

**LOS RIOS COMMUNITY
COLLEGE DISTRICT
MEASURES A AND M BONDS
SACRAMENTO, CALIFORNIA
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2016**

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

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JUNE 30, 2016**

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INTRODUCTORY SECTION (UNAUDITED)

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

INTRODUCTORY SECTION (UNAUDITED)
JUNE 30, 2016

BACKGROUND INFORMATION

Los Rios Community College District (the District) was formed in 1965 as a result of the consolidation of ten separate K-12 “feeder” districts. It covers approximately 2,400 square miles, including all of Sacramento County, most of El Dorado and parts of Yolo, Placer and Solano counties. The District includes four colleges: American River College, Sacramento City College, Cosumnes River College, and Folsom Lake College. The District also includes six approved education centers in Davis, El Dorado, Elk Grove, Natomas, Rancho Cordova, and West Sacramento.

The District currently has two bond authorizations: Measure A approved by the voters on March 5, 2002, allows for \$265 million in General Obligation Bonds and Measure M, a \$475 million authorization, was approved by the voters on November 4, 2008. The proceeds from these bonds are to be used for construction of new facilities and modernizing existing facilities at the District’s four colleges, six education centers, and District Office/District-wide services.

Measures A and M are Proposition 39 (Prop 39) bonds. The passage of Prop 39 in November 2000 amended the California constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed in the ballot measure, as well as an annual independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Prop 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the education code to establish additional requirements which must be followed if a district seeks approval of a bond measure pursuant to the 55% majority authorized by Prop 39. These requirements include the formation of an independent Citizens’ Bond Oversight Committee (CBOC) responsible for the review of bond expenditures and the presentation of an annual report. The CBOC representing various constituents of the community is appointed by the Board of Trustees. Los Rios has one CBOC with oversight responsibilities for both Measure A and Measure M.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

INTRODUCTORY SECTION (UNAUDITED) JUNE 30, 2016

MEASURE A HIGHLIGHTS

Since August 2002, five series of Measure A bonds have been issued, totaling \$237.5 million of the \$265 million authorized by the voters in March 2002.

Measure A bond issuances were as follows:

Measure A	Date	Bond Amount (in millions)
Series A*	August 1, 2002	\$ 27.5
Series B**	April 1, 2004	65.0
Series C**	July 25, 2006	70.0
Series D ***	August 4, 2009	55.0
Series E	June 27, 2013	20.0
Total		\$ 237.5

*2010 Refunding bonds were issued in October 2010 for \$21,025,000, which fully refunded the Series A bonds.

**2011 Refunding bonds were issued in October 2011 for \$40,195,000. 2012 Refunding bonds were issued in March 2012 for \$62,920,000. These issues refunded all but \$2,175,000 of the Series B bonds and all but \$6,560,000 of the Series C bonds, both of which has subsequently been retired.

***2016 Refunding bonds were issued in April 2016 for \$39,315,000. The issues refunded all but \$6,580,000 of Series D bonds. The true interest cost of this refunding bond issue was 1.39% and will save the taxpayers approximately \$11.7 million (net present value) over the 11 year term of this new issue.

Series A, B, C and D have been fully expended. As of June 30, 2016, \$19.3 million has been expended from Series E.

Through June 30, 2016, Measure A project expenditures were as follows:

Location	Number of Projects	Expenditures to Date (in millions)
American River College	11	\$ 41.2
Cosumnes River College	15	47.5
Folsom Lake College	12	92.9
Sacramento City College	12	61.0
District Office	4	7.3
Totals	54	\$ 249.9

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

INTRODUCTORY SECTION (UNAUDITED) JUNE 30, 2016

MEASURE M HIGHLIGHTS

Since October 2010, two series of Measure M bonds have been issued totaling \$190 million of the \$475 million authorized by the voters in November 2008.

Measure M bond issuances were as follows:

Measure M	Date	Bond Amount (in millions)
Series A	October 19, 2010	\$ 130.0
Series B	June 27, 2013	60.0
Total		\$ 190.0

At June 30, 2016, \$130 million had been spent from the Series A bond issue, \$37.8 million has been spent from Series B.

Through June 30, 2016, Measure M projects and expenditures were as follows:

Location	Number of Projects	Expenditures to Date (in millions)
American River College	8	\$ 68.5
Cosumnes River College	9	35.8
Folsom Lake College	4	23.7
Sacramento City College	11	31.3
District Office	5	9.6
Totals	37	\$ 168.9

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

**INTRODUCTORY SECTION (UNAUDITED)
JUNE 30, 2016**

MEASURES A AND M - PROJECTED VERSUS ACTUAL TAX RATES

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, per \$100,000 of assessed value:

Tax Year	Measure A	Measure M	Total Tax Rate	Taxpayer Savings Over Projected Tax Rate	
				Measure A	Measure M
2003	\$ 2.90		\$ 2.90	\$7.06-13.35	
2004	1.50		1.50	8.46-14.75	
2005	6.00		6.00	3.96-10.25	
2006	3.20		3.20	6.76-13.05	
2007	7.20		7.20	2.76-9.05	
2008	6.60		6.60	3.36-9.65	
2009	7.40		7.40	2.56-8.85	
2010	12.40		12.40	Up to 3.85	
2011	9.00		9.00	0.96-7.25	
2012	11.80		\$ 7.40	19.20	
2013	13.40	5.90	19.30	Up to 2.85	3.19
2014	10.80	7.30	18.10	Up to 5.45	1.79
2015	7.40	3.90	11.30	2.56-8.85	5.19
2016	3.50	5.60	9.10	6.46-12.75	3.49
2017	9.70	4.40	14.10	0.26-6.55	4.69

BOND CREDIT RATINGS

The District received insured ratings of AAA from Standard & Poor's (S&P) and Aaa from Moody's on the first three Measure A issuances, resulting in lower bond interest costs. Prior to issuance of Measure A, Series D, the District received an upgrade of its S&P uninsured rating from A+ to AA-. In March 2010, the District also received an upgrade in its Moody's rating from Aa3 to Aa2. The District maintained these favorable ratings of AA- and Aa2 on its subsequent bond issuances, Measure A, Series E, Measure M, Series B, and the most recently issued 2016 Refunding Bonds.

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 Committee minutes and reports at http://www.losrios.edu/lrc/lrc_bondmeasures.php.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the Measures' basic 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 statements 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 the 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 from 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 the financial statements, whether due to fraud or in error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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, 2016, and the respective changes in financial position and cash flows thereof 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 Measures and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2016, 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. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Financial Statements that collectively comprise the Measure's financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the Measure's financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016, on our consideration of the District's internal control over financial reporting and on 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* in considering the District's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 15, 2016

FINANCIAL STATEMENTS

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

**BALANCE SHEET
JUNE 30, 2016**

ASSETS

Current assets:

Restricted cash and cash equivalents	\$ 49,243,681
Interest receivable	222,981
Total current assets	<u>49,466,662</u>

Noncurrent assets:

Restricted investments	6,047,156
Depreciable capital assets, net	367,608,359
Nondepreciable capital assets	<u>26,550,758</u>
Total noncurrent assets	<u>400,206,273</u>

TOTAL ASSETS 449,672,935

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amount on refunding	<u>10,632,860</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 460,305,795

LIABILITIES

Current liabilities:

Accounts payable	\$ 1,131,794
Interest payable	7,820,475
Long-term debt - current portion	<u>14,472,016</u>
Total current liabilities	23,424,285

Noncurrent liabilities:

Long-term debt - net of current portion	<u>361,249,892</u>
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TOTAL LIABILITIES 384,674,177

NET POSITION:

Restricted for Measures A and M Bonds	<u>75,631,618</u>
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TOTAL LIABILITIES AND NET POSITION \$ 460,305,795

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

OPERATING EXPENSES:	
Depreciation	\$ 12,750,686
OPERATING LOSS	<u>(12,750,686)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income - noncapital	137,859
Investment loss - noncapital	<u>(3,715)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>134,144</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(12,616,542)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:	
Local property taxes and revenues, capital	19,033,417
Interest income - capital	144,208
Investment gain - capital	3,864
Interest expense on capital asset-related debt	(3,947,973)
Debt service costs	<u>(350,627)</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>14,882,889</u>
INCREASE IN NET POSITION	2,266,347
NET POSITION - BEGINNING OF YEAR	<u>73,365,271</u>
NET POSITION - END OF YEAR	<u>\$ 75,631,618</u>

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

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Interest on noncapital investments	\$ 78,844
Investment fees on noncapital investments	<u>(3)</u>
Net cash provided by noncapital financing activities	<u>78,841</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from refunding bonds	39,315,000
Premium received on refunding bond	7,507,667
Payment to advance refund escrow agent	(6,108,491)
Debt service costs	(350,627)
Local property taxes and other receipts for capital purposes	19,092,204
Interest on capital investments	117,076
Purchases of capital assets	(16,538,218)
Principal paid on capital debt	(9,485,000)
Principal payment on refunded bonds	(40,370,000)
Interest paid on capital debt	<u>(16,943,407)</u>
Net cash used by capital and related financing activities	<u>(23,763,796)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	24,121,301
Purchase of investments	<u>(18,129,292)</u>
Net cash provided by investing activities	<u>5,992,009</u>

NET DECREASE IN CASH AND EQUIVALENTS (17,692,946)

CASH AND EQUIVALENTS -- BEGINNING OF YEAR 66,936,627

CASH AND EQUIVALENTS -- END OF YEAR \$ 49,243,681

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (12,750,686)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation expense	<u>12,750,686</u>
Net cash provided by operating activities	<u>\$ -</u>

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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, six centers, and one satellite location 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 the 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, 2016, bonds totaling \$237,500,000 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, 2016, bonds totaling \$190,000,000 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 – 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 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.

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.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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, or bonds; State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements. Investments in the County pool are valued at fair value per GASB 31. 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, 2016, the fair value of the County pool is 100.30% of the carrying value. The County does not invest in derivatives. 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 in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is determined from quoted market prices. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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.

Capital Assets – Capital assets are recorded at cost on the date of acquisition. 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.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Interest incurred during the construction phase of capital assets is included as part of the capitalizable value of the assets constructed. The interest capitalized for the year ended June 30, 2016 is \$10,218,511.

Deferred Outflows/Deferred Inflows of Resources – In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial section, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Measures have one item, deferred amount on refunding, which qualifies for reporting in this category in the balance sheet. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or refunding bond.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Measures do not have items that qualify for reporting in this category.

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 \$55,000,000, respectively, are provided by pooled insurance as members of a joint powers authority of California community colleges and school districts.

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.

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, deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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.

Revisions to the budget are approved by the District's Board of Trustees.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Net Position – The Measure’s net position is 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.

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.

Current Year GASB Implementation – For the year ended June 30, 2016, the District implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. The primary objective of GASB 72 is to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Note 3 includes certain disclosures required under GASB 72 as of June 30, 2016.

3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of restricted cash, cash equivalents and investments at June 30, 2016:

	<u>Fair Value</u>
Pooled Investments:	
County Treasury Pooled Investment Fund	\$ 49,243,681
U.S. Government Agency Securities:	
Federal Home Loan Bank	<u>6,047,156</u>
Total restricted cash and cash equivalents and investments	<u>\$ 55,290,837</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 AAA by Standard & Poor's.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 10.94% of restricted cash, cash equivalents and investments in the Federal Home Loan Bank.

Interest Rate Risk - Investments

The schedule of maturities at June 30, 2016, is as follows:

	<u>Fair Value</u>	<u>Maturity (in Years) Less than 1</u>
County Treasury Pooled Investment Fund	\$ 49,243,681	\$ 49,243,681
Federal Home Loan Bank	<u>6,047,156</u>	<u>6,047,156</u>
Totals	<u>\$ 55,290,837</u>	<u>\$ 55,290,837</u>

Fair Value Measurement

GASB 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The County Treasury Pooled Investment Fund, being an investment pool, is subject to the fair value measurement; however, it is not subject to the fair value hierarchy. The Federal Home Loan Bank is classified as Level 2 of the fair value hierarchy because it is valued using a matrix pricing model.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions/ Transfers</u>	<u>Deductions/ Transfers</u>	<u>Balance June 30, 2016</u>
Nondepreciable assets:				
Construction in progress	\$ 52,928,879	\$ 15,623,263	\$ (42,210,216)	\$ 26,341,926
Land	208,832	-	-	208,832
Total nondepreciable assets	<u>53,137,711</u>	<u>15,623,263</u>	<u>(42,210,216)</u>	<u>26,550,758</u>
Depreciable assets:				
Buildings and improvements	330,315,009	45,376,574	-	375,691,583
Site improvements	37,963,574	6,633,450	-	44,597,024
Equipment	18,551,193	996,447	(4,624)	19,543,016
Total depreciable assets	<u>386,829,776</u>	<u>53,006,471</u>	<u>(4,624)</u>	<u>439,831,623</u>
Less: accumulated depreciation	<u>(59,477,202)</u>	<u>(12,750,686)</u>	<u>4,624</u>	<u>(72,223,264)</u>
Total assets being depreciated	<u>327,352,574</u>	<u>40,256,055</u>	<u>-</u>	<u>367,608,359</u>
Total capital assets - net	<u>\$ 380,490,285</u>	<u>\$ 55,879,048</u>	<u>\$ (42,210,216)</u>	<u>\$ 394,159,117</u>

5. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2016 is shown below:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Payments and Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
General obligation bonds	\$ 361,280,000	\$ 39,315,000	\$ (49,855,000)	\$ 350,740,000	\$ 10,640,000
Bond issuance premiums	20,630,011	7,507,667	(3,155,770)	24,981,908	3,832,016
Total	<u>\$ 381,910,011</u>	<u>\$ 46,822,667</u>	<u>\$ (53,010,770)</u>	<u>\$ 375,721,908</u>	<u>\$ 14,472,016</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The outstanding general obligation bond debt as of June 30, 2016, 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	-	-
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	-	-
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%. Subsequently, in April 2016, all but \$6,580,000 of the bonds outstanding were refunded in substance with the issuance of the 2016 Refunding Bonds.	55,000,000	-	6,580,000

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

	<u>Original Issue</u>	<u>Refunding Issuance</u>	<u>Outstanding Balance</u>
2002 Series E general obligation bonds, due in annual installments of \$500,000 to \$1,250,000 beginning August 1, 2014, through August 1, 2038, at an interest rate from 2.00% to 5.00%	20,000,000	-	18,950,000
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	16,170,000
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	35,050,000
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	57,585,000
2016 Refunding Bonds, due in annual installments of \$525,000 to \$4,990,000 beginning August 1, 2016, through August 1, 2026, at interest from 2.00% to 5.00%.	-	39,315,000	39,315,000
Total Measure A Bonds	<u>237,500,000</u>	<u>163,455,000</u>	<u>173,650,000</u>
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	-	119,090,000
2008 Series B general obligation bonds, due in annual installments of \$1,000,000 to \$4,500,000 beginning August 1, 2014, through August 1, 2038, at an interest rate of 2.00% to 5.00%	<u>60,000,000</u>	-	<u>58,000,000</u>
Total Measure M Bonds	<u>190,000,000</u>	-	<u>177,090,000</u>
Total Measure A & M Bonds	<u>\$ 427,500,000</u>	<u>\$ 163,455,000</u>	<u>\$ 350,740,000</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Advance Refunding

On April 21, 2016, the District issued 2016 General Obligation Refunding Bonds (2002 Issue) in the amount of \$39,315,000, with interest rates ranging from 2% to 5%, to advance refund \$40,370,000 of the 2002 Series (Defeased Bonds.) The District completed the refunding to reduce debt service payments by \$16,460,159 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$11,660,252 in aggregate. The District defeased the bonds by placing proceeds of the 2016 Issue in an irrevocable escrow account to provide for future debt service, accordingly the assets and liabilities for the Defeased Bonds are not included in the Statement of Net Position. On June 30, 2016, \$46,478,491 was held in escrow, which, together with the interest income earned, are expected to be sufficient to retire all refunded bonds including principal and accrued interest expense on August 1, 2016. As of June 30, 2016, the 2016 Issue principal balance outstanding was \$39,315,000.

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, 2016.

The outstanding general obligation bonded debt mature as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 10,640,000	\$ 15,829,182	\$ 26,469,182
2018	15,720,000	15,703,013	31,423,013
2019	14,300,000	15,080,438	29,380,438
2020	15,420,000	14,425,313	29,845,313
2021	14,110,000	13,740,675	27,850,675
2022-2026	91,730,000	57,137,588	148,867,588
2027-2031	92,905,000	33,270,213	126,175,213
2032-2036	79,615,000	13,533,081	93,148,081
2037-2039	16,300,000	1,064,625	17,364,625
Total	<u>\$ 350,740,000</u>	<u>\$ 179,784,128</u>	<u>\$ 530,524,128</u>

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 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, 2016	June 30, 2015
	<u>SELF</u>	<u>ASCIP</u>
Total Assets and Deferred Outflows	\$ 139,086,680	\$ 370,258,739
Total Liabilities and Deferred Inflows	<u>117,552,059</u>	<u>212,691,038</u>
Net Position	<u>\$ 21,534,621</u>	<u>\$ 157,567,701</u>
Total Revenues	\$ 13,898,598	\$ 230,954,099
Total Expenses	<u>24,553,606</u>	<u>218,451,597</u>
Net Increase (decrease) in Net Position	<u>\$ (10,655,008)</u>	<u>\$ 12,502,502</u>

7. CONSTRUCTION COMMITMENTS

As of June 30, 2016, the District had outstanding construction commitments totaling \$8,607,830.

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***

Independent Auditor's Report

**Board of Trustees
Los Rios Community College District
Sacramento, 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 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, 2016, and related notes to the financial statements, which collectively comprise the Measures' basic financial statements and have issued our report thereon dated November 15, 2016.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's 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 entity's 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 material weaknesses or significant deficiencies. 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 Measures' financial statements are free from 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

GILBERT ASSOCIATES, INC.
Sacramento, California

November 15, 2016