



Governing Board and Citizens' Oversight Committee
Desert Community College District
General Obligation Bond
Palm Desert, California

We have audited the basic financial statements of the Measure B General Obligation Bond of Desert Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meeting about planning matters with management.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no adjustments noted during the audit that were proposed to management.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 6, 2012.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Desert Community College District, and is not intended to be and should not be used by anyone other than these specified parties.


Riverside, California
December 6, 2012

DESERT COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE B, MARCH 2003)
ANNUAL FINANCIAL AUDIT
WITH INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

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Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board and Citizens' Oversight Committee
Desert Community College District
General Obligation Bond
Palm Desert, California

We have audited the accompanying financial statements of Desert Community College District (the District) General Obligation Bonds (the Bond Building Fund) of as of June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 of the Notes to Financial Statements, the financial statements present only the Bond Building Fund for the Proposition 39 General Obligation Bond activity and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, as discussed in Note 2 to financial statements, the Bond Building Fund's financial statements are prepared on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - modified accrual basis - of the General Obligation Bonds of Desert Community College District as of June 30, 2012, and the results of its operations - modified accrual basis - for the year then ended, in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, on our consideration of the District's internal control over financial reporting for the General Obligation Bonds 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 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 is important for assessing the results of our audit.


Riverside, California
December 6, 2012

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**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**BALANCE SHEET – MODIFIED ACCRUAL BASIS
JUNE 30, 2012**

ASSETS

Cash equivalents in the County Treasury	\$ 119,295,826
Cash in bank	4,085
Accounts receivable - net	400,000
Interest receivable	123,989
Investments	65,226,372
Due from other funds	50,000
Prepaid expenses	3,203
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TOTAL ASSETS

\$ 185,103,475

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 7,870,630
Deferred revenue	195,000
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Total Liabilities

8,065,630

FUND BALANCE

Unreserved	
Restricted	177,037,845
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Total Fund Balance

177,037,845

TOTAL LIABILITIES AND FUND BALANCE

\$ 185,103,475

The accompanying notes are an integral part of these financial statements

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUES

Investment income	\$ 3,124,247
Local revenue	503,908
	<hr/>
Total Revenues	3,628,155

EXPENDITURES

Supplies and materials	47,571
Other expenses and services	3,402,420
Capital outlay	30,951,657
	<hr/>
Total Expenditures	34,401,648

EXCESS OF EXPENDITURES OVER REVENUES (30,773,493)

FUND BALANCE, beginning of year 207,811,338

FUND BALANCE, end of year \$ 177,037,845

The accompanying notes are an integral part of these financial statements

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1) ORGANIZATION AND NATURE OF ACTIVITIES

The General Obligation Bond Building Fund (the Bond Fund) is a governmental fund of Desert Community College District (the District). This fund is used to account for the activity of the Proposition 39 General Obligation Bond approved by the voters of the District. These financial statements present only the Bond Fund and do not purport to, and do not, present fairly the financial position of the District and the changes in its financial position in conformity with accounting standards generally accepted in the United States of America.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Bond Fund is a governmental fund which is accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). 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 this statement under the reporting requirements of GASB Statement No. 35.

Financial Statement Presentation

The financial statements of the Bond Fund have been prepared on the modified accrual basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The statement of revenues, expenditures, and changes in fund balance is a statement of financial activities of the Bond Fund related to the current reporting period. Using this method, revenues are recognized when they are both measurable and available, and expenses are recognized when goods are received or services are rendered. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days.

The audited financial statements include only the Bond Fund of the District. This Fund was established to account for the proceeds and expenditures of the Measure B general obligation bonds issued under the General Obligation Bond Election on March 2, 2003. These financial statements are not intended to present fairly the financial position and the changes in financial position of the district as a whole. The voters authorized a total of \$346,500,000 to be issued under Measure B. At June 30, 2012, the District has issued the full amount of this authorization.

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 reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash in hand, demand deposits, certificates of deposit, and short-term investments with original maturities of one year or less. The District reports amounts invested in the County Treasury as cash equivalents.

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3) INVESTMENTS

Policies and Practices

Under provision of the District's investment policy, and in accordance with Section 53601 and 53602 of the California *Government Code*, the District may invest in the following types of investments: 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.

General Authorizations

The table below identifies the investment types authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	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	5 years	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	N/A	None	None

Cash in the County Treasury

A significant portion of the District's cash balances of the bond funds is deposited with the Riverside County Treasurer for the purpose of increasing interest earnings through County investment activities. 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 District reports amounts involuntarily invested in the County Treasury as cash equivalents as they function as a demand deposit account for the District and can be withdrawn from the pool without notice or penalty.

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3) INVESTMENTS – continued

Cash in the County Treasury - continued

The County is restricted by *Government Code* Section 53635 pursuant to Section 53601 to invest in 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. The fair value of the District's investment in the pool is reported in the accompanying 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.

Investments Authorized by 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.

If the District fails to direct the County, the County may invest the monies in: (1) Non-AMT Bonds of a local agency of the State or issued by the State or an agency thereof, (2) Permitted Investments (as defined below) of proceeds of the Bonds, and interest earned on such proceeds, held not more than thirty days pending reinvestment or redemption of the Bonds, and (3) other investments authorized by the Insurer and subject to an opinion of Bond Counsel to the effect that such investment would not adversely affect the tax-exempt status of the Bonds.

Other "Permitted Investments" include: (a) investments in the Riverside County Pooled Investment Fund (Cash in the County Treasury), (b) lawful investments permitted by Sections 16429.1 and 53601 of the *Government Code*; (c) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the *Government Code*, (d) a guaranteed investment contract with a provider rated in at least the second highest category by each rating agency rating the Bonds and approved by the Insurer; (e) the Local Agency Investment Fund of the California State Treasurer.

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3) INVESTMENTS - continued

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 change in conjunction with market interest rates. The District manages its exposure to interest rate risk primarily by investing in the County Treasury Pool. A portion of debt proceeds is invested in a portfolio that is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity as needed for capital asset operations.

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 investments by maturity at June 30, 2012:

2012		
Type	Fair Market Value	Maturity Date*
County Treasury Pool	\$ 119,295,826	1.18
Municipal bonds	65,226,372	1.80
Total	\$ 184,522,198	

* Weight average maturity in years

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. The following provides the District's investment credit risk at June 30, 2012:

2012			
Type	Minimum Legal Rating	Rating Service	Fair Market Value
District			
County Treasury Pool	Not required	Fitch AAA/VI	\$ 119,295,826
Municipal bonds	Moody's A-	Moody's AAA	13,910,607
Municipal bonds	Moody's A-	Moody's Aa1	13,019,293
Municipal bonds	Moody's A-	Moody's Aa2	18,466,921
Municipal bonds	Moody's A-	Moody's Aa3	17,935,195
Municipal bonds	Moody's A-	S & P AAA	1,894,357
Total			\$ 184,522,199

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3) INVESTMENTS - continued

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. California Government Code requires California banks and savings and loan associations to secure the District'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 District. As of June 30, 2012, all of the cash held by financial institutions was entirely insured or collateralized.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2012, all of the municipal bonds held by a financial institution's trust department were insured and held in the name of the District. The cash held in the County Treasury is uncategorized and the fair value approximates the carrying value shown in the credit risk schedule. Deposits with the County Treasury are not categorized because they do not represent securities which exist in physical or book entry form. The deposits with the County Treasury are valued using the amortized cost method (which approximates fair value). The fair values are provided by the County Treasurer. As of June 30, 2012, \$119,295,826 of District bond fund was invested in the Riverside County Treasurer's Pooled Investment Fund. The Pooled Investment fund is currently rated AAA/V1 by Fitch Ratings.

4) ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, in the amount of \$400,000, represents monies owed to the fund from another government entity. Management has determined the amount to be fully collectible.

5) INTEREST RECEIVABLE

Interest receivable at June 30, 2012, in the amount of \$123,989, represents interest earned at June 30.

6) DUE FROM OTHER FUNDS

Interfund receivable balance at June 30, 2012, in the amount of \$50,000, consists of funds due from a special revenue fund of the District.

7) PREPAID EXPENSES

Prepaid expense at June 30, 2012, in the amount of \$3,203, represents payments made to vendors and others for services that will benefit periods beyond June 30.

8) ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, in the amount of \$7,870,630, consists of construction payables for ongoing construction projects.

9) DEFERRED REVENUE

Deferred revenue at June 30, 2012, in the amount of \$195,000, represents a payment received prior to the legal claim to the resources.

10) FUND BALANCE

Fund balance at June 30, 2012, in the amount of \$177,037,845 represents Unreserved Restricted Funds.

**DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

11) COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the Bond Building Fund had the following project commitments with respect to unfinished capital projects.

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Anticipated Completion Date</u>
Mecca-Thermal Septic Sewer System	\$ 64,953	July 2012
Math Science Technology	1,095,850	August 2012
Central Plant Monitor Based Commissioning	346,470	November 2012
Communications Building	6,817,976	June 2013
Visual Arts Building	466,295	November 2013
Indio Educational Center	1,798,458	January 2014
Child Development Center	855,304	May 2014
Applied Sciences	462,717	August 2014
Athletic Facilities	864,521	September 2014
West Valley Phase I	2,050,044	January 2015
Central Campus Renovation	339,268	January 2016
Campus Technology Infrastructure	610,901	Ongoing
Infrastructure Phase III	2,763,944	Ongoing
Planning and Program Management	2,011,230	Ongoing
Total	<u>\$20,547,931</u>	



**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***

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

We have audited the accompanying financial statements of the General Obligation Bonds (the Bond Fund) of Desert Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated November 1, 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 Desert Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's Bond Fund'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 District's Bond Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's Bond Fund'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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Desert Community College District's Bond Fund'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, the District Management, and the Citizens' Oversight Committee, and is not intended to be, and should not be, used by anyone other than these specified parties.


Riverside, California
December 6, 2012