,456,285</u>

The accompanying notes are an integral part of these financial statements.

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2015**

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<b>REVENUES</b>	
Investment income	\$ 208,330
Local revenues	<u>146,140</u>
<b>Total Revenues</b>	<u>354,470</u>
<b>EXPENDITURES</b>	
Supplies and materials	6,265
Other expenses and services	2,860,272
Capital outlay	<u>6,417,350</u>
<b>Total Expenditures</b>	<u>9,283,887</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	(8,929,417)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>86,947,556</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 78,018,139</u>

The accompanying notes are an integral part of these financial statements.

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of Desert Community College District's (the District) Measure B General Obligation Bond Fund conforms to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The District's Measure B General Obligation Bond Fund accounts for the financial transactions in accordance with the policies and procedures of the California Community Colleges Budget and Accounting Manual.

**Financial Reporting Entity**

The audited financial statements include only the Measure B General Obligation Bond Fund of the District. This Fund was established to account for the receipt of proceeds of general obligation bond issuances and the expenditures of the proceeds under the General Obligation Bond Election of March 2004. These financial statements are not intended to present fairly the financial position and the changes in financial position of the District in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations of the Measure B General Obligation Bond Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to, and accounted for, in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Basis of Accounting**

The Bond Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. These fund financial statements do not include the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as the District was not required to adopt GASB Statement No. 54 under the reporting requirements of GASB Statement No. 35.

**Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Board of Trustees adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.



**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Fund Balance - Governmental Funds**

As of June 30, 2015, the fund balance of the Measure B General Obligation Bond Fund was classified as follows:

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury**

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	0	None	None
U.S. Agency Securities	0	None	None
Banker's Acceptance	0	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	0	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	0	None	None

**Authorized Under Debt Agreements**

Investment of debt proceeds are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the District's investment policy. Provisions of the General Obligation Bond, Series 2007 B, provide that moneys will be invested at the written direction of the District, after consultation with the County in: (i) Non-AMT Bonds (as defined in the Resolutions); (ii) Qualified Non-AMT Mutual Funds (as defined in the Resolutions); or (iii) State and Local Government Securities; provided, however, that each of (i), (ii), and (iii) shall have been issued by a local agency of the State or issued by the State or an agency thereof.

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Summary of Deposits and Investments**

Investments as of June 30, 2015, consist of the following:

	<u>Reported Amount</u>
Riverside County Treasury	\$ 34,727,001
Municipal bonds	6,199,938
Money market	<u>37,495,000</u>
Total Deposits and Investments	<u>\$ 78,421,939</u>

**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. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Riverside County Treasury. The District also invests the proceeds from the general obligation bonds in municipal bonds that are subject to interest rate risk.

**Specific Identification**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Riverside County Treasury	\$ 34,729,953	402
Municipal bonds	6,199,938	1095
Money market	37,495,000	N/A
Total	<u>\$ 78,424,891</u>	

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>
Riverside County Treasury	\$ 34,729,953	Not required
Money market	37,495,000	Not required
Municipal bonds	3,599,964	A-
Municipal bonds	2,599,974	A-
Total	<u>\$ 78,424,891</u>	

**NOTE 3 - ACCOUNTS RECEIVABLE**

Receivables at June 30, 2015, consist of the following:

Interest	\$ 30,168
Other receivables	63
Total Receivables	<u>\$ 30,231</u>

**NOTE 4 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2015, consist of the following:

Construction payables	<u>\$ 438,146</u>
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**NOTE 5 - FUND BALANCE**

Fund balance is composed of the following element:

Restricted Capital projects	<u>\$ 78,018,139</u>
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**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2015, the Measure B General Obligation Bond Fund had the following significant construction commitments with respect to unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Central Campus Redevelopment	\$ 1,923,567	Fall 2018
Bond Development and Management	694,612	Ongoing
Parking Lot Repairs and Improvements	267,374	Fall 2015
Mecca/Thermal Campus Phase 1	176,018	Fall 2015
West Valley Palm Springs Planning	129,256	Ongoing
Athletic Facilities	67,445	Fall 2015
Campus Electronic Sign	32,989	Spring 2016
Indio Educational Center	28,813	Fall 2015
Math Science Technology Center	23,228	Fall 2015
Monterey Entrance	22,794	Fall 2015
Communications	13,531	Fall 2015
Child Development	11,545	Fall 2015
Visual Arts Building	3,296	Fall 2015
Miscellaneous Projects	495	Fall 2015
	<u>\$ 3,394,963</u>	

**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, 2015.

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***INDEPENDENT AUDITOR'S REPORT***

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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 Citizens' Oversight Committee  
Desert Community College District  
Palm Desert, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Desert Community College District's (the District) Measure B General Obligation Bond Fund (General Obligation Bonds, Election 2004), as of and for the year ended June 30, 2015, and have issued our report thereon dated December 18, 2015.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Measure B General Obligation Bond Fund specific to General Obligation Bonds, Election 2004, and are not intended to present fairly the financial position and changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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 significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 testing disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Warwick, Fine, Day & Co. LLP*

Riverside, California  
December 18, 2015



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2015**

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None reported.

**DESERT COMMUNITY COLLEGE DISTRICT  
MEASURE B GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015**

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There were no audit findings reported in the prior year's Financial Statement Findings.