

DESERT COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE B, MARCH 2004)
FINANCIAL AUDIT
JUNE 30, 2006 AND 2005

DESERT COMMUNITY COLLEGE DISTRICT
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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, 2006 and 2005. 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, 2006 and 2005, 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, 2006 and 2005, 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 September 25, 2006 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.

Lund & Gustrey

September 25, 2006

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

BALANCE SHEETS
JUNE 30, 2006 AND 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash in County Treasury	\$ 62,750,229	\$ 66,692,482
Accounts receivable	328	-
Due from other funds	<u>-</u>	<u>9,700</u>
TOTAL ASSETS	<u>\$ 62,750,557</u>	<u>\$ 66,702,182</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable	\$ 1,281,526	\$ 1,040,258
Due to other funds	<u>967</u>	<u>1,659</u>
Total liabilities	<u>1,282,493</u>	<u>1,041,917</u>
FUND BALANCE		
Reserved for special purposes	<u>61,468,064</u>	<u>65,660,265</u>
Total fund balance	<u>61,468,064</u>	<u>65,660,265</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 62,750,557</u>	<u>\$ 66,702,182</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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Revenues from local sources		
Interest income	\$ <u>2,458,533</u>	\$ <u>1,328,717</u>
Total revenues	<u>2,458,533</u>	<u>1,328,717</u>
 EXPENDITURES		
Supplies and materials	54,408	9,631
Other expenses and services	3,523,527	1,540,776
Capital outlay	<u>3,072,799</u>	<u>6,924,746</u>
Total expenditures	<u>6,650,734</u>	<u>8,475,153</u>
Deficiency of revenues over expenditures	<u>(4,192,201)</u>	<u>(7,146,436)</u>
 OTHER FINANCING SOURCES		
Proceeds from bonds	<u>-</u>	<u>72,848,412</u>
Total other financing sources	<u>-</u>	<u>72,848,412</u>
Excess/(deficiency) of revenues and other sources over expenditures	(4,192,201)	65,701,976
 FUND BALANCE, beginning of year	<u>65,660,265</u>	<u>(41,711)</u>
 FUND BALANCE, end of year	<u>\$ 61,468,064</u>	<u>\$ 65,660,265</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, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
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

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget*</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Revenues from local sources			
Interest income	\$ -	\$ 1,328,717	\$ 1,328,717
Total revenues	<u>-</u>	<u>1,328,717</u>	<u>1,328,717</u>
EXPENDITURES			
Supplies and materials	-	9,631	(9,631)
Other expenses and services	-	1,540,776	(1,540,776)
Capital outlay	<u>64,331,548</u>	<u>6,924,746</u>	<u>57,406,802</u>
Total expenditures	<u>64,331,548</u>	<u>8,475,153</u>	<u>55,856,395</u>
Deficiency of revenues over expenditures	<u>(64,331,548)</u>	<u>(7,146,436)</u>	<u>57,185,112</u>
OTHER FINANCING SOURCES			
Proceeds from bonds	<u>65,000,000</u>	<u>72,848,412</u>	<u>7,848,412</u>
Total other financing sources	<u>65,000,000</u>	<u>72,848,412</u>	<u>7,848,412</u>
Excess of revenues and other sources over expenditures	<u>\$ 668,452</u>	65,701,976	<u>\$ 65,033,524</u>
FUND BALANCE, beginning of year		<u>(41,711)</u>	
FUND BALANCE, end of year		<u>\$ 65,660,265</u>	

* The budget for revenues and other sources reflects estimated amounts to be received in the current year. The budget for capital outlay expenditures reflects amounts remaining and available for current and subsequent years' 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

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 not 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, 2006 and 2005.

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)

Proceeds from bonds for the year ended June 30, 2005 on the Statement of revenues, expenditures and changes in fund balance is comprised of the following:

2004 A Bond Building fund proceeds	\$65,000,000
2005 Refunding Bonds Building fund proceeds	<u>7,848,412</u>
	<u>\$72,848,412</u>

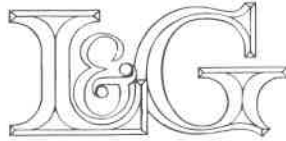
The outstanding related bonded debt for the District at June 30, 2006 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2006</u>
Aug-04	2.0-4.0%	8/1/2014	<u>\$65,000,000</u>	<u>\$14,605,000</u>	\$ -	<u>\$ 370,000</u>	<u>\$14,235,000</u>
Jun-05	3.0-5.0%	8/1/2024	<u>\$55,771,886</u>	<u>\$55,771,886</u>	\$ -	<u>\$ 895,000</u>	<u>\$54,876,886</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2006, are as follows:

<u>Year Ended June 30,</u>	<u>Unrefunded Series 2004 A Bonds</u>			<u>2005 Refunding Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4,810,000.00	362,150.00	5,172,150.00	1,295,000.00	2,364,318.75	3,659,318.75
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
2012-2016	3,265,000.00	289,675.00	3,554,675.00	4,302,926.00	17,890,824.00	22,193,750.00
2017-2021	-	-	-	19,565,000.00	8,718,125.00	28,283,125.00
2022-2026	-	-	-	24,270,000.00	2,566,500.00	26,836,500.00
Totals	<u>\$14,235,000.00</u>	<u>\$1,322,250.00</u>	<u>\$15,557,250.00</u>	<u>\$54,876,886.25</u>	<u>\$41,331,895.00</u>	<u>\$96,208,781.25</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.



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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, 2006 and 2005, and have issued our report thereon dated September 25, 2006 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.

September 25, 2006

Lund & Guttig

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

COMPLIANCE

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

INTERNAL CONTROL

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

DESERT COMMUNITY COLLEGE DISTRICT
BOND BUILDING FUND

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

COMPLIANCE

There was one finding relating to compliance for the year ended June 30, 2005.

#05-1

Per the Official Statement and the Settlement Memorandum and Wiring Instructions of the Series 2004 A bonds issued in August, 2004, "any premium received by the District from the sale of the Bonds shall be kept separate and apart in the Debt Service Fund and used only for payment of principal and interest on the Bonds." These wiring Instructions were issued by UBS Financial Services to the County of Riverside on August 2, 2004. A premium of \$274,756.07 was received from the issue of the bonds. During our audit it was noted that, although these funds were not used during the year ended June 30, 2005, they were deposited into the Bond Fund and not kept separate and apart in the Debt Service Fund. It appears that this finding was an isolated incident.

We suggested that all governing documents be complied with and that only funds that are allowed to be spent on Bond Projects be deposited into and accounted for in the Bond Fund.

Management agreed with the above finding and these funds were transferred from the Bond Fund into the Debt Service Fund.

INTERNAL CONTROL

There was one finding relating to internal control for the year ended June 30, 2005.

#05-2

The above compliance finding was also considered a reportable condition relating to internal control. The above finding was not considered to be a material weakness.