Rio Hondo Community College District
Measure A General Obligation Bonds
Audited Financial Statements
Year ended June 30, 2011
With Report of Independent Auditors
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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS 9
The Rio Hondo Community College District (the “District”) operates Rio Hondo College in Whittier, California.

On March 2, 2004, the voters of the District approved by more than 55% Measure “A”, authorizing the issuance and sale of $245,581,122 in General Obligation Bonds for the purpose of financing the construction, acquisition and improvement of the capital facilities within the District.

The passage of Proposition 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 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 Proposition 39, an accompanying piece of legislation, AB1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens’ Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

On April 14, 2004, the Board of Trustees of the District established the Citizens’ Oversight Committee of the District’s Measure A Bond. The Committee shall perform the following duties: (1) inform the public concerning the District’s expenditure of the bond proceeds (2) review quarterly expenditure reports produced by the District to ensure that (a) bond proceeds are expended only for purposes set forth in the Measure A; and (b) no bond proceeds are used for any teacher or administrative salaries or other operating expenses and (3) present to the Board, in public sessions, an annual written report which shall include the following: a statement indicating whether the District is in compliance with the requirements of Article AIIIA, Section 1(b)(3) of the California Constitution; and a summary of the Committee’s proceedings and activities for the year.

The following members comprise the Citizens’ Bond Oversight Committee as of June 30, 2011.

<table>
<thead>
<tr>
<th>Members</th>
<th>Title</th>
<th>Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michelle Yanez – Jiminez</td>
<td>Chairman</td>
<td>Rio Hondo College Advisory Board</td>
</tr>
<tr>
<td>Steven Valdes</td>
<td>Vice Chairman</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Vicky Santana</td>
<td>Member</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Gustavo Camacho</td>
<td>Member</td>
<td>Business Community</td>
</tr>
<tr>
<td>Daniel Canchola</td>
<td>Member</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Maria Claver</td>
<td>Member</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Richard Garner</td>
<td>Member</td>
<td>Senior Citizen</td>
</tr>
<tr>
<td>Ray Chacon</td>
<td>Member</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Fred Hawthorne</td>
<td>Member</td>
<td>Non-designated</td>
</tr>
<tr>
<td>Maribel Garcia</td>
<td>Member</td>
<td>Taxpayers or Homeowners association</td>
</tr>
<tr>
<td>Irina A. Preciado</td>
<td>Member</td>
<td>Associated Student Body</td>
</tr>
</tbody>
</table>
Report of Independent Auditors

To the Board of Trustees of
Rio Hondo Community College District

We have audited the accompanying statement of financial position of the Measure A General Obligation Bonds of Rio Hondo Community College District (the “District”) as of June 30, 2011 and the related statement of revenues, expenditures and change in fund balance for the year then ended. These financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Measure A General Obligation Bonds of the District and do not purport to present fairly the financial position of the District as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District’s Measure A General Obligation Bonds as of June 30, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2011 on our consideration of the District’s Measure A General Obligation Bonds internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Los Angeles, California
October 25, 2011
Rio Hondo Community College District
Measure A General Obligation Bonds
Statement of Financial Position
June 30, 2011

ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Cash and cash equivalents</td>
<td>$76,620,580</td>
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<tr>
<td>Accounts receivable</td>
<td>$220,715</td>
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<tr>
<td><strong>Total assets</strong></td>
<td><strong>$76,841,295</strong></td>
</tr>
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</table>

LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$1,694,598</td>
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<tr>
<td>Accrued liabilities</td>
<td>$1,147,462</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>2,842,060</strong></td>
</tr>
<tr>
<td><strong>Fund balance</strong></td>
<td><strong>73,999,235</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td><strong>$76,841,295</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
**Revenues**
- Interest and investment income: $813,700

**Total revenues:** $813,700

**Expenditures**
- Capital outlay: 27,534,123
- Audit fees: 7,000
- Legal fees: 65,308

**Total expenditures:** 27,606,431

**Deficiency of revenues over expenditures:** (26,792,731)

**Other financing sources**
- Proceeds from issuance of bonds: 60,040,980

**Change in fund balance:** 33,248,249

**Fund balance at beginning of year:** 40,750,986

**Fund balance at end of year:** $73,999,235

*See notes to financial statements.*
NOTE 1  GENERAL INFORMATION

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

On March 2, 2004, the District voters authorized $245,581,122 in General Obligation Bonds (Measure A) for the purpose of financing the construction, acquisition and improvement of the capital facilities within the District. The measure was approved by more than the required minimum of 55% of the vote. The District’s Board of Trustees established the Citizen’s Oversight Committee. The Committee’s oversight duties include ensuring compliance with conditions of Measure A.

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

NOTE 2  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Measure A Bond Funds and Refunding Bonds are categorized as governmental fund types. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statement increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets and unreserved fund balance as a measure of available spendable resources.

The government fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable” and “available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. A one-year availability period is used for revenue recognition. Expenditures are recorded when the related fund liability is incurred.
NOTE 2  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Balance
The fund balance represents amounts reserved for expenditure on Measure A Bonds approved projects.

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

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

NOTE 3  CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 primarily represents investments in Los Angeles County Treasury.

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

The Los Angeles County Treasurer is authorized by California Government Code Section 53648 et seq to deposit cash and invest excess funds in time deposits, United States government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposits, and repurchase or reverse repurchase agreements.

The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. The fair value of the District’s deposits in this pool as of June 30, 2011, as provided by the pool sponsor, was $76,651,062. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.
NOTE 3  CASH AND CASH EQUIVALENTS (CONTINUED)

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

The California Code and the District’s investment policy do not contain legal or policy requirements other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under law. The market value of pledged securities in the collateral pool must equal at least 110% of the total deposits by public agencies. California law also allows financial institutions to secure an entity’s deposits by pledging first trust deed mortgage notes having a value of 150% of deposits.

NOTE 4  ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 in the amount of $220,715 represents the amount due from the County Treasurer for interest earnings for the quarter ended June 30, 2011.

NOTE 5  GENERAL OBLIGATION BONDS ISSUES

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

On September 26, 2005, the District’s Board of Trustees adopted a resolution to issue general obligation refunding bonds (the “Refunding Bonds”) to finance the advance refunding of a portion of the District’s outstanding Series A Bonds starting August 1, 2015. On November 3, 2005, bonds in the amount of $47,117,244 were issued which consisted of current interest bonds of $43,750,000 and capital appreciation bonds of $3,367,244.

Concurrent with the issuance of the Refunding Bonds, the District deposited part of the proceeds in the amount of $46,371,376 from the Refunding Bonds into an escrow fund securing the respective maturities of the Series A Bonds to be refunded. The remaining portion in the amount of $4,732,103 was deposited to the revenue bond construction fund. The advance refunding met the requirements of an in-substance defeasance. Accordingly, the refunded portion of the 2004 Series A bonds was removed from the District’s financial statements. The defeasance of the 2004 Series A debt resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This difference is reported in the District’s financial statements as a deduction from bonds payable and is being amortized on a straight-line basis over the life of the bonds.
NOTE 5  GENERAL OBLIGATION BONDS ISSUES (CONTINUED)

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

On December 21, 2010, the District’s Board of Trustees adopted a resolution to issue $60,040,980 of Measure A, Series C Bonds for financing of the furnishing, equipping, acquisition, construction and improvement of District capital facilities for some or all of the purposes authorized at the 2004 election. The Series C bonds consist of $18,806,028 Capital Appreciation Bonds and $41,234,952 Convertible Capital Appreciation Bonds. Capital Appreciation Bonds accrete interest from the date of delivery, compounded semiannually on February 1, and August 1 of each year, commencing February 1, 2011, and will be payable solely at maturity, with accretion rates ranging from 6.99% to 12.00%. The bonds mature in August 1, 2038. The Convertible Capital Appreciation Bonds will initially be issued as capital appreciation bonds and will convert to current interest bonds on August 1, 2024, the conversion date. Prior to the conversion date, these bonds will not pay interest, but will accrete in value from their initial principal amounts on the delivery date to the conversion date. Capital accretion rates range from 6.625% to 6.850%. Prior to the conversion date, interest will be compounded on each February 1 and August 1, commencing February 1, 2011. No payment of interest will be made prior to or on the conversion date. Following conversion, the bonds will pay current interest based on the conversion value, such interest will be payable semiannually on each February 1 and August 1, commencing February 1, 2025, ranging from 6.625% to 6.850%. The bonds mature August 1, 2042.

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

NOTE 6  COMMITMENTS AND CONTINGENCIES

As part of tax laws surrounding tax-exempt bonds, investment earnings, with certain adjustments, on unexpended bond proceeds are limited to the interest rate paid on the bond debt. Arbitrage (i.e., excess investment earnings) is required to be rebated to the federal government every five years for as long as the bonds are outstanding. As of June 30, 2011, no arbitrage liability was deemed necessary.
To the Board of Trustees of
Rio Hondo Community College District

We have audited the financial statements of the Measure A General Obligation Bonds Funds (the Bonds) of Rio Hondo Community College District as of and for the year ended June 30, 2011 and have issued our report thereon dated October 25, 2011. 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 Bonds Funds of Rio Hondo Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bonds Funds of Rio Hondo Community College District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bonds Funds of Rio Hondo Community College 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 Bonds Funds of Rio Hondo Community College District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

Los Angeles, California
October 25, 2011