

**LOS RIOS COMMUNITY
COLLEGE DISTRICT
MEASURES A AND M BONDS
SACRAMENTO, CALIFORNIA
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2010**

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

**TABLE OF CONTENTS
JUNE 30, 2010**

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (Required Supplemental Information)	3
FINANCIAL STATEMENTS	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9
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	18



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, 2010, 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, 2010, 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, 2010, 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, 2010, 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.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 19, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Our discussion and analysis of the Los Rios Measures A and M Bond Funds audit report provides an overview of the financial activities related to the Bond Funds for the fiscal year ended June 30, 2010. The financial statements referenced begin on page 6 of the audit report.

Accounting Standards

The format of these financial statements follows Governmental Accounting Standard's 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 recommended that all State community college districts follow the Business Type Activity (BTA) model of the standard. Los Rios Community College District (LRCCD) applied the BTA reporting model to comply with the recommendation and to report in a manner consistent and comparable with other community college districts.

Using This Annual Report

This annual report consists of the Statement of Net Assets on page 6, the Statement of Revenues, Expenses, and Change in Net Assets on page 7, the Statement of Cash Flows on page 8, and the accompanying notes on pages 9 through 17.

Financial Highlights

Measure A

During the year, three projects were completed and two projects moved into the construction phase. Through June 30, 2010, expenditures have been made on a total of 50 projects ranging from the early planning phase to completion. Cosumnes River has 14 projects with expenditures to date totaling \$29.4 million. Folsom Lake College has 10 projects with expenditures of \$55.2 million. American River College and Sacramento City College each have 11 projects with amounts expended to date of \$37.1 million and \$43.1 million, respectively. Expenditures for the four projects for the District Office were \$7.1 million. To date, the District has added more than 1,000,000 square feet and modernized over 170,000 square feet of facilities from Measure A, State and local sources. This has allowed us to serve an additional 18,000 students.

Proceeds from Series A (issued August 2002), Series B (issued April 2004) and Series C (issued July 2006) general obligation bond issuances (\$27.5 million, \$65 million and \$70 million, respectively) have been fully expended. In August 2009, the District issued Series D in the amount of \$55 million and had expended approximately \$10 million of this issue by June 30, 2010.

In October 2010, with interest rates at a 40 year low, the District refinanced Measure A, Series A. The true interest cost (TIC) of this refunding bond issue is 3.206%. This refunding effort will save the taxpayers approximately \$1.75 million (net present value) over the 17 year term of this new issue.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Measure M

In November 2008, voters approved Measure M, a \$475 million general obligation bond to finance construction and modernization of educational and support facilities for the next decade. Preliminary planning, environmental impact studies, and architectural drawings have begun, with \$3.6 million in expenses incurred as of June 30, 2010, which was advanced from the District's Capital Outlay Projects Fund.

In October 2010, the District issued Series A of Measure M for \$130 million. The bond proceeds have been appropriated to six new construction, modernization and/or expansion projects and master planning for infrastructure improvements at four locations.

Other Financial Highlights

Review of annual tax rates since 2003 indicate that tax rates resulting from the issuance of Measure A, Series A, B, C and D are below the projected average tax rate of \$9.96 per \$100,000 of assessed value. The highest projected rate is \$16.25. Following is the schedule of actual tax rates:

Measure A	2003	2004	2005	2006	2007	2008	2009	2010
Actual Rate	\$2.90	\$1.50	\$6.00	\$3.20	\$7.20	\$6.60	\$7.40	\$12.40

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 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 interest 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.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

The Statement of Cash Flows reports the cash flow related to categories shown on the previous two statements discussed above. Categories include noncapital financing activities, 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 \$230.4 million. This is a \$59.2 million increase from 2008-09 and is primarily a result of the issuance of Measure A, Series D bonds for \$55 million and additional property taxes collected in advance of payments for future debt service.

Liabilities consist of \$213.2 million and are predominantly related to the debt obligation from Series A, B, C and D. The increase of \$55.7 million from 2008-09 is due primarily to the issue of \$55 million in additional general obligation bonds (Measure A, Series D) in August 2009.

For the year ended June 30, 2010 and 2009, net assets changed as follows:

	2010	2009
Beginning net assets	\$ 13,764,042	\$ 13,262,158
Increase (decrease) in net assets	3,470,457	501,884
Ending Net Assets	\$ 17,234,499	\$ 13,764,042

Economic Factors That May Affect the Future

Due to market conditions in the construction industry, the District has seen an increase in the number of bidders for construction projects, resulting in more competitive pricing.

Consistent with statewide declines in property values, the total assessed valuation of property within the District's jurisdiction declined by 5.84% in 2009-10. This will result in an increase in tax rates in future years; however, it is expected Measure A assessments will remain 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 was not an education bond on the November 2010 ballot. As a result, the only funding available for eligible projects is carryover funds from previous authorizations between 1996 and 2006. Los Rios is recommended for the construction phases of two of the thirteen projects approved for funding.

In response to the State's budget crisis, the District reevaluated project timelines to fast track certain projects to take advantage of the bid climate and stimulate the local economy, while deferring others until State bond funds become available. Some of these "fast track" projects will commence in 2010-11.

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 www.losrios.edu/lrc/lrc_measureA.php.

FINANCIAL STATEMENTS

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

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS

Current assets:

Restricted cash and cash equivalents	\$ 28,584,848
Interest receivable	<u>129,499</u>
Total current assets	<u>28,714,347</u>

Noncurrent assets:

Restricted investments	31,766,875
Deposits	304,920
Deferred charges	1,475,471
Capital assets, net	<u>168,171,346</u>
Total noncurrent assets	<u>201,718,612</u>
Total assets	<u><u>\$ 230,432,959</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,314,918
Due to Capital Outlay Projects Fund	3,487,371
Interest payable	3,915,733
Long-term debt - current portion	<u>7,442,894</u>
Total current liabilities	16,160,916

Noncurrent liabilities:

Long-term debt - net of current portion	<u>197,037,544</u>
Total liabilities	213,198,460

Net assets:

Restricted for Measures A and M Bonds	<u>17,234,499</u>
---------------------------------------	-------------------

TOTAL LIABILITIES AND NET ASSETS \$ 230,432,959

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010**

OPERATING EXPENSES	
Depreciation	\$ 4,764,635
OPERATING LOSS	<u>(4,764,635)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income - noncapital	56,932
Investment income - noncapital	21,720
Amortization of deferred charges	<u>(69,809)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>8,843</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(4,755,792)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Local property taxes and revenues, capital	16,844,536
Interest income - capital	204,680
Investment income - capital	102,764
Interest expense on capital asset-related debt	(8,916,757)
Loss on disposal	<u>(8,974)</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>8,226,249</u>
INCREASE IN NET ASSETS	3,470,457
NET ASSETS - BEGINNING OF YEAR	<u>13,764,042</u>
NET ASSETS - END OF YEAR	<u>\$ 17,234,499</u>

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

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

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest on noncapital investments	\$ 106,673
Investment income on noncapital investments	21,720
Debt issuance costs	<u>(472,500)</u>
Net cash used by noncapital financing activities	<u>(344,107)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of capital debt	55,000,000
Local property taxes and other receipts for capital purposes	16,844,536
Interest on capital investments	293,273
Investment income on capital investments	32,110
Proceeds from sale of capital assets	5,000
Purchases of capital assets	(22,557,751)
Principal paid on capital debt	(4,495,000)
Interest paid on capital debt	(8,111,716)
Premium on sale of bonds	<u>1,296,948</u>
Net cash provided by capital and related financing activities	<u>38,307,400</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	195,248,153
Purchase of investments	<u>(220,915,037)</u>
Net cash used for investing activities	<u>(25,666,884)</u>
NET INCREASE IN CASH AND EQUIVALENTS	12,296,409
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	<u>16,288,439</u>
CASH AND EQUIVALENTS -- END OF YEAR	<u>\$ 28,584,848</u>
 RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (4,764,635)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation expense	<u>4,764,635</u>
Net cash provided by operating activities	<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, 2010

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 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 is a facilities and equipment bond measure for the District adopted by the Board of Trustees and passed by voters on March 5, 2002. The Measure provides \$265,000,000 from serial and term bonds. Through June 30, 2010, \$217,500,000 of bonds have been issued as follows:

- A total of \$23,870,000 of Series A serial bonds are financed over 25 years with principal and interest payments due each February 1 and August 1, beginning February 1, 2003. A total of \$3,630,000 of Series A term bonds are payable in two lump sums of principal and interest on August 1, 2026, and August 1, 2027.
- A total of \$56,860,000 of Series B serial bonds are financed over 25 years with principal and interest payments due each February 1 and August 1, beginning February 1, 2005. A total of \$8,140,000 of Series B term bonds are payable in two lump sums of principal and interest on August 1, 2026, and August 1, 2027.
- A total of \$52,680,000 of Series C serial bonds are financed over 25 years with principal and interest payments due each February 1 and August 1, beginning February 1, 2007. A total of \$17,320,000 of Series C term bonds are payable in four annual lump sum payments of principal and interest from August 1, 2027 to August 31, 2030.
- A total of \$38,005,000 of Series D serial bonds are financed over 25 years with principal and interest payments due each February 1 and August 1, beginning February 1, 2010. A total of \$16,995,000 of Series D term bonds are payable in five annual lump sum payments of principal and interest from August 1, 2030 to August 1, 2034.

In November 2008, voters approved Measure M, a \$475,000,000 general obligation bond authorization for the District. The proceeds, combined with anticipated State capital outlay funds, will provide new facilities to accommodate projected student growth as well as modernizing existing facilities and infrastructure. Preliminary planning has started and the District advanced funds to cover these costs.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 maturity value of 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.

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. 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, 2010, the fair value of the County pool is 100.48% 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.

LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

The calculation of realized gains or losses is independent of the calculation of the net increase or decrease in the fair value of cash and cash equivalents. Realized gains and losses on cash and cash equivalents that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of cash and cash equivalents reported in the prior year. The net increase in the fair value of cash and cash equivalents during the year ended June 30, 2010 was \$21,720. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on cash and cash equivalents held at June 30, 2010 was \$136,552.

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.

During the year ended June 30, 2010, the District realized a net gain of \$162,847 from the sale of investments. The calculation of realized gains or losses is independent of the calculation of the net increase or decrease in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2010 was \$60,083. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2010 was \$102,764.

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.

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.

LOS RIOS COMMUNITY COLLEGE DISTRICT

MEASURES A AND M BONDS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

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 District's Board of Trustees satisfied these requirements.

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of restricted cash, cash equivalents and investments at June 30, 2010:

	<u>Fair Value</u>
POOLED INVESTMENTS	
County treasurer's investment pool	\$ 28,584,848
U.S. GOVERNMENT AGENCY SECURITIES	
Federal National Mortgage Association	19,993,750
Federal Farm Credit Bank	<u>11,773,125</u>
Total restricted cash, cash equivalents and investments	<u>\$ 60,351,723</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.

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 hold 33.13% and 19.51% of their cash, cash equivalents and investments in the Federal National Mortgage Association and Federal Farm Credit Bank, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Interest Rate Risk - Investments

The schedule of maturities at June 30, 2010, is as follows:

	<u>Fair Value</u>	<u>Maturity (in Years) Less than 1</u>
County treasurer's investment pool	\$ 28,584,848	\$ 28,584,848
Federal National Mortgage Association	19,993,750	19,993,750
Federal Farm Credit Bank	<u>11,773,125</u>	<u>11,773,125</u>
Totals	<u>\$ 60,351,723</u>	<u>\$ 60,351,723</u>

The Federal National Mortgage Association holds mortgage-backed securities which entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal payments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions / Transfers</u>	<u>Balance June 30, 2010</u>
Depreciable Assets				
Buildings and improvements	\$ 88,557,546	\$ 16,404,286	\$ (5,000)	\$ 104,956,832
Site improvements	18,551,723	1,824,524	(2,442,032)	17,934,215
Equipment	8,005,301	2,416,565	(15,191)	10,406,675
Nondepreciable Assets				
Construction in progress	41,810,085	20,531,712	(13,062,022)	49,279,775
Land	<u>3,312,171</u>	<u> </u>	<u> </u>	<u>3,312,171</u>
Total	160,236,826	41,177,087	(15,524,245)	185,889,668
Less: Accumulated depreciation	<u>12,959,904</u>	<u>4,764,635</u>	<u>6,217</u>	<u>17,718,322</u>
Total Capital Assets - Net	<u>\$ 147,276,922</u>	<u>\$ 36,412,452</u>	<u>\$(15,518,028)</u>	<u>\$ 168,171,346</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2010 is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bond payable	\$ 149,310,000	\$ 55,000,000	\$ 4,495,000	\$ 199,815,000	\$ 5,930,000
Unamortized premium	<u>3,616,259</u>	<u>1,296,948</u>	<u>247,769</u>	<u>4,665,438</u>	<u>1,512,894</u>
Total long-term liabilities	<u>\$ 152,926,259</u>	<u>\$ 56,296,948</u>	<u>\$ 4,742,769</u>	<u>\$ 204,480,438</u>	<u>\$ 7,442,894</u>

The outstanding general obligation bonded debt as of June 30, 2010, is as follows:

2002 Series A general obligation bond, 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%.	\$ 22,810,000
2002 Series B general obligation bond, 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%.	57,275,000
2002 Series C general obligation bond, 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%.	64,730,000
2002 Series D general obligation bond, 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 5.25%.	<u>55,000,000</u>
Total	<u>\$ 199,815,000</u>

The annual requirements to amortize the long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,930,000	\$ 9,279,265	\$ 15,209,265
2012	6,205,000	9,046,696	15,251,696
2013	6,470,000	8,807,009	15,277,009
2014	6,755,000	8,543,990	15,298,990
2015	7,055,000	8,277,687	15,332,687
2016-2020	40,235,000	36,438,999	76,673,999
2021-2025	50,495,000	25,810,489	76,305,489
2026-2030	55,055,000	12,078,784	67,133,784
2031-2035	<u>21,615,000</u>	<u>2,494,609</u>	<u>24,109,609</u>
Total	<u>\$ 199,815,000</u>	<u>\$ 120,777,528</u>	<u>\$ 320,592,528</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 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 JPAs are independently accountable for their fiscal matters and are not components of the District for financial reporting purposes. Condensed financial information for the SELF and ASCIP for the year ended June 30, 2009, is as follows:

	SELF (Audited)	ASCIP (Audited)
Total assets	\$ 209,217,000	\$ 222,498,179
Total liabilities	<u>161,555,000</u>	<u>131,161,256</u>
Net Assets	<u>\$ 47,662,000</u>	<u>\$ 91,336,923</u>
Total revenues	\$ 26,645,000	\$ 174,035,744
Total expenses	<u>27,701,000</u>	<u>167,424,949</u>
Total Change in Net Assets	<u>\$ (1,056,000)</u>	<u>\$ 6,610,795</u>

7. CONSTRUCTION COMMITMENTS

The District entered into several construction commitments for a total of \$32,638,392.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. SUBSEQUENT EVENTS

In October 2010, the District issued General Obligation Bonds 2008 Election Measure M, Series A in the amount of \$130,000,000. The bonds were issued to finance the acquisition, construction, and rehabilitation of educational facilities and were originally approved by voters in November 2008 and approved for issuance by the District's Board of Trustees in September 2010.

In October 2010, the District issued General Obligation Refunding Bonds, which refunded the 2002 Measure A, Series A Bonds. The 2002 bonds had an outstanding amount of \$22.0 million as of refunding on October 7, 2010. The 2010 Refunding Bonds were issued for \$21,025,000 and will save the taxpayers an estimated \$1.75 million (net present value) over the remaining life of the bonds.

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, 2010, and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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, 2010