

**LOS RIOS COMMUNITY
COLLEGE DISTRICT
MEASURES A AND M BONDS
SACRAMENTO, CALIFORNIA
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2012**

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Los Rios Community College District
Sacramento, California**

We have audited the accompanying Financial Statements of the Measures A and M Bond Funds (the Measures) of Los Rios Community College District (the District) as of and for the year ended 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. 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, the financial statements present only the Measures 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, or its cash flows 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 respective financial position of the Measures as of June 30, 2012, and the changes in financial position and cash flows thereof 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 19, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Our discussion and analysis of the Los Rios Measures A and M Bonds audit report provides an overview of the financial activities related to the Bond Funds for the fiscal year ended June 30, 2012. The financial statements referenced begin on page 7 of the audit report.

Accounting Standards

The format of these financial statements follows Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The California Community College Chancellor's Office has adopted the Business Type Activity (BTA) model as the standard for all colleges to use and these statements are prepared accordingly.

Using This Annual Report

This annual report consists of the Statement of Net Assets on page 7, the Statement of Revenues, Expenses, and Change in Net Assets on page 8, the Statement of Cash Flows on page 9, and the accompanying notes on pages 10-19.

Financial Highlights

Measure A

Since August 2002, four series of bonds have been issued totaling \$217.5 million of the \$265 million authorized by the voters in March 2002. Proceeds from Series A (\$27.5 million issued in August 2002), Series B (\$65 million issued in April 2004), and Series C (\$70 million issued in July 2006) have been fully expended. Series D bonds (\$55 million issued in August 2009) have been fully allocated to designated projects and approximately \$37.1 million has been expended through June 30, 2012. In October 2010, outstanding Series A bonds totaling \$22 million were refunded by issuing \$21 million of 2010 Refunding Bonds which will save the taxpayers approximately \$1.7 million (net present value) over the 17 year term of this issue.

On October 20, 2011, the District partially refunded the outstanding 2002 Series B bonds. Of the \$53.2 million of outstanding Series B General Obligation bonds, \$41.1 million of the bonds were called and refunded by issuing \$40.2 million of 2011 Refunding Bonds. The called bonds were paid in full, including a 2% call premium and interest earned, on August 1, 2012. The true interest cost (TIC) of this refunding bond issue was 3.336% and will save the taxpayers approximately \$1.3 million (net present value) over the 16 year term of this new issue.

On March 28, 2012, the District issued \$62.92 million in 2012 General Obligation Refunding Bonds. The proceeds of this refunding issue were used to retire \$9.95 million of Series B bonds (called on August 1, 2012) and will be used to retire \$54.26 million of Series C bonds (to be called on August 1, 2014). A total of \$64.21 million of bonds will be refunded by issuing \$62.92 million in new bonds at reduced interest rates. The TIC of this refunding issue was 3.189% and will save taxpayers approximately \$2.7 million (net present value) over the 18.5 year term of this new issue.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

In accordance with GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, the financial statements are presented as if the bonds refunded by the 2011 and 2012 Refunding issues were retired on the date of the issuance of the new debt, namely, October 20, 2011 and March 28, 2012. Additional information regarding this accounting application is included in the Notes to the Financial Statements.

Through June 30, 2012, expenditures have been made on a total of 51 projects ranging from the early planning phases to completion. Cosumnes River has 13 projects with expenditures to date totaling \$40.1 million. American River College and Sacramento City College each have 11 projects with amounts expended to date of \$41.1 million, and \$59.9 million, respectively. Folsom Lake College has 12 projects with amounts expended of \$63.7 million. Expenditures for the four projects for the District Office were \$7.3 million.

Measure M

In October 2010, the District issued its first series of Measure M bonds, 2008 Series A bonds, for \$130 million of the \$475 million authorized by the voters in November 2008. Through June 30, 2012, \$51.8 million has been expended on various projects.

Through June 30, 2012, expenditures have been made on a total of 21 projects ranging from the early planning phases to completion. American River has four projects with expenditures to date totaling \$21.0 million and Cosumnes River has six projects totaling \$11.1 million. Folsom Lake has four projects totaling \$7.0 million; Sacramento City has four projects totaling \$9.9 million; and the District Office has three projects with expenditures totaling \$2.9 million.

To date, the District has added more than one million square feet and modernized over 277,000 square feet of facilities from Measures A and M, State and local sources. This will allow us to serve an additional 9,000 students.

Other Financial Highlights

Measure A's projected average tax rate was \$9.96 per \$100,000 of assessed value and the highest projected rate was \$16.25. Measure M's projected flat tax rate was \$9.09 per \$100,000 of assessed value.

Following is a schedule of actual tax rates:

Tax Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Measure A	\$2.90	\$1.50	\$6.00	\$3.20	\$7.20	\$6.60	\$7.40	\$12.40	\$9.00	\$11.80
Measure M										\$7.40
Total Tax Rate	\$2.90	\$1.50	\$6.00	\$3.20	\$7.20	\$6.60	\$7.40	\$12.40	\$9.00	\$19.20

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The District received insured ratings of AAA from Standard & Poor's and Aaa from Moody's on the first three issuances, resulting in lower bond interest costs. Prior to issuance of Measure A, Series D, the District received an upgrade of its Standard & Poor's uninsured rating from A+ to AA- which will result in an estimated savings of \$4.5 million to local taxpayers over the term of the Series D bonds. In March 2010, the District also received an upgrade in its Moody's rating from Aa3 to Aa2. The District has maintained these favorable ratings on its subsequent bond issuances.

The Statement of Net Assets reflects the assets and liabilities of the funds. Assets primarily consist of amounts expended to date for projects, net of depreciation, and funds available for future projects or debt service. Liabilities consist primarily of outstanding debt, related interest payable and amounts payable to vendors. Net assets are, by definition, the difference between assets and liabilities.

The Statement of Revenues, Expenses and Changes in Net Assets summarizes operating and financing activity, but excludes proceeds from the sale of bonds and construction, purchases and other project costs. The primary components of revenues are property taxes assessed for debt service and investment income; expenses include depreciation of assets completed and put into service, interest expense on outstanding bonds, and the amortization of bond issuance costs. Changes in net assets result from interest income earned on unexpended bond proceeds, property taxes collected for future debt service less accrued bond interest expense, non-cash adjustments for current year depreciation expense, and the amortization of bond premiums and bond issuance costs.

The Statement of Cash Flow reports the cash flow related to categories shown on the previous two statements discussed above. Categories include capital and related financing activities and investing activities. The increase or decrease in cash balance depends on the timing of cash flow activities.

Total assets are \$359 million. This is a \$0.2 million decrease from 2010-11 and is primarily a result of a decrease in deferred charges due to defeasing debt.

Liabilities consist of \$341.5 million and are predominantly related to the debt obligation from Measures A and M. The decrease of \$4.9 million from 2010-11 is due primarily to the payment of principal on general obligation bonds.

For the year ended June, 2012 and 2011, net assets changed as follows:

	2012	2011
Beginning net assets	\$ 12,778,664	\$ 17,234,499
Increase (decrease) in net assets	4,718,555	(4,455,835)
Ending Net Assets	\$ 17,497,219	\$ 12,778,664

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Economic Factors That May Affect the Future

The District continues to receive favorable construction bids. Due to the general economic downturn, projects typically receive multiple bids at competitive prices. This continuing benefit has enabled the District to deliver high quality educational facilities at a very cost effective price. Consistent with statewide declines in property values, the total assessed valuation of property within the District's jurisdiction declined by another 3% in 2011-12 and is expected to decline by 2% more for 2012-13. This will result in an increase in tax rates in future years; however, it is expected Measure A assessments will remain well within the projected tax rate outlined in the related Tax Rate Statement.

Due to the significant financial downturn, and in spite of literally billions of dollars needed for community college capital facilities projects, there has not been a State education bond measure since 2006. As a result, the only funding available for eligible projects is carryover funds from previous authorizations between 1996 and 2006. Los Rios has been authorized to receive funds for the construction phases of two of the thirteen projects approved statewide for funding. These two projects, American River College's Life Science and Fine Arts Modernization and Cosumnes River College's Northeast Building Modernization, are currently under construction. Several future projects planned under both Measure A and Measure M may be deferred until a new State bond measure is passed.

Upon passage of Measure M, the District reevaluated project timelines to fast track certain projects to take advantage of the bid climate and stimulate the local economy. All of these "fast track" projects were under construction in 2011-12.

Contacting Financial Management

This financial report is designed to provide an overview of the financial activity of Measures A and M bond funds and to demonstrate that the funds are being used as intended. If you have any questions about this report or need additional financial information, contact Los Rios Community College District, 1919 Spanos Court, Sacramento, CA 95825. You may also view Oversight Committee minutes and reports at http://www.losrios.edu/lrc/lrc_bondmeasures.php.

FINANCIAL STATEMENTS

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

Current assets:

Restricted cash and cash equivalents	\$ 99,998,708
Accounts receivable	46,006
Interest receivable	<u>637,089</u>
Total current assets	<u>100,681,803</u>

Noncurrent assets:

Restricted investments	23,293,594
Deferred charges	2,196,695
Capital assets, net	<u>232,847,081</u>
Total noncurrent assets	<u>258,337,370</u>

TOTAL ASSETS **\$ 359,019,173**

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 9,831,759
Interest payable	5,649,800
Long-term debt - current portion	<u>13,264,636</u>
Total current liabilities	28,746,195

Noncurrent liabilities:

Long-term debt - net of current portion	<u>312,775,759</u>
Total liabilities	341,521,954

Net assets:

Restricted for Measures A and M Bonds	<u>17,497,219</u>
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TOTAL LIABILITIES AND NET ASSETS **\$ 359,019,173**

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012**

OPERATING EXPENSES	
Depreciation	\$ 6,688,079
OPERATING LOSS	<u>(6,688,079)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income - noncapital	21,485
Investment income - noncapital	5,408
Amortization of deferred charges	<u>(161,277)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(134,384)</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(6,822,463)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Local property taxes and revenues, capital	24,339,130
Interest income - capital	469,420
Investment loss - capital	(55,655)
Interest expense on capital asset-related debt	(13,178,267)
Loss on disposal	<u>(33,610)</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>11,541,018</u>
INCREASE IN NET ASSETS	4,718,555
NET ASSETS - BEGINNING OF YEAR	<u>12,778,664</u>
NET ASSETS - END OF YEAR	<u>\$ 17,497,219</u>

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from refunding bonds	\$ 116,284,788
Debt issuance costs	(700,742)
Local property taxes and other receipts for capital purposes	24,339,130
Interest on capital investments	1,042,627
Purchases of capital assets	(45,696,067)
Principal paid on capital debt	(12,015,000)
Principal payment on refunded bond	(105,300,000)
Call premium on refunded bonds	(2,106,000)
Interest paid on capital debt	<u>(23,153,292)</u>
Net cash used by capital and related financing activities	<u>(47,304,556)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	106,099,318
Purchase of investments	<u>(36,222,318)</u>
Net cash provided by investing activities	<u>69,877,000</u>
NET INCREASE IN CASH AND EQUIVALENTS	22,572,444
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	<u>77,426,264</u>
CASH AND EQUIVALENTS -- END OF YEAR	<u><u>\$ 99,998,708</u></u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (6,688,079)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation expense	<u>6,688,079</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity – Los Rios Community College District (the District) provides higher education in the greater Sacramento area, which consists of portions of five counties. The District consists of four colleges, three centers, and several satellite locations located throughout the service area (the Primary Institution). These financial statements present only the Measures A and M General Obligation Bond Funds (the Measures), which consists of building funds and the bond debt service funds. These financial statements do not include financial data for the remainder of the District's funds and component unit, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

The Measure A bond authorization is a facilities and equipment bond measure adopted by the District's Board of Trustees and passed by voters in March 2002. This measure authorizes up to \$265,000,000 in bond issues. Through June 30, 2012, bonds totaling \$217,500,000 have been issued.

The Measure M bond authorization is a facilities and equipment bond measure adopted by the District's Board of Trustees and passed by voters in November 2008. This measure authorizes up to \$475,000,000 in bond issues. Through June 30, 2012, \$130,000,000 in bonds have been issued.

The Sacramento County Board of Supervisors is empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and interest on the bonds. The District has established separate capital project funds and separate debt service funds to account for the activities of the Measures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and, where applicable, Financial Accounting Standards Board (FASB) statements issued through 1989.

The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community Colleges, which is consistent with generally accepted accounting principles.

LOS RIOS COMMUNITY COLLEGE DISTRICT

MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Restricted Cash and Cash Equivalents – The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Sacramento County Treasury (County) as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, State registered warrants, notes, bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The County does not invest in derivatives. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The value of the District's position in the pool is the fair value of the pool shares. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2012, the fair value of the County pool is 100.24% of the carrying value. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

Cash and investments are externally restricted for contractual obligations, such as debt service payments, sinking or reserve funds, or to purchase or construct capital assets.

Restricted Investments – Investments are reported at fair value. Fair value is determined from quoted market prices. The District is restricted by State law and the Board's investment policy in the types of investments that can be made. Permissible investments include the County treasury, the State Local Agency Investment Fund (LAIF), federally insured deposits, and individual securities. The District's investment policy further limits its investments to U.S. government and government agency instruments, negotiable certificates of deposits, and corporate notes and bonds. The weighted average maturity of all investments shall be three years or less. The District's investment policy established safety of principal as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity.

Deferred Charges – Bond issuance costs are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Capital Assets – Capital assets are recorded at cost on the date of acquisition or fair market value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$200 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Depreciation is computed on a straight-line basis using the half-year convention over the estimated useful life of the assets; generally 50 years for buildings, 10 years for land improvements, 8 years for equipment, 5 years for library books, and 3 years for technology equipment.

Bond Premium – Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are recorded as long-term liabilities.

Deferred Amount on Refunding – Upon refinancing bond debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the term of the shorter of the life of the old or the new debt using the effective interest method. This difference is known as the deferred amount on refunding and is reported as an adjustment to the new debt liability. The net carrying amount of the old debt is the face value of the refunded bonds plus any unamortized premium or discount and any unamortized issuance costs related to old debt. The reacquisition price is the amount required to repay the previously issued debt in a refunding transaction. Any premium or discount and issuance costs pertaining to the new debt are not considered part of the reacquisition price and are amortized separately over the life of the new debt.

Budgets and Budgetary Accounting – By State law, the District's Board of Trustees must approve a tentative budget no later than July 1 and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption.

The budget is revised during the year to incorporate categorical funds which are awarded during the year and for miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's Board of Trustees.

Estimates Used in Financial Reporting – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual results could differ from those estimates. The Measures' largest source of revenue is property taxes, which are subject to some estimation at the date of the financial statements.

Net Assets – The District's net assets are classified as follows:

Restricted for Measures A and M Bonds includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Insurance Coverage – The District is self-insured for liability and property damage on the first \$250,000 and \$100,000 of each claim, respectively. The District is also self-insured for workers' compensation claims on the first \$500,000 of each claim. Estimated losses and changes in prior-year reserve balances are expensed in the current period.

Coverage in excess of self-insurance limits for workers' compensation is purchased through an insurance broker. Coverage in excess of self-insurance limits for property damage and liability up to \$500,000,000 and \$50,000,000, respectively, are provided by pooled insurance as members of a joint powers authority of California community colleges and school districts.

Property Tax – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Unsecured property taxes are payable in three installments on or before February 10, June 10, and August 10. The counties of El Dorado, Placer, Sacramento, Solano, and Yolo bill and collect the taxes for the District.

Future GASB Statement Implementation – In December of 2010, the GASB issued GASB Statement 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, with required implementation for the District during the June 30, 2013 fiscal year-end. The primary objective of GASB 62 is to incorporate applicable guidance from FASB pronouncements into the GASB statements. GASB 62 addresses a number of accounting and financial reporting areas, but the most significant areas that may affect the District relate to (a) capitalization of interest costs, (b) imputation of interest costs, and (c) statement of net assets classification. The guidance for the capitalization of interest costs reflects a change from previously issued guidance for governments using the business-type model. Since GASB 62 requires retroactive application, interest paid in prior years will need to be calculated and added to the cost of capital assets.

The GASB issued GASB Statement 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, in June of 2011 and March of 2012, respectively. The District is required to implement GASB 63 and GASB 65 during the June 30, 2013 fiscal year-end. GASB 63 renames net assets as net position and provides guidance on the definition and presentation of deferred outflows of resources (a consumption of net assets applicable to a future reporting period) and deferred inflows of resources (an acquisition of net assets applicable to a future reporting period). GASB 65 will impact certain items previously reported as assets and liabilities by (a) reclassifying them as deferred outflows or inflows of resources, or (b) recognizing them as outflows or inflows of resources. Both GASB 63 and 65 are required to be implemented retroactively and will require a restatement of beginning net position.

The District is reviewing GASBs 62, 63, and 65, and will determine the effect on the financial statements as of and for the year ending June 30, 2013.

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of restricted cash, cash equivalents and investments at June 30, 2012:

	<u>Fair Value</u>
POOLED INVESTMENTS	
County treasurer's investment pool	\$ 99,998,708
U.S. GOVERNMENT AGENCY SECURITIES	
Federal Home Loan Mortgage Corporation	<u>23,293,594</u>
Total restricted cash, cash equivalents and investments	<u>\$ 123,292,302</u>

Credit Risk - Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated. The District's investments in the U.S. government agency securities have an insured rating of AA+ by Standard & Poor's.

Concentration of Credit Risk - Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of the Measures' investment in a single issuer. The Measures holds 18.89% of their cash, cash equivalents and investments in the Federal Home Loan Mortgage Corporation.

Interest Rate Risk - Investments

The schedule of maturities at June 30, 2012, is as follows:

	<u>Fair Value</u>	<u>Maturity (in Years) Less than 1</u>
County treasurer's investment pool	\$ 99,998,708	\$ 99,998,708
Federal Home Loan Mortgage Corporation	<u>23,293,594</u>	<u>23,293,594</u>
Totals	<u>\$ 123,292,302</u>	<u>\$ 123,292,302</u>

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	<u>Balance June 30, 2012</u>
Depreciable Assets				
Buildings and improvements	\$ 143,994,026	\$ 18,866,867	\$ -	\$ 162,860,893
Site improvements	18,829,106	3,586,388	-	22,415,494
Equipment	11,982,544	2,134,064	(38,411)	14,078,197
Nondepreciable Assets				
Construction in progress	32,750,173	49,575,874	(19,106,479)	63,219,568
Land	<u>195,174</u>	<u>-</u>	<u>-</u>	<u>195,174</u>
Total	207,751,023	74,163,193	(19,144,890)	262,769,326
Less: Accumulated depreciation	<u>(23,238,967)</u>	<u>(6,688,079)</u>	<u>4,801</u>	<u>(29,922,245)</u>
Total Capital Assets - Net	<u>\$ 184,512,056</u>	<u>\$ 67,475,114</u>	<u>\$ (19,140,089)</u>	<u>\$ 232,847,081</u>

5. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2012 is shown below:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Payments and Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
General obligation bonds	\$ 322,910,000	\$ 103,115,000	\$ (117,315,000)	\$ 308,710,000	\$ 11,315,000
Bond issuance premiums	16,826,347	13,169,787	(4,899,973)	25,096,161	2,674,189
Deferred amount on refunding	<u>(1,038,145)</u>	<u>(7,253,988)</u>	<u>526,367</u>	<u>(7,765,766)</u>	<u>(724,553)</u>
Total	<u>\$ 338,698,202</u>	<u>\$ 109,030,799</u>	<u>\$ (121,688,606)</u>	<u>\$ 326,040,395</u>	<u>\$ 13,264,636</u>

Advance Refunding

During the year, the District issued two (2) general obligation refunding bond series in order to refinance its outstanding indebtedness. To take advantage of low interest rates, both refunding issues were sold before the refunded bonds could be called and retired; thus, referred to as advance refunding.

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

Following is a summary of this refinancing activity:

	<u>Refunding Bonds Issued</u>	<u>2002 Series B Bonds Refunded</u>	<u>2002 Series C Bonds Refunded</u>	<u>Total Bonds Refunded</u>
2011 Refunding Bonds	\$ 40,195,000	\$ 41,095,000	\$ -	\$ 41,095,000
2012 Refunding Bonds	<u>62,920,000</u>	<u>9,950,000</u>	<u>54,255,000</u>	<u>64,205,000</u>
Total	<u>\$ 103,115,000</u>	<u>\$ 51,045,000</u>	<u>\$ 54,255,000</u>	<u>\$ 105,300,000</u>

The financial effects of these refunding issues were as follows:

- On October 20, 2011, the District issued 2011 general obligation refunding bonds in the amount of \$40,195,000 to partially advance refund the 2002 Series B general obligation bonds. The District completed the refunding to reduce debt service payments by \$1,778,596 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,345,084 in aggregate.
- On March 28, 2012, the District issued 2012 general obligation refunding bonds in the amount of \$62,920,000 to partially advance refund the 2002 Series B and 2002 Series C general obligation bonds. The District completed the refunding to reduce debt service payments by \$3,257,357 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$2,704,683 in aggregate.
- The refunded 2002 Series B bonds at June 30, 2012, totaled \$51,045,000, and will be called and retired on August 1, 2012. Refunded 2002 Series C bonds at June 30, 2012, totaled \$54,255,000, and will be called and retired on August 1, 2014.
- Funds from the sale of the refunding issues have been placed in escrow accounts at U.S. Bank, San Francisco, CA. for investment into State and Local Government Series (SLGS) securities until needed to service the refunded bond debt. On June 30, 2012, \$114,604,410 was held in escrow, which, together with the interest income earned on the SLGS, are expected to be sufficient to retire all refunded bonds including principal, a 2% call premium and accrued interest expense since the date of issuance of the corresponding refunding issue.

The refunded bonds are considered defeased in substance and, thus, neither the escrow funds nor the outstanding refunded bonds are included in the financial statements of the District as of June 30, 2012.

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

The outstanding general obligation bond debt as of June 30, 2012, is as follows:

	<u>Original Issue</u>	<u>Refunding Issuance</u>	<u>Outstanding Balance</u>
Measure A Bonds			
2002 Series A general obligation bonds, due in annual installments of \$575,000 to \$1,860,000 beginning February 1, 2003, through August 1, 2027 at interest from 3.40% to 6.40%. Subsequently, in October 2010, all the outstanding Series A Bonds totaling \$22,000,000 were refunded in substance with the issuance of \$21,025,000 of 2010 Refunding Bonds. Called bonds were retired on February 1, 2011.	\$ 27,500,000	\$ -	\$ -
2002 Series B general obligation bonds, due in annual installments of \$650,000 to \$4,345,000 beginning February 1, 2005, through August 1, 2028 at interest from 2.00% to 5.00%. Subsequently, in October 2011 and March 2012, all but \$2,175,000 of the bonds outstanding were refunded in substance with the issuances of the 2011 and 2012 Refunding Bonds.	65,000,000	-	2,175,000
2002 Series C general obligation bonds, due in annual installments of \$1,680,000 to \$4,620,000 beginning February 1, 2007, through August 1, 2030 at interest from 4.25% to 5.25%. Subsequently, in March 2012, all but \$6,560,000 of the bonds outstanding were refunded in substance with the issuance of the 2012 Refunding Bonds.	70,000,000	-	6,560,000
2002 Series D general obligation bonds, due in annual installments of \$1,235,000 to \$3,765,000 beginning February 1, 2010 through August 1, 2034 at interest from 2.00% to 5.375%	55,000,000	-	52,495,000
2010 Refunding Bonds, due in annual installments of \$905,000 to \$1,730,000 beginning February 1, 2011, through August 1, 2027, at interest from 2.00% to 5.00%	-	21,025,000	19,965,000
2011 Refunding Bonds, due in annual installments of \$455,000 to \$4,035,000 beginning February 1, 2012, through August 1, 2027, at interest from 2.00% to 5.00%	-	40,195,000	40,195,000

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

2012 Refunding Bonds, due in annual installments of \$75,000 to \$8,225,000 beginning February 1, 2012, through August 1, 2030, at interest from 2.00% to 5.25%

	-	62,920,000	62,920,000
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	217,500,000	124,140,000	184,310,000
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Measure M Bonds

2008 Series A general obligation bonds, due in annual installments of \$320,000 to \$13,590,000 beginning February 1, 2011 through August 1, 2035 at interest from 2.00% to 5.00%

	130,000,000	-	124,400,000
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	\$ 347,500,000	\$ 124,140,000	\$ 308,710,000
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The outstanding general obligation bonded debt mature as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,315,000	\$ 13,818,283	\$ 25,133,283
2014	7,125,000	13,974,850	21,099,850
2015	7,490,000	13,740,106	21,230,106
2016	7,935,000	13,446,531	21,381,531
2017	8,565,000	13,106,531	21,671,531
2018-2022	53,035,000	59,302,019	112,337,019
2023-2027	75,120,000	44,603,775	119,723,775
2028-2032	79,730,000	24,029,700	103,759,700
2033-2036	58,395,000	5,910,698	64,305,698
Total	\$ 308,710,000	\$ 201,932,493	\$ 510,642,493

6. JOINT POWERS AGREEMENTS

The District is a participant in the Schools Excess Liability Fund (SELF). SELF is a joint powers authority (JPA) created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of a self-funded excess liability fund for public educational agencies, which are parties thereto. Should excess liability claims exceed amounts funded to SELF by all participants, the District may be required to provide additional funding.

The District is a participant in the Alliance of Schools for Cooperative Insurance Program (ASCIP). ASCIP is a JPA established for the purpose of providing the services, facilities, and items necessary and appropriate for the establishment, operation, and maintenance of a self-insurance system for property, liability, and workers' compensation claims and losses against public educational agencies who are members thereof. The District only participates in the JPA property and liability programs. Should property claims exceed amounts funded to ASCIP by all participants, the District may be required to provide additional funding. Should liability claims exceed established ASCIP limits, the District has excess coverage with SELF. ASCIP also

**LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS**

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

provides for additional insurance and risk management programs and services, as well as a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding self insurance for losses and other insurance and risk management programs and services.

The SELF and ASCIP are independently accountable for their fiscal matters and are not components of the District for financial reporting purposes. Condensed financial information is as follows:

	June 30, 2011	
	<u>SELF</u>	<u>ASCIP</u>
Total Assets	\$ 174,774,000	\$ 256,717,310
Total Liabilities	<u>141,524,000</u>	<u>144,684,365</u>
Net Assets	<u>\$ 33,250,000</u>	<u>\$ 112,032,945</u>
Total Revenues	\$ 9,165,000	\$ 184,317,132
Total Expenses	<u>12,425,000</u>	<u>178,238,995</u>
Net Increase (Decrease) in Net Assets	<u>\$ (3,260,000)</u>	<u>\$ 6,078,137</u>

7. CONSTRUCTION COMMITMENTS

As of June 30, 2012, the District had outstanding construction commitments totaling \$73,717,840.

OTHER REPORT



**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
Los Rios Community College District
Sacramento, California**

We have audited the financial statements of the Measures A and M Bond Funds (the Measures) of Los Rios Community College District (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 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 the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 of the Measures, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Measures' financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 and Other Matters

As part of obtaining reasonable assurance about whether the Measures' 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 Citizens' Oversight Committee, Board of Trustees, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

GILBERT ASSOCIATES, INC.
Sacramento, California

November 19, 2012