



**Rio Hondo Community College District
Financial Statements and
Supplementary Information
Year ended June 30, 2011
with Report of Independent Auditors
*Including Reports on Compliance***

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INTRODUCTION

AUDIT OBJECTIVES

We have completed our audit of the Rio Hondo Community College District's basic financial statements as of and for the year ended June 30, 2011. Our audit objectives were as follows:

- To assess the adequacy of Rio Hondo Community College District's systems and procedures and internal controls over financial reporting and compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters
- To determine the accountability for revenues, the propriety of expenditures and the extent to which funds have been expended in accordance with prescribed state and federal laws and regulations
- To determine whether financial and financially-related reports to state and federal agencies are fairly presented
- To determine the fairness of presentation of the Rio Hondo Community College District's financial statements
- To recommend appropriate actions to correct any deficiencies noted

These objectives are consistent with the requirements of the Chancellor's Office and the State of California Department of Finance, as promulgated in its publication California Community College Contracted District Audit Manual.



TED MARTINEZ, JR., PH.D.
SUPERINTENDENT/PRESIDENT

December 1, 2011

BOARD OF TRUSTEES

The Board of Trustees
Rio Hondo College District

ANGELA ACOSTA-SALAZAR

Dear Board Members:

NORMA EDITH GARCIA

I have received and reviewed the Annual Financial Report of the Rio Hondo Community College District for the fiscal year ended June 30, 2011. The report is hereby submitted to you for your acceptance.

MARIA ELENA MARTINEZ

GARY MENDEZ

I am pleased to report that the auditors noted no condition that they believed to be a material weakness in the District's internal control structure. In the Independent Auditors' Report on Internal Accounting Controls sections, the auditors have presented their observations and recommendations regarding certain matters to which the District's attention will be focused.

MADÉLINE SHAPIRO

The District is responsible for the accuracy, completeness, and fairness of the financial statements, including all disclosures. It is our belief that the accompanying annual financial statements of the Rio Hondo Community College District present fairly, in all material respects, the financial position and results of operations of the District as of and for the year ended June 30, 2011. Further, we believe that all informative disclosures have been made to enable the report's readers to gain an understanding of the District's affairs.

Respectfully,

Ted Martinez, Jr., Ph.D.
Superintendent / President

REPORT OF INDEPENDENT AUDITORS

The Honorable Board of Trustees Rio Hondo Community College District

We have audited the accompanying basic financial statements of the Rio Hondo Community College District (the "District"), as of and for the year ended June 30, 2011 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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and standards prescribed by the Chancellor's Office of the California Community Colleges. 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Rio Hondo Community College District as of June 30, 2011, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2011 on our consideration of the Rio Hondo Community College 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 controls 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 read in conjunction with this report in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the Office of Management and *Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the standards identified by the California Community Colleges Contracted District Audit Manual, issued by the Chancellor's Office, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vargus + Company LLP

Los Angeles, California
December 1, 2011

INTRODUCTION

This section of the Rio Hondo Community College District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2011. The District prepared its financial information under reporting standards required for public colleges and universities.

As required by the accounting principles, the annual report consists of three basic financial statements that provide information on the District's activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses and Changes in Net Assets focuses on the costs of the District's operational activities, which are supported mainly by property taxes and by state and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards Board (GASB) issued statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State & Local Governments*," which established the current reporting format for annual financial statements of governmental entities. In November 1999, GASB issued Statement No. 35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*," which applies these reporting standards to public colleges and universities such as the Rio Hondo Community College District. In May 2002, the GASB released Statement No. 39, "*Determining Whether Certain Organizations Are Component Unit*," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applies the above standards.

The California Community College Chancellor's Office recommends that all California community college districts follow the new standards using the Business Type Activity (BTA) model. The District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

STATEMENT OF NET ASSETS

The net assets of the District consist of three major categories:

- Invested in capital assets, net of related debt – the District's equity in property, plant, and equipment.
- Restricted net assets - the constraints placed on the use of the assets are externally imposed by creditors such as grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

STATEMENT OF NET ASSETS (continued)

- Unrestricted net assets – the District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restriction on these net assets, but it retains the power to change, remove, or modify those restrictions.

Condensed Statement of Net Assets

(in thousands)	June 30		Year-to-year
	2011	2010	Change
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 39,654	\$ 38,111	4.0%
Restricted cash	84,982	51,480	65.1%
Accounts receivable, net	17,187	15,609	10.1%
Other current assets	911	1,174	-22.4%
Total current assets	142,734	106,374	34.2%
Noncurrent Assets			
Deferred charges	3,437	2,936	17.1%
Capital assets, net	170,184	139,066	22.4%
Total noncurrent assets	173,621	142,002	22.3%
Total Assets	\$ 316,355	\$ 248,376	27.4%
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 29,059	\$ 26,260	10.7%
Deferred revenue	1,676	5,146	-67.4%
Compensated absences	736	736	-
Noncurrent liabilities - current portion	4,345	2,519	72.5%
Total current liabilities	35,819	34,661	3.3%
Noncurrent Liabilities			
Bond payable	175,783	116,543	50.8%
Unamortized bond premium	4,885	4,456	9.6%
Other Post Employment Benefits	5,366	-	-
Total noncurrent liabilities	186,034	120,999	53.7%
Total Liabilities	221,853	155,660	42.5%
NET ASSETS			
Invested in capital assets, net of related debt	48,756	40,737	19.7%
Restricted for debt service	8,362	6,904	21.1%
Unrestricted	37,384	45,075	-17.1%
Total Net Assets	94,502	\$ 92,716	1.9%
Total liabilities and Net Assets	\$ 316,355	\$ 248,376	27.4%

STATEMENT OF NET ASSETS (continued)

This schedule has been prepared from the District's statement of net assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

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

On September 26, 2005, the District's Board of Trustees adopted a resolution to issue general obligation refunding bonds (the "Refunding Bonds") to finance the advance refunding of a portion of the District's outstanding Series A Bonds starting August 1, 2015. On November 3, 2005, the 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. The remaining portion in the amount of \$4,732,103 for series A and the proceeds of \$64,996,844 for series B bonds were deposited to the revenue bonds construction fund.

On March 11, 2009, the District issued \$64,996,844 of Series B General Obligation Bonds to fund the construction of capital facilities within the District. Series B bonds consist of \$60,190,000 current interest bonds and \$4,806,844 capital appreciation bonds. These bonds were financed over 25 years with principal and interest payments due on February 1 and August 1 commencing February 1, 2010.

On December 21, 2010, the District issued \$60,040,980 of Measure A, Series C General Obligation Bonds to finance the improvement of capital facilities authorized at the 2004 election.

Cash and cash equivalents consist primarily of funds held in the Los Angeles County Treasury. The changes in the cash position are explained in the Statement of Cash Flows.

Total assets increased by \$67,978,000 (or 27%) due to the increase in capital assets for buildings and improvements in addition to the increase in restricted cash as a result of issuing series C general obligation bonds. On the other hand, net assets increased slightly by \$1,785,547 mainly due to the increase in net restricted assets for debt service.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District. The purpose of the statement is to present the revenues received by the District, both operating and nonoperating, and the expenses paid by the District, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the District. State general apportionment funds, while budgeted for operations, are considered nonoperating revenue according to generally accepted accounting principles.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (continued)

The following schedule is prepared from the Statement of Revenues, Expenses and Changes in Net Assets.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(in thousands)	Year Ended June 30		Year-to-year Change
	2011	2010	
Operating revenues	\$ 38,598	\$ 37,821	2.1%
Operating expenses	109,620	100,430	9.2%
Operating loss	(71,022)	(62,709)	13.4%
Nonoperating revenues (expenses)	72,808	80,830	-9.9%
Change in net assets	1,786	18,221	-90.2%
Net assets—beginning of year	92,716	74,495	24.5%
Net assets—end of year	\$ 94,502	\$ 92,716	1.9%

Operating revenues include tuitions, fees, federal, state and local grants. Total operating revenues increased by \$776,000 (or 2.1%), due to the increase in federal grants. The increase in federal revenues is attributed to federal grants received for programs serving the students of the District. These grants and program revenues are restricted as to the allowable expenses related to the programs.

Nonoperating revenues (expenses) consisting of state apportionment, state bond capital construction fund, local property taxes, investment income, and interest expenses. Nonoperating revenues decreased by \$8 million (or -9.9%), mainly as a result of the decrease in state bond capital construction fund. While investment income remained consistent with prior year, interest expense has increased to \$6.9 million compared to \$1.7 million in prior year.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (continued)

Total operating expenses, consisting of employee salaries and benefits, financial aids, and other operating services and supplies increased by \$9.2 million (or 9.2%) compared to prior year. Major components of operating expenses are analyzed as follows:

- During fiscal year 2010-11, the District provided approximately \$22.3 million in financial aid to students attending classes at the college compared to prior year's \$20.5 million. This aid was provided in the form of grants, scholarships, loans and tuition reductions funded through the federal government, state chancellor's office, and local funding.
- The District records provision for depreciation expense related to capital assets. Depreciation expense for the year increased by \$1.1 million as a result of the increase in capital assets mainly due to the capitalization of work-in-progress into buildings.

The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 6.

The District's primary funding source is based upon apportionment received from the state of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). From the District's final apportionment attendance report to the Chancellors, the 2010-11 fiscal year FTES were 13,300 as compared to 14,897 in the 2009-10 fiscal year. These FTES represent state and non state students' attendance.

STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the District's financial results by reporting its major sources and uses of cash. The information assists readers in assessing the District's abilities to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts:

- Operating cash flows - shows the net cash used by the operating activities of the institution
- Non-capital financing activities - shows the sources and uses of related financing activities
- Capital and related financing activities – deals with cash flows from capital and related financing activities
- Cash provided by investing activities – reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

STATEMENT OF CASH FLOWS (continued)

Condensed Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

(in thousands)	Year Ended June 30		Year-to-year <u>Change</u>
	2011	2010	
Cash received from operations	\$ 34,157	\$ 41,139	-17.0%
Cash expended for operations	<u>(98,720)</u>	<u>(99,394)</u>	-0.7%
Net cash used in operating activities	(64,563)	(58,255)	10.8%
Net cash provided by noncapital financing activities	78,275	81,087	-3.5%
Net cash provided by (used in) capital and related financing activities	(19,920)	(39,811)	150.0%
Net cash provided by investing activities	<u>1,413</u>	<u>1,407</u>	0.4%
Net increase (decrease) in cash and cash equivalents	35,045	(15,572)	325.1%
Cash and cash equivalents			
- beginning of year	89,591	105,163	-14.8%
- end of year	<u>\$ 124,636</u>	<u>\$ 89,591</u>	39.1%

The primary operating receipts are student tuition and fees and federal, state, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

While state apportionment and property taxes are the primary source of non-capital related revenue, the new GASB accounting standards require that this source of revenue is shown as non-operating revenue as it comes from the general resources of the state and not from the primary users of the colleges' programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had net capital assets of \$139.1 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2011 our net capital assets increased to \$170.2 million. The increase was due to significant capital expenditures of construction work-in-progress and buildings.

Long-Term Debt

In June 2004, the District sold \$58 million General Obligation Bonds 2004 Series A. In March 2009, the District sold \$64.9 million General Obligation Bonds Series B. Expenditures of the bonds proceeds are subject to the review of a Citizens Oversight Committee, a citizen group that reports to the public. The audited Series A and B Bond Financial Statements & Performance Audit as of June 30, 2009 were reviewed and accepted by Rio Hondo Board of Trustees & Citizens Oversight Committee. In December 2010, the District issued \$60 million of measure A, Series C General Obligation Bonds.

In addition to the above obligations, the District is also obligated to employees of the District for vacation benefits.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget for fiscal year 2010-11 was approved by the board on September 14, 2011.

ECONOMIC FACTORS AFFECTING THE FUTURE OF RIO HONDO COMMUNITY COLLEGE DISTRICT

The economic position of Rio Hondo Community College is closely tied to the State of California as state apportionments and property taxes allocated to the District represent approximately 74 percent of the total sources of revenues received by the District for fiscal year 2010-11.

Unfortunately, the state economy is in a state of crisis due to the increase in unemployment and decrease in general goods' sales.

The most recent projection from the state indicated that the state budget deficit is approximately 25 billion dollars in 2011-12.

Although the extent of fiscal impact to Rio Hondo College is unclear at this point, due to the state budget deficit of 2011-12 and 2012-13 years, the District continues to strive for financial stability during the upcoming difficult times.

Rio Hondo Community College District
Statement of Net Assets
June 30, 2011

ASSETS

Current assets	
Cash and cash equivalents	\$ 39,654,155
Restricted cash	84,982,353
Accounts receivable, net	17,186,437
Prepaid expenses	15,168
Inventories	21,322
Advances to employees	542,437
Due from fiduciary funds	331,878
Total current assets	142,733,750
Noncurrent assets	
Deferred charges	3,436,989
Capital assets, net	170,183,938
Total noncurrent assets	173,620,927
Total assets \$	316,354,677

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued liabilities	\$ 18,354,102
Accrued payroll and payroll taxes	8,437,629
Accrued interest	2,250,635
Due to fiduciary funds	16,000
Unearned revenue	1,678,906
Compensated absences	736,000
Current portion of noncurrent liabilities	4,345,000
Total current liabilities	35,818,272
Noncurrent liabilities	
Bonds payable, net of current portion	175,783,132
Unamortized bond premium	4,885,115
Other postemployment benefits other than pension (OPEB)	5,366,196
Total noncurrent liabilities	186,034,443
Total liabilities	221,852,715
Net assets	
Invested in capital assets, net of related debt	48,755,974
Restricted for debt service	8,361,773
Unrestricted	37,384,215
Total net assets	94,501,962
Total liabilities and net assets \$	316,354,677

See notes to financial statements.

Rio Hondo Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2011

Revenues

Operating revenues	
Student tuition and fees - gross	\$ 8,849,573
Less scholarship discounts and allowance	<u>(4,629,103)</u>
Net tuition and fees	4,220,470
Grants and contracts, non-capital:	
Federal	23,756,590
State	7,712,338
Local	2,763,039
Sales and other operating revenues	<u>144,934</u>
Total operating revenues	<u><u>38,597,371</u></u>

Expenses

Operating expenses	
Salaries:	
Certificated	33,305,042
Classified	14,500,356
Employee benefits	24,099,098
Books and supplies	1,335,097
Services and other operating expenses	10,083,316
Financial aid and transfer	22,352,132
Depreciation	<u>3,944,732</u>
Total operating expenses	<u>109,619,773</u>
Operating income (loss)	<u>(71,022,402)</u>

Nonoperating revenues (expenses)

State apportionments	59,154,540
State bond capital construction fund	3,487,272
Local property taxes	15,633,243
Investment income	1,413,340
Interest expense	<u>(6,880,446)</u>
Net nonoperating revenues	<u>72,807,949</u>

Change in net assets 1,785,547

Net assets

Beginning of year	<u>92,716,415</u>
End of year	<u><u>\$ 94,501,962</u></u>

See notes to financial statements.

Rio Hondo Community College District
Statement of Cash Flows
Year ended June 30, 2011

Cash flows from operating activities	
Tuition and fees	\$ 4,220,470
Federal grants and contracts	22,179,702
State grants and contracts	4,967,825
Local grants and contracts	2,763,039
Payments to suppliers	(10,898,583)
Payments to/on-behalf of employees	(65,469,024)
Payments to/on-behalf of students	(22,352,132)
Sales and other operating revenues	144,934
Repayment from affiliates	(118,826)
Net cash used in operating activities	<u>(64,562,595)</u>
Cash flows from non-capital financing activities	
State apportionments	59,154,540
State bond capital construction fund	3,487,272
Property taxes	15,633,243
Net cash provided by non-capital financing activities	<u>78,275,055</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(35,062,614)
Proceeds on sale of bonds	60,040,980
Principal paid on capital debt	(2,519,248)
Interest paid on capital debt	(2,539,481)
Net cash provided by capital and related financing activities	<u>19,919,637</u>
Cash flows from investing activities	
Interest on investments	<u>1,413,340</u>
Net change in cash and cash equivalents	35,045,437
Cash and cash equivalents - beginning of year	89,591,071
Cash and cash equivalents - end of year	<u>\$ 124,636,508</u>
Cash and cash equivalents	\$ 39,654,155
Restricted cash	84,982,353
Total cash and cash equivalents	<u>\$ 124,636,508</u>

See notes to financial statements.

Rio Hondo Community College District
Statement of Cash Flows (Continued)
Year ended June 30, 2011

**Reconciliation of operating income (loss) to
net cash used in operating activities**

Operating income (loss)	\$ (71,022,402)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	3,944,732
(Increase) decrease in assets:	
Receivables	(1,576,888)
Inventories	1,333
Prepaid expenses	385,724
Advances to employees	(5,277)
Due from fiduciary funds	(118,826)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	132,773
Accrued payroll and payroll taxes	1,074,553
Unearned revenue	(2,744,513)
Other postemployment benefit obligation	5,366,196
Net cash used in operating activities \$	<u>(64,562,595)</u>

See notes to financial statements.

Rio Hondo Community College District
Statement of Fiduciary Net Assets
June 30, 2011

	<u>Associated Student Body Fund</u>	<u>Auxiliary Services Organization Fund</u>
ASSETS		
Cash in banks	\$ 181,425	\$ 792,773
Due from District	15,000	25,496
Accounts receivable	20,000	60,497
Prepaid expenses	-	164
Total assets	\$ <u>216,425</u>	\$ <u>878,930</u>
 LIABILITIES AND NET ASSETS		
Liabilities - trust fund accounts	\$ 64,573	\$ 755,851
Accounts payable	73,265	79,323
Total liabilities	<u>137,838</u>	<u>835,174</u>
 Net assets		
Unrestricted	78,587	43,756
Total liabilities and net assets	\$ <u>216,425</u>	\$ <u>878,930</u>

See notes to financial statements.

Rio Hondo Community College District
Statement of Changes in Fiduciary Net Assets
Year ended June 30, 2011

	<u>Associated Student Body Fund</u>	<u>Auxiliary Services Organization Fund</u>
Revenues		
Program income	\$ 155,223	\$ 321,315
Interest	344	3,408
Total revenues	<u>155,567</u>	<u>324,723</u>
Expenses		
Expenditures - Activities and functions, including major fundraising	<u>194,481</u>	<u>433,913</u>
Change in net assets	(38,914)	(109,190)
Net assets		
Beginning of year	117,501	152,946
End of year	<u>\$ 78,587</u>	<u>\$ 43,756</u>

See notes to financial statements.

NOTE 1

ORGANIZATION

Rio Hondo Community College District (the District) was established in 1960 as a political subdivision of the State of California and provides educational services to residents of Whittier, Pico Rivera, Santa Fe Springs, La Puente and surrounding areas. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, capital project funds, and proprietary funds, but these budgets are managed at the department level.

While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

FINANCIAL REPORTING ENTITY

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District, and the following component unit:

Rio Hondo Community College District Foundation

The Rio Hondo Community College District Foundation (the Foundation) is a legally separate, tax-exempt organization. The Foundation acts primarily as a fundraising organization to provide grants and scholarships to the District's students. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

The Foundation is a not-for-profit organization under Internal Revenue Code (IRS) Section 501(c)(3) that reports its financial results under Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model is Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

NOTE 1 ORGANIZATION (CONTINUED)

Financial statements for the Foundation can be obtained from the Foundation's Office at 3600 Workman Mill Road, Whittier, California 90601.

The following entities do not meet the above criteria for inclusion as component units of the District. Additional information is included in Note 10 to the financial statements.

Public Entity Risk Pools and Joint Powers Authorities (JPAs)

The District is associated with two JPAs. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 10 to the financial statements. These organizations are: the Southern California Community College Districts' (SCCCD), and the Alliance of Schools for Cooperative Insurance Programs (ASCIP).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38 and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's 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. All material intra-agency and intra-fund transactions have been eliminated.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, such as State apportionments, property taxes, certain grants, entitlements, and donations are classified as nonoperating revenues. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants. Eligibility requirements may include time and or purpose. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. State apportionment revenue is earned based upon criteria set forth from the Community College Chancellor's Office and includes reporting of full-time equivalent students (FTES). The corresponding apportionment revenue is recognized in the period the FTES are generated.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating.

Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standard Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply the Financial Accounting Standard Board pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State System's Office *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38 and No. 39. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

Cash and Cash Equivalents

Cash in the County Treasury is recorded at cost, which approximates fair value. The District's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Cash

Certain proceeds of debt issuance, as well as certain resources set aside for their repayment, are classified as restricted cash on the statement of net assets because their use is limited by applicable bond covenants.

Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of allowable expenditures made pursuant to the District's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

Inventory

Inventory consists of expendable instructional, custodial, health and other supplies held for consumption. Inventories are presented at cost, utilizing the weighted average method and are expensed when used.

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capitalized equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. The provision for depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 40 years for buildings and building and land improvements, 5 to 15 years for equipment and vehicles and 5 years for technology.

Accounts Payable

Accounts payable consists of amounts due to vendors.

Accrued Payroll

Accrued payroll consists of salaries and benefits payable and deferred summer pay.

Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

Compensated Absences

Accumulated earned but unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt

This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets

Restricted net assets include resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets

Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board for any purpose.

Classification of Revenues

The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most State and local grants and contracts.

Nonoperating Revenues

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, property taxes, Federal, State and local grants and contracts, gifts and contributions, and other revenue sources as described in GASB Statements No. 34 and No. 35.

Classification of Expenses

Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Expenses

Operating expenses are necessary costs to provide the District's services and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating Expenses

Nonoperating expenses include interest expense and other expenses not directly related to the District's service.

State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year. Any corrections from the previous year will be recorded in the year computed by the State.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1st. Taxes are payable in two installments and installments are considered delinquent after December 10th and April 10th. Unsecured property taxes are payable in one installment on or before August 31st.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

On-Behalf Payment

GASB Statement 24 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructed districts not to record revenue and expenditures for these on-behalf payments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, FSEOG Grants, Federal Work-Study, Academic Competitiveness Grants, and Federal Family Education Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. The total amount in direct lending during the year through the U.S. Department of Education has not been included as revenues or expenses within the accompanying financial statements as the amount was passed directly to qualifying students; however, the amount is included on the Schedule of Expenditures of Federal Awards.

Interfund Activity

Exchange transactions between the District's funds are reported as revenues and expenses within the Statement of Revenues, Expenses, and Changes in Net Assets. Flows of cash or goods from one fund to another without a requirement for repayment are recognized as interfund transfers within the District's fund financial statements. Amounts owing between funds for both exchange and non-exchange transactions are recorded as interfund receivables and payables within the District's fund financial statements. Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with the County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Power Authority Pools	N/A	None	None

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents at June 30, 2011 are composed of the following:

Cash on hand and in banks	\$	183,820
Cash in County Treasury:		
Unrestricted	\$	39,470,335
Restricted cash for building construction		76,620,580
Restricted cash for debt service		<u>8,361,773</u>
Total cash in County Treasury		124,452,688
Total cash and cash equivalents	\$	<u><u>124,636,508</u></u>

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool	\$ 124,452,688	536

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code.

Investment Type	Minimum Legal Rating	Rating June 30, 2011	Fair Value
County Pooled Investment	Not Required	Not Rated	\$ 124,452,688

Custodial Credit Risk – Bank Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, the District's bank balance amounting to \$1,666,237 was in excess of Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000.

Custodial Credit Risk – Pooled Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The cash held in the County Treasury is

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

uncategorized and the fair value approximates carrying value shown above in the credit risk schedule. Deposits with the County Treasury are not categorized because they do not represent securities which exist in physical or book entry form. The deposits with the County Treasury are valued using the amortized cost method (which approximates fair value). The fair values are provided by the County Treasurer. As of June 30, 2011, \$124,452,688 is invested in the Los Angeles County Treasurer's Pooled Investment Fund.

NOTE 4 ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2011 is composed of the following:

Federal	\$	991,553
State		15,458,107
Local		228,338
Interest		342,553
Others		165,886
Total \$		<u>17,186,437</u>

Receivables from other sources include accrued interest receivable, student fees received from clearing accounts and other services.

NOTE 5 INTERFUND TRANSACTIONS

Interfund Receivables and Payable (Due To/Due From)

Interfund receivables and payables consist of amounts due for cost allocation. The balances result from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivable and payable balances have been eliminated in the consolidation process for financial statement presentation.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers between the District's funds have been eliminated in the consolidation process.

Rio Hondo Community College District
Notes to Financial Statements
Year ended June 30, 2011

NOTE 6 CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Nondepreciable capital assets				
Land	\$ 2,125,023	\$ -	-	\$ 2,125,023
Work-in-progress	9,647,565	24,427,101	387,271	33,687,395
Total	<u>11,772,588</u>	<u>24,427,101</u>	<u>387,271</u>	<u>35,812,418</u>
Depreciable capital assets				
Buildings and improvements	144,554,719	10,788,995	-	155,343,714
Equipment and furniture	7,474,339	233,789	5,731	7,702,397
Capitalized equipment	1,742,033	-	-	1,742,033
Total	<u>153,771,091</u>	<u>11,022,784</u>	<u>5,731</u>	<u>164,788,144</u>
Less accumulated depreciation				
Buildings and improvements	19,239,149	3,486,597	-	22,725,746
Equipment and furniture	6,019,048	371,033	5,731	6,384,350
Capitalized equipment	1,219,426	87,102	-	1,306,528
Total	<u>26,477,623</u>	<u>3,944,732</u>	<u>5,731</u>	<u>30,416,624</u>
Net depreciable capital assets	<u>127,293,468</u>	<u>7,078,052</u>	-	<u>134,371,520</u>
Capital assets, net	<u>\$ 139,066,056</u>	<u>\$ 31,505,153</u>	<u>\$ 387,271</u>	<u>\$ 170,183,938</u>

Total depreciation expense amounted to \$3,944,732 for the year.

NOTE 7 NONCURRENT LIABILITIES

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Additions	Accreted Interest	Reductions	Balance June 30, 2011	Due within one year
General Obligation Bonds						
2004 Series A General obligation bonds	\$ 8,475,000	\$ -	-	\$ 1,530,000	\$ 6,945,000	\$ 1,605,000
2005 General obligation refunding bonds	45,590,253	-	-	989,248	44,601,005	1,395,000
2009 Series B General obligations bonds	64,996,844	-	992,845	-	65,989,689	1,345,000
2010 Series C General obligations bonds	-	60,040,980	2,551,459	-	62,592,439	-
Unamortized bond premium	4,456,105	702,563	-	273,553	4,885,115	-
Total General Obligation Bonds	<u>123,518,202</u>	<u>60,743,543</u>	<u>3,544,304</u>	<u>2,792,801</u>	<u>185,013,248</u>	<u>4,345,000</u>
Other Liabilities						
Net OPEB obligation	2,445,264	4,920,932	-	2,000,000	5,366,196	-
	<u>2,445,264</u>	<u>4,920,932</u>	<u>-</u>	<u>2,000,000</u>	<u>5,366,196</u>	<u>-</u>
Total long-term liabilities	<u>\$ 125,963,466</u>	<u>\$ 65,664,475</u>	<u>\$ 3,544,304</u>	<u>\$ 4,792,801</u>	<u>\$ 190,379,444</u>	<u>\$ 4,345,000</u>

NOTE 7 NONCURRENT LIABILITIES (CONTINUED)

Description of Debt

Payments on the general obligations bonds are made by the bond interest and redemption fund with local property taxes. The OPEB obligation will be paid by the general fund.

Bonded Indebtedness

In March 2004 the District adopted a resolution to issue general obligation bonds in an amount not to exceed \$245,581,122 for the purpose of future facility construction. The citizens of the District approved the bond issuance in the March 2004 election. On June 3, 2004 the District issued \$58,000,000 Series A General Obligation Bonds at a net premium of \$463,164. The bonds, rated "AAA" by Standard & Poor's at the time of issuance, will mature on August 1, 2014 and bear interest rates from 3.00% to 5.25%.

On September 26, 2005, the District 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, Refunding 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. The Refunding Bonds, rated "AAA" by Standard & Poor's at the time of issuance, will mature on August 1, 2024. The total proceeds from the bond issuance amounted to \$51,103,479

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 in trust into an escrow agent securing the respective maturities of the Series A General Obligation Bonds. The remaining portion in the amount of \$4,732,103 was deposited to the revenue bond construction fund. The advanced refunding met the requirements of an in-substance defeasance. Accordingly, the refunded portion of the Series A General Obligation Bonds were removed from the District's financial statements. The defeasance of the Series A General Obligation Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt.

On March 11, 2009, the District issued \$64,996,844 of Series B General Obligation Bonds to fund the acquisition, construction, furnishing, equipping and improvement of capital facilities within the District. The Series B General Obligation Bonds, which were rated "AA" by Standard & Poor's at the time of issuance, 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 August 1, 2030. Capital appreciation bonds bear compounded interest at rates ranging from 6.60% to 6.69% and will mature in August 2033. The total proceeds from the bond issuance amounted to \$66,545,864.

On December 21, 2010, the District issued \$60,040,980 of Measure A, Series C General Obligation Bonds to finance the furnishing, equipping, acquisition, construction and improvement of District capital facilities authorized at the 2004 election. The Series C bonds consist of \$18,806,028 Capital Appreciation Bonds and \$41,234,952 Convertible Capital

**Rio Hondo Community College District
Notes to Financial Statements
Year ended June 30, 2011**

NOTE 7 NONCURRENT LIABILITIES (CONTINUED)

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 August 1, 2038. The Convertible Capital Appreciation Bonds were initially 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 outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Accreted Interest		Bonds	
				Ousting July 1, 2010	Issued	Interest Additions	Redeemed	Ousting June 30, 2011	
2004	2014	3.00 - 5.25%	\$ 58,000,000	\$ 8,475,000	\$ -	\$ -	\$ 1,530,000	\$ 6,945,000	
2005	2024	4.46%	47,117,244	45,590,253	-	-	989,248	44,601,005	
2009	2033	3.00 - 6.69%	64,996,844	64,996,844	-	992,845	-	65,989,689	
2010	2042	6.29 - 6.99%	60,040,980	-	60,040,980	2,551,459	-	62,592,439	
				<u>\$ 119,062,097</u>	<u>\$ 60,040,980</u>	<u>\$ 3,544,304</u>	<u>\$ 2,519,248</u>	<u>\$ 180,128,133</u>	

The 2004 Series A General Obligation Bonds mature through 2015 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 1,605,000	\$ 322,481	\$ 1,927,481
2013	1,690,000	235,988	1,925,988
2014	1,780,000	144,900	1,924,900
2015	1,870,000	49,088	1,919,088
	<u>\$ 6,945,000</u>	<u>\$ 752,457</u>	<u>\$ 7,697,457</u>

Rio Hondo Community College District
Notes to Financial Statements
Year ended June 30, 2011

NOTE 7 NONCURRENT LIABILITIES (CONTINUED)

The 2005 Series A General Obligation Bonds mature through 2025 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 1,395,000	\$ 2,052,494	\$ 3,447,494
2013	1,150,619	2,308,844	3,459,463
2014	1,480,000	1,955,794	3,435,794
2015	563,050	2,915,537	3,478,587
2016	1,132,336	4,311,252	5,443,588
2017-2021	19,490,000	7,251,688	26,741,688
2022-2025	19,390,000	3,220,968	22,610,968
	<u>\$ 44,601,005</u>	<u>\$ 24,016,577</u>	<u>\$ 68,617,582</u>

The 2009 Series B General Obligation Bonds mature through 2034 as follows:

Fiscal Year	Principal	Accreted Interest *	Current Interest to Maturity	Total
2012	\$ 1,345,000	\$ -	\$ 2,938,088	\$ 4,283,088
2013	1,770,000	-	2,882,513	4,652,513
2014	265,000	-	2,843,138	3,108,138
2015	680,000	-	2,828,963	3,508,963
2016	895,000	-	2,800,863	3,695,863
2017-2021	10,490,000	-	12,826,513	23,316,513
2022-2026	17,275,000	-	10,204,231	27,479,231
2027-2031	27,470,000	5,529,071	3,115,400	36,114,471
2032-2034	4,806,844	11,859,085	-	16,665,929
	<u>\$ 64,996,844</u>	<u>\$ 17,388,156</u>	<u>\$ 40,439,706</u>	<u>\$ 122,824,706</u>

* Interest that is accrued from the initial principal amounts, and no interest payment is made until maturity.

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

The 2010 Series C General Obligation Bonds mature through 2042 as follows:

Fiscal Year	Principal	Accreted Interest*	Current Interest to Maturity	Total
2012	\$ -	\$ -	\$ -	\$ -
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017-2021	-	-	-	-
2022-2026	84,313	435,687	13,905,680	14,425,680
2027-2031	2,336,090	9,723,909	34,764,200	46,824,199
2032-2036	10,794,199	45,310,802	34,764,200	90,869,201
2037-2041	35,453,132	74,576,868	29,961,319	139,991,319
2042	11,373,246	16,896,754	1,923,276	30,193,276
	<u>\$ 60,040,980</u>	<u>\$ 146,944,020</u>	<u>\$ 115,318,675</u>	<u>\$ 322,303,675</u>

* Interest that is accrued from the initial principal amounts, and no interest payment is made until maturity.

At June 30, 2011, the unamortized premiums and issuance costs were \$4,885,115 and \$3,436,989 respectively. Premiums and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

NOTE 8 EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law (Part 13 of the California Education Code, Sec. 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

NOTE 8 EMPLOYEE RETIREMENT PLANS (CONTINUED)

Funding Policy

Active plan members are required to contribute 8.00% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issue a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary; currently the District contributes the employees' portion for California School Employees Association and confidential staff members. The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2010-11 was 10.707%.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years were as follows:

Year ended June 30,	STRS			PERS		
	Required Contribution	Employer Contribution	Percent Contributed	Required Contribution	Employer Contribution	Percent Contributed
2011	\$ 2,581,729	8.25%	100%	\$ 1,384,140	10.707%	100%
2010	\$ 2,529,374	8.25%	100%	\$ 1,290,024	9.71%	100%
2009	2,649,417	8.25%	100%	1,218,848	9.43%	100%

NOTE 8 EMPLOYEE RETIREMENT PLANS (CONTINUED)

The State of California may make additional direct payments for retirement benefits to the STRS or CalPERS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees, permits them to defer a portion of their salary to future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. Participating employees' accumulated net contributions and accumulated interest earnings are held by the financial institution administering the plan. The plan's funds are not considered assets or liabilities of the District. As of June 30, 2011 the balance in this plan amounted to \$93,846.

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The District administers a single-employer defined benefit healthcare plan. The District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. Membership of the Plan consists of 40 retirees and beneficiaries currently receiving benefits and 813 active plan members.

Funding Policy

The contribution requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an annual adjustment to fully fund the actuarially determined annual required contribution. For fiscal year ended 2011, the District contributed \$2,000,000 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the District's OPEB obligation:

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (CONTINUED)

Annual required contribution (ARC)		\$	4,920,932
Contributions made			<u>(2,000,000)</u>
Change in net OPEB obligation			2,920,932
Net OPEB obligation, beginning of year			<u>2,445,264</u>
Net OPEB obligation, end of year		\$	<u><u>5,366,196</u></u>

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Fiscal year end	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2009	\$ 3,572,632	\$ 2,700,000	76%	\$ 872,632
6/30/2010	\$ 3,572,632	\$ 2,000,000	56%	\$ 2,445,264
6/30/2011	\$ 4,920,932	\$ 2,000,000	41%	\$ 5,366,196

Funding Status and Funding Progress

As of November 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well the unfunded actuarial accrued liability (UAAL) was \$63,336,909. The covered payroll (annual payroll of active employees covered by the plan) was \$47,805,398, and the ratio of the UAAL to the covered payroll was 132%. Actuarial valuation of an ongoing Plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of post-employment healthcare benefits funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

**NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN AND OTHER POSTEMPLOYMENT
BENEFITS (OPEB) OBLIGATION (CONTINUED)**

The actuarial cost method used in determining the benefit obligations is the Entry Age Normal cost method. The actuarial assumptions included a 5 percent investment rate of return which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4.0 percent which includes 3.0 percent inflation rate. The initial UAAL is being amortized as a level percentage of payrolls with a closed 30 year amortization period. The residual UAAL is amortized using an open 30 year period. The remaining amortization period at June 30, 2011, was 29 years. The actuarial value of the assets was not determined in this actuarial study.

NOTE 10 JOINT POWERS AGREEMENT AND SELF-INSURANCE

The District participates in two joint powers agreement (JPA) entities: the Southern California Community College Districts' (SCCCD), and the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

SCCCD arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. SCCCDD is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SCCCDD, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SCCCDD's board of directors and shares surpluses and deficits proportionately to its participation in SCCCDD.

ASCIP arranges for and provides property, liability and excess workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested.

Rio Hondo Community College District
Notes to Financial Statements
Year ended June 30, 2011

NOTE 10 JOINT POWERS AGREEMENT AND SELF-INSURANCE (CONTINUED)

Condensed financial information of SCCCD and ASCIP for the most current information available is as follows:

	SCCD		ASCIP	
	June 30, 2011		June 30, 2011	
	(Audited)		(Audited)	
	Workers Compensation Insurance Fund	Retiree Health Insurance Fund		
Total assets	\$ 21,400,922	\$ 29,440,226	\$	50,841,148
Total liabilities	662,785	-		662,785
Net assets	\$ 20,738,137	\$ 29,440,226		50,178,363
Total revenues	\$ 7,489,133	\$ 1,606,086	\$	9,095,219
Total expenditures	7,194,072	1,500		7,195,572
Increase in net assets	\$ 295,061	\$ 1,604,586	\$	1,899,647

NOTE 11 FUNCTIONAL EXPENSES

Details of functional expenses for the year ended June 30, 2011 are as follows:

	Salaries and Benefits	Supplies, Materials and Other Expenses & Services	Financial Aid	Depreciation Expense	Total
Instructional activities	\$ 42,617,602	\$ 2,483,795	-	-	\$ 45,101,397
Academic support	7,542,170	1,665,828	-	-	9,207,998
Student services	9,937,462	1,756,171	-	-	11,693,633
Operation and maintenance of plant	3,460,351	2,615,891	-	-	6,076,242
Institutional support services	6,724,978	2,024,461	-	-	8,749,439
Community services and economic development	439,209	208,985	-	-	648,194
Ancillary services and auxiliary operations	539,773	405,212	-	-	944,985
Childcare center	642,951	41,871	-	-	684,822
Physical property and related acquisitions	-	92,102	-	-	92,102
Student aid	-	124,087	22,352,142	-	22,476,229
Depreciation expenses	-	-	-	3,944,732	3,944,732
Total	\$ 71,904,496	\$ 11,418,403	\$ 22,352,142	\$ 3,944,732	\$ 109,619,773

NOTE 12 COMMITMENTS AND CONTINGENCIES

Lease Commitments

Operating lease commitments are primarily for computer and printing equipment used by the various District departments. Total lease expense during the year amounted to \$274,294.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum annual lease payments for the years ending June 30 are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 157,726
2013	125,734
2014	113,225
2015	<u>74,975</u>
Total	<u>\$ 471,660</u>

State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

NOTE 13 FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California Community College system is reliant on the State of California to appropriate the funding necessary to continue the level of educational services and student support programs that are mandated for the colleges. The State's budget deficit will result in significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California Community Colleges to meet their goals for educational services.

NOTE 14 SUBSEQUENT EVENTS

The District has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 1, 2011, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Rio Hondo Community College District
History and Organization
Year ended June 30, 2011**

The Rio Hondo Community College District was established by election in October 1960 and encompasses a 65.6 square-mile area which includes the cities of Whittier, Pico Rivera, Santa Fe Springs, South El Monte and portions of Norwalk, La Mirada, Downey, La Puente and Industry, some unincorporated areas of Los Angeles County, and the portion of the City of El Monte south and east of the Rio Hondo River. There were no changes in the District's boundaries during the current year. The District currently operates Rio Hondo College.

As of June 30, 2011, the Board of Trustees is composed of the following members:

<u>Board of Trustees</u>		
<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Maria Elena Martinez	President	12/2011
Norma Edith Garcia	Vice President	12/2013
Madeline Shapiro	Clerk	12/2013
Angela Acosta-Salazar	Member	12/2013
Gary Mendez	Member	12/2011
Julianna Ojeda	Student Member	12/2012

District Executive Officers

Dr. Ted Martinez, Jr.	President
Dr. Paul Parnell	Vice President, Academic Services
Teresa Dreyfuss	Vice President, Finance and Business
Henry Gee	Vice President, Student and Community Services

**Rio Hondo Community College District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011**

Federal Grantor / Pass - Through Grantor /Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
U.S. Department of Education			
Direct:			
Student Financial Assistance Programs			
Federal Pell Grant Program	* 84.063	NA	\$ 18,213,604
Federal Family Education Loans (FFEL)	* 84.032	NA	2,083,604
Federal Work Study Program	* 84.033	NA	130,787
Federal Supplemental Educational Opportunity Grants	* 84.007	NA	257,300
Academic Competitive Grant	* 84.375	NA	185,600
Subtotal Student Financial Aid Cluster			<u>20,870,895</u>
Trio Cluster:			
Upward Bound	* 84.047	NA	298,865
Student Support Services	* 84.042	NA	312,519
S (cubed) STEM	* 84.042A	NA	189,233
Instructional Development and Educational Assessment for Student Success (IDEAS)	84.031S	NA	215,634
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	* 84.334	NA	751,475
Small Business Administration			
Giving Rio Hondo Environmental Education To Our Neighbours	59.059	NA	107,032
Tune In and Tune Up	59.000	NA	15,998
Department of Health and Human Services			
Pass through California Department of Social Services Temporary Assistance for Needy Families(TANF)	93.558	NA	72,719
Pass through California Department of Education Foster Care	93.658	NA	209,501
Department of Justice			
Bureau of Justice Assistance Congressionally Recommended Awards	16.753	NA	163,837
Pass through California Department of Education			
Vocational and Applied Technology Education Act (VTEA)			
VTEA Title II C	* 84.048	10-C01-044	368,002
VTEA Tech Prep	* 84.048	10-139-880	69,635
VTEA Tech Prep Pipeline	* 84.048	10-090-007	73,737
VTEA Regional Consortia	* 84.048	10-342-005	431,802
			<u>\$ 24,150,884</u>

* Current Year's major programs

N/A indicates not available and/or not applicable

See accompanying notes to the supplementary information.

Rio Hondo Community College District
Schedule of State Financial Assistance - Grants
Year ended June 30, 2011

Program Name	Program Revenues			Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Revenue	
State Awards	\$	\$	\$	\$
Apprenticeship	952,810	-	-	952,810
BFAP	394,472	-	-	394,472
Cal Grant	731,857	-	-	731,857
Cal Works	225,354	-	-	225,354
Child Development Center	11,647	-	-	11,647
Extended Opportunity Program and Services /Care	1,113,086	-	-	1,113,086
Disabled Student Apportionment	279,979	-	-	279,979
Matriculation	771,649	-	-	771,649
Part-time Faculty	288,623	-	-	288,623
Tech Pre CTE Grant	60,208	-	-	60,208
Staff Diversity	7,196	-	-	7,196
Basic Skills	132,074	-	-	132,074
Tech Pipeline Grant	73,544	-	-	73,544
Tech Prep Grant	69,529	-	-	69,529
Other Contributions and Grants	306,639	-	-	306,639
Total State Programs	\$ 5,418,667	\$ -	\$ -	\$ 5,418,667
				\$ 6,949,233

See accompanying notes to the supplementary information.

Rio Hondo Community College District
 Schedule of Workload Measures for State General Apportionment
 Year ended June 30, 2011

Categories	Annual FTES
A. Summer Intersession (Summer 2010 only)	
1. Noncredit	106.80
2. Credit	505.11
B. Summer Intersession (Summer 2011 - Prior to July 1, 2011)	
1. Noncredit	2.89
2. Credit	1,100.29
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	8,331.02
(b) Daily Census Contact Hours	510.86
2. Actual Hours of Attendance Procedure Courses	
(a) Noncredit	666.49
(b) Credit	934.05
3. Independent Study/Work Experience	
(a) Weekly Census Contact Hours	857.33
(b) Daily Census Contact Hours	495.02
(c) Noncredit Independent Study/Distance Education Courses	-
D. Total FTES	13,509.86
Supplemental Information	
E. In-Service Training Courses (FTES)	459.00
H. Basic Skills Courses and Immigrant Education	
1. Noncredit	128.79
2. Credit	961.26
<u>CCFS 320 Addendum</u>	
CDCP Noncredit FTES	67.41
Centers FTES	
1. Noncredit	-
2. Credit	-

See accompanying notes to the supplementary information.

Rio Hondo Community College District
Reconciliation of Annual Financial and Budget Report (CCFS-311)
With District Accounting System
June 30, 2011

Fund	General Fund	Debt Service Fund	Special Revenue Funds	Capital Projects Fund	Internal Service Funds	Fiduciary Funds
June 30, 2011, Annual Financial and Budget Report (Form CCFS-311) Fund Balances	\$ 11,066,698	\$ 7,538,096	\$ 4,726,292	\$ 84,988,071	\$ 6,177,874	\$ 322,255
Adjustment and reclassification increasing fund balance:	-	-	-	-	-	-
Net adjustment and reclassifications	-	-	-	-	-	-
June 30, 2010 Audited Financial Statements Fund Balance	\$ 11,066,698	\$ 7,538,096	\$ 4,726,292	\$ 84,988,071	\$ 6,177,874	\$ 322,255

See accompanying notes to the supplementary information.

NOTE 1 PURPOSE OF SCHEDULES

A. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the Rio Hondo Community College District for the year ended June 30, 2011 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance were prepared for the Rio Hondo Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the Rio Hondo Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances.

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311. Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards

**The Honorable Board of Trustees
Rio Hondo Community College District**

We have audited the basic financial statements of Rio Hondo Community College District (District) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 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 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 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 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 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 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 Board of Trustees, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Virquez + Company LLP

**Los Angeles, California
December 1, 2011**

**Report of Independent Auditors on Compliance with Requirements
That Could have a Direct and Material Effect on Each Major Program,
on Internal Control Over Compliance, and on the Schedule of Expenditures
of Federal Awards in Accordance with OMB Circular A-133**

**The Honorable Board of Trustees
Rio Hondo Community College District**

Compliance

We have audited the compliance of Rio Hondo Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Rio Hondo Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.



A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Rio Hondo Community College District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, District management and the District's federal and state awarding and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vergara + Company LLP

**Los Angeles, California
December 1, 2011**

Report of Independent Auditors on State Compliance

The Honorable Board of Trustees Rio Hondo Community College District

We have examined the District's compliance with the following state laws and regulations for the year ended June 30, 2011 in accordance with Section 400 of the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM):

- Salaries of Classroom Instructors: 50% Law (421)
- Apportionment for Instructional Service Agreements/Contracts (423)
- State General Apportionment (424)
- Residency Determination for Credit Courses (425)
- Students Actively Enrolled (426)
- Concurrent Enrollment of K-12 Students in Community College Credit Courses (427)
- Gann Limit Calculation (431)
- Enrollment Fee (432)
- California Work Opportunity and Responsibility to Kids (CalWORKS) – Use of State and Federal Temporary Assistance for Needy Families (TANF) Funding (433)
- Open Enrollment (435)
- Student Fees – Instructional Materials and Health Fees (437)
- Economic and Workforce Development (473)
- Extended Opportunity Programs and Services (474)
- Disabled Students Programs and Services (475)
- Cooperative Agencies Resources for Education (477)
- Preference for Veterans and Qualified Spouse for Federally Funded Qualified Training Programs (478)
- To Be Arranged Hours (479)

Management is responsible for the District's compliance with these requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.



Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of the District's management, the Board of Trustees, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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Los Angeles, California
December 1, 2011

**Rio Hondo Community College District
Schedule of Findings and Questioned Costs
Year ended June 30, 2011**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: No
- Significant deficiency (ies) identified that are not considered to be material weaknesses? No

Noncompliance material to the financial statements noted: No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: No
- Significant deficiency (ies) identified that are not considered to be material weaknesses? No

Type of auditors’ report issued on compliance for its Major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 None

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.032, 84.033, 84.063, and 84.375 84.334	Student Financial Assistance Cluster of Programs Gaining Early Awareness and Readiness for Undergraduate
84.048 84.042, 84.042A and 84.047	Vocational and Applied Technology Education Act TRIO Cluster

Dollar threshold used to distinguish between Type A and type B programs: \$724,526

Auditee qualified as a low-risk auditee: Yes

Section II – Financial Statement Findings

None.

Rio Hondo Community College District
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Section III – Federal Award Finding

None.

Section IV – State Award and Compliance Finding

None.

Rio Hondo Community College District
 Status of Prior Year Findings and Questioned Costs
 Year ended June 30, 2011

Findings	Recommendations	Status	Explanation If Not Fully Implemented
(A) Federal Award Findings			
<u>Perkins IV (Formerly Vocational and Technical Education Perkins IC)</u>			
Inventory list of equipment purchased was not available.	The District should enhance current policies, procedures and monitoring controls to ensure that it is in compliance with equipment management requirements. These policies include the regular taking of physical inventory and maintenance of a listing of its equipment.	Implemented.	
No physical inventory of equipment was performed.			
No inventory list reconciliation to District records was performed.			
VTEA purchased equipment could not be identified as they were mixed with other equipment purchased with other funds.			
The alternative list provided did not include the required criteria in equipment management such as District Tag numbers, Program Tag numbers, manufacturer's serial number, location and condition			

