DESERT COMMUNITY COLLEGE DISTRICT

MEASURE B GENERAL OBLIGATION BONDS ELECTION 2004

FINANCIAL AUDIT

JUNE 30, 2017

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FINANCIAL SECTION





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, 2017, 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 District'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 District'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 respective financial position of the Measure B General Obligation Bond Fund (General Obligation Bonds, Election 2004) of the District at June 30, 2017, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

Vavinete Tune Day & Co. LLP

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, 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 solely 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 effectiveness of the District's Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) 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.

Riverside, California December 14, 2017

BALANCE SHEET JUNE 30, 2017

ASSETS Cash and cash equivalents Investments Accounts receivable Total Assets	\$ 1,485 67,622,452 3,478 \$ 67,627,415
LIABILITIES AND FUND BALANCE LIABILITIES Accounts payable	\$ 549,449
FUND BALANCE Restricted for capital projects Total Liabilities and Fund Balance	67,077,966 \$ 67,627,415

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2017

REVENUES Investment income	\$ 349,228
EXPENDITURES	
Supplies and materials	17,684
Other expenses and services	2,904,579
Capital outlay	4,400,296
Total Expenditures	7,322,559
EXCESS OF EXPENDITURES OVER REVENUES	(6,973,331)
FUND BALANCE, BEGINNING OF YEAR	74,051,297
FUND BALANCE, END OF YEAR	\$ 67,077,966

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

As of June 30, 2017, 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.

Change in Accounting Principles

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

General Authorizations

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

	Maximum	Maximum	Maximum
Authorized	Remaining	Percentage	Investment
Investment Type	Maturity	of Portfolio	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	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	108 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

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.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Summary of Deposits and Investments

Investments as of June 30, 2017, consist of the following:

Riverside County Pooled Investment Fund
Federated Investor Tax Free Obligations
Total Deposits and Investments

Reported
 Amount
\$ 820,598
66,801,854
\$ 67,622,452

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 Pooled Investment Fund. The District also invests the proceeds from the general obligation bonds in Federated Investor Tax Free Obligations 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:

		Weighted
	Fair	Average Days
Investment Type	Value	to Maturity
Riverside County Pooled Investment Fund	\$ 818,900	412
Federated Investor Tax Free Obligations	66,801,854	N/A
Total	\$ 67,620,754	

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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.

		Minimum
	Fair	Legal
	Value	Rating
\$	818,900	Not required
	66,801,854	Not required
\$ 6	67,620,754	
		Value

Miniman

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.
- Level 3 Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Riverside County Pooled Investment Fund are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Restricted

Capital projects

The District's fair value measurements are as follows at June 30, 2017:

Investment Type Riverside County Pooled Investment Fund Federated Investor Tax Free Obligations Total	Fair Value \$ 818,900 66,801,854 \$ 67,620,754	\$ 66,8	egorized 818,900 801,854 620,754
All assets have been valued using a market approach, with quoted market price	ces.		
NOTE 4 - ACCOUNTS RECEIVABLE Receivables at June 30, 2017, consist of the following: Interest		\$	3,478
NOTE 5 - ACCOUNTS PAYABLE			
Accounts payable at June 30, 2017, consist of the following:			
Construction payables		\$	549,449
NOTE 6 - FUND BALANCE Fund balance is composed of the following element:			

\$ 67,077,966

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2017, the Measure B General Obligation Bond Fund had the following significant construction commitments with respect to unfinished capital projects:

	Remaining	Expected
	Construction	Date of
Capital Project	_Commitment	Completion
West Valley Campus Palm Springs	\$ 37,942,925	June 2021
Palm Springs - Temporary Modular Campus	5,500,000	January 2018
Indio Campus Expansion	514,670	December 2020
Central Campus Redevelopment	35,833,595	August 2019
Childcare Playground	537,423	May 2018
Groundwater Well Refurbishment	1,500,000	August 2018
Indio Kiosk	931,000	February 2018
Small Maintenance Projects	\$ 82,759,613	

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, 2017.

INDEPENDENT AUDITOR'S REPORT



VALUE THE difference

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, 2017, and have issued our report thereon dated December 14, 2017.

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. Our opinion is not modified with respect to this matter.

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 Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) 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 Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) 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 Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) 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 Measure B General Obligation Bond Fund's (General Obligation Bonds, Election 2004) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Riverside, California December 14, 2017

Vavinete Tune Day & Co. LLP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS JUNE 30, 2017

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2017

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