

Rio Hondo Community College District
Measure A General Obligation Bond Fund
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Measure A General Obligation Bond Fund
Audited Financial Statements
Year ended June 30, 2010
With Report of Independent Auditors**

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Report of Independent Auditors

**To the Board of Trustees of
Rio Hondo Community College District**

We have audited the accompanying statement of financial position of the Measure A General Obligation Bond Fund of the Rio Hondo Community College District (the "District") as of June 30, 2010 and the related statement of revenues, expenditures and change in fund balance for the year then ended. 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. 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 2, the financial statements present only the Measure A General Obligation Bond Fund of the District and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2010, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District's Measure A General Obligation Bond Fund as of June 30, 2010, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010, on our consideration of the District's Measure A General Obligation Bond Fund internal control over financial reporting and 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 should be considered in assessing the results of our audit.

Vasquez + Company LLP

Los Angeles, California
November 8, 2010

Rio Hondo Community College District
Measure A General Obligation Bond Fund
Statement of Financial Position
June 30, 2010

ASSETS

Cash and cash equivalents	\$ 44,576,043
Interest receivable	139,467
Prepaid expenses	<u>244,087</u>
Total assets	\$ <u>44,959,597</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ 2,261,213
Accrued liabilities	<u>1,960,958</u>
Total liabilities	4,222,171
 Fund balance	 <u>40,737,426</u>
 Total liabilities and fund balance	 \$ <u>44,959,597</u>

See notes to financial statements.

Rio Hondo Community College District
Measure A General Obligation Bond Fund
Statement of Revenues, Expenditures and Change in Fund Balance
Year ended June 30, 2010

Revenues	
Interest and investment income	\$ <u>780,120</u>
Expenditures	
Capital outlay	19,910,481
Audit fees	10,000
Legal fees	79,073
Other	<u>151,791</u>
Total expenditures	<u>20,151,345</u>
Revenues over (under) expenditures	(19,371,225)
Fund balance at beginning of year	<u>60,108,651</u>
Fund balance at end of year	<u>\$ <u>40,737,426</u></u>

See notes to financial statements.

Rio Hondo Community College District
Measure A General Obligation Bond Fund
Notes to Financial Statements
Year ended June 30, 2010

NOTE 1 GENERAL INFORMATION

The Rio Hondo Community College District (the "District") operates Rio Hondo College in Whittier, California.

On March 2, 2004, the voters of Whittier, Santa Fe Springs, Pico Rivera, El Monte, South El Monte and small sections of Norwalk and La Mirada cities approved Measure A, a facilities and equipment bond measure for the District. The District was authorized under Measure A to issue \$245,581,122 of General Obligation Bonds. A Citizens' Oversight Committee was appointed on April 14, 2004 to comply with the California Constitution and Education Code. The purpose of the Citizens' Oversight Committee is to inform the public at least annually regarding the appropriate use of the bond proceeds.

The Measure A General Obligation Bond Fund financial statements consist of the revenue bond project fund (Fund #35) and revenue bond construction fund (Fund #42). The District has established these two funds to account for the activities of the Measure A bonds. These activities are limited to the financing of the construction, acquisition, furnishing and equipping of the District facilities and are not intended to be a complete presentation of the District's financial position or results of operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements include the Measure A Bond Funds of the District.

Measurement Focus and Basis of Accounting

The District accounts for financial transactions in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 84030 of the State of California Education Code, is to be followed by all California Community College districts.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Measure A General Obligation Bond Fund is categorized as a governmental fund type. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, only current assets and liabilities are generally included in the balance sheet. The statement of revenues, expenditures and change in fund balance presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. A one-year availability period is used for revenue recognition. Expenditures are recorded when the related fund liability is incurred.

Cash and Cash Equivalents

Funds invested in the Los Angeles County Treasurer's investment pool are considered cash equivalents. GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the county treasury is recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pool.

Fund Balance

The fund balance represents amounts reserved for expenditure on the Measure A General Obligation Bond Fund's approved projects.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when commitments are paid. All encumbrances are liquidated as of June 30, 2010.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2010 are primarily deposits in Los Angeles County Treasury.

As provided for by Education Code, Section 41001, substantially all of the District's cash balances are required to be deposited with the Los Angeles County Treasurer for the purpose of increasing interest earned through County Treasurer's investment activities.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

The Los Angeles County Treasurer is authorized by California Government Code Section 53648 et. seq. to deposit cash and invest excess funds in time deposits, United States government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. The fair value of the deposits in this pool as of June 30, 2010, as provided by the pool sponsor, was \$12,626,000,000. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The pooled treasury has regulatory oversight from the Los Angeles County Treasury Oversight Committee in accordance with California Government Code requirements.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under law. The market value of pledged securities in the collateral pool must equal at least 110% of the total deposits by public agencies. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150% of deposits.

NOTE 4 INTEREST RECEIVABLE

Interest receivable at June 30, 2010 represents the amount due from the County Treasurer for interest earnings for the quarter ended June 30, 2010.

NOTE 5 PREPAID EXPENSES

Prepaid expenses represent the banner maintenance license for the period July 1, 2010 to June 30, 2011 which the District paid in June 2010.

NOTE 6 GENERAL OBLIGATION BONDS ISSUES

On June 3, 2004, the first Series A of the General Obligation Bonds was issued in the amount of \$58,000,000. The bonds, rated "AAA" by Standard & Poor's at the time of issuance, will mature on August 1, 2029 and bear interest at rates from 3.00% to 5.25%.

NOTE 6 GENERAL OBLIGATION BONDS ISSUES.

On September 26, 2005, the District's Board of Trustees adopted a resolution to issue General Obligation Refunding Bonds (the "Refunding Bonds") to finance the advance refunding of a portion of the District's outstanding Series A General Obligation Bonds starting August 1, 2015. On November 3, 2005, Refunding Bonds in the amount of \$47,117,244 were issued which consisted of current interest bonds of \$43,750,000 and capital appreciation bonds of \$3,367,244. The bonds, rated "AAA" by Standard & Poor's at the time of issuance, will mature on August 1, 2024.

Concurrent with the issuance of the Refunding Bonds, the District deposited part of the proceeds from the Refunding Bonds in the amount of \$46,371,376 into an escrow fund securing the respective maturities of the Series A General Obligation Bonds to be refunded. The remaining portion in the amount of \$4,732,103 was deposited to the revenue bond construction fund. The advanced refunding met the requirements of an in-substance defeasance. Accordingly, the refunded portion of the Series A General Obligation Bonds was removed from the District's financial statements. The defeasance of the Series A General Obligation Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt.

On March 11, 2009, the District issued \$64,996,844 of Series B General Obligation Bonds to fund the acquisition, construction, furnishing, equipping and improvement of capital facilities within the District. The Series B General Obligation Bonds, which were rated "AAA" by Standard & Poor's at the time of issuance, consist of \$60,190,000 Current Interest Bonds and \$4,806,844 Capital Appreciation Bonds. Interest on the Current Interest Bonds is payable semiannually on February 1, and August 1 commencing February 1, 2010. Current Interest Bonds bear interest at rates ranging from 3.0% to 5.0% and the bonds mature August 1, 2030. Capital Appreciation Bonds bear compounded interest at rates ranging from 6.60% to 6.69% and will mature in August 2033.

The General Obligation Bonds represent an obligation of the District payable solely from ad valorem property taxes levied and collected by the County of Los Angeles on properties within the District. To provide for the payment of interest and principal on the bonds, the Board of Supervisors of the County of Los Angeles is empowered and is obligated to annually levy ad valorem taxes upon all property subject to taxes, without limitation as to rate or amount, except for certain personal property which is taxable at limited rates.

NOTE 7 COMMITMENTS AND CONTINGENCIES

As part of tax laws surrounding tax-exempt bonds, the rate of investment earnings, with certain adjustments, on unexpended bond proceeds are limited to the interest rate paid on the bond debt. Arbitrage (i.e., excess investment earnings) is required to be rebated to the federal government every five years for as long as the bonds are outstanding. As of June 30, 2010, no arbitrage liability was deemed to exist.

**Report of Independent Auditors on Internal Control Over Financial Reporting
and on Compliance Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**To the Board of Trustees of
Rio Hondo Community College District**

We have audited the financial statements of the Measure A General Obligation Bond Fund (the "Bond Fund") of Rio Hondo Community College District as of and for the year ended June 30, 2010 and have issued our report thereon dated November 8, 2010. 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

In planning and performing our audit, we considered the Rio Hondo Community College District's Bond Fund 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 Rio Hondo Community College District's Bond Fund internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rio Hondo Community College District's Bond Fund 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 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 would not necessarily identify all deficiencies in internal control 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 above.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Rio Hondo Community College District's Bond Fund 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Trustees, Citizens' Oversight Committee, management, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Vasquez + Company LLP

Los Angeles, California
November 8, 2010