

**Series A Bond Fund  
Audited Financial Statements  
Rio Hondo Community College District  
Year ended June 30, 2007  
With Report of Independent Auditors**

Rio Hondo Community College District  
Series A Bond Fund  
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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 Series A Bond Fund of Rio Hondo Community College District (the "District") as of June 30, 2007 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 audit 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 Series A 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, 2007, 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 Series A Bond Fund as of June 30, 2007, 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 October 25, 2007, on our consideration of the District's Series A 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  
October 25, 2007

Rio Hondo Community College District  
Series A Bond Fund  
Statement of Financial Position  
June 30, 2007

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**ASSETS**

Cash and cash equivalents	\$ 49,814,164
Accounts receivable	<u>952,349</u>
<b>Total assets</b>	<b>\$ <u>50,766,513</u></b>

**LIABILITIES AND FUND BALANCE**

<b>Liabilities</b>	
Accounts payable	\$ 887,211
Accrued liabilities	<u>747,889</u>
<b>Total liabilities</b>	<b>1,635,100</b>
<b>Fund Balance</b>	<u>49,131,413</u>
<b>Total liabilities and fund balance</b>	<b>\$ <u>50,766,513</u></b>

*See notes to financial statements.*

**Rio Hondo Community College District  
Series A Bond Fund  
Statement of Revenues, Expenditures and Change in Fund Balance  
Year ended June 30, 2007**

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**Revenues**

Interest and investment income \$ 2,834,100

**Expenditures**

Capital outlay 7,687,458  
Audit fees 10,000  
Legal fees 85,717

**Total expenditures** 7,783,175

**Excess (deficiency) of revenues over expenditures** (4,949,075)

**Fund balance at beginning of year** 54,080,488

**Fund balance at end of year** \$ 49,131,413

*See notes to financial statements.*

**NOTE 1      GENERAL INFORMATION**

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

Measure A is a facilities and equipment bond measure for the District adopted by the Board of Trustees and passed by voters on March 2, 2004. The District was authorized by Measure A to issue \$245,581,122 general obligation bonds (the "Series A Bonds"). On June 3, 2004, the first series of the Series A Bonds was issued in the amount of \$58,000,000. These bonds are financed over 25 years with principal and interest payments due each February 1 and August 1 beginning February 1, 2005.

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 Bonds starting August 1, 2015. On November 3, 2005, the bond in the amount of \$47,117,244 was issued which consisted of current interest bonds of \$43,750,000 and capital appreciation bonds of \$3,367,244.

Concurrent with the issuance of the Refunding Bonds, the District deposited part of the proceeds in the amount of \$46,371,376 from the Refunding Bonds funds into an escrow fund securing the respective maturities of the Series A Bonds to be refunded. The remaining portion in the amount of \$4,732,103 was deposited to the revenue bond construction fund.

The Board of Supervisors is empowered and is obligated to levy property taxes, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates), for payment of principal and maturity value of and interest on the bonds.

The District has established a separate revenue bond project fund (Fund #35) and revenue bond construction fund (Fund #42) to account for the activities of the Series A bonds. These activities are limited for the financing of the construction, acquisition, furnishing and equipping of the District facilities.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Series A Bond Fund and Refunding Bonds are categorized as governmental fund types. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statement increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets and unreserved fund balance as a measure of available spendable resources.

The government 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 Series A approved projects.

**Estimates**

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

**NOTE 3      CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2007 comprised primarily of cash in Los Angeles County Treasury.

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

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 deposits, and repurchase or reverse repurchase agreements. The District is unable to determine the carrying amount and bank balances of its total deposits with the Los Angeles County Treasurer as of June 30, 2007, and under which categories the bank balances and/or investments apply. In addition, the District is unable to determine whether the County Treasurer has invested directly or indirectly in any derivative instruments.

As of the date of this financial statements, the County of Los Angeles' (County) 2007 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the County's Auditor Controller's Office.

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

The California Code and the District's investment policy do not contain legal or policy requirements other than the following provision for deposits: 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      COMMITMENTS AND CONTINGENCIES**

As part of tax laws surrounding tax-exempt bonds, 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, 2007, no arbitrage liability was deemed necessary.

The Series A Bond Fund has commitments for construction at June 30, 2007. The amount remaining on these contracts is approximately \$49.13 million.

**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 Series A Bond Fund of Rio Hondo Community College District as of and for the year ended June 30, 2007 and have issued our report thereon dated October 25, 2007. 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 Series A Bond Fund of Rio Hondo Community College District'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 Series A Bond Fund of Rio Hondo Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Series A Bond Fund of Rio Hondo Community College District's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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 Series A Bond Fund of Rio Hondo Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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  
October 25, 2007