



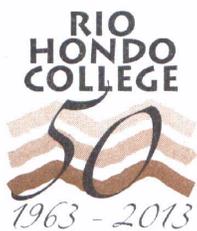
**Rio Hondo Community College District  
Financial Statements and  
Supplementary Information  
*Year ended June 30, 2012*  
*with Report of Independent Auditors  
Including Reports on Compliance***

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INTRODUCTION

The audit of Rio Hondo Community College District has the following objectives:

- To determine the fairness of presentation of the District's basic financial statements in accordance with accounting principles generally accepted in the United States of America.
- To evaluate the adequacy of the system and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the district's financial statements and allowability of program expenditures for federal and California financial assistance programs.
- To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
- To determine whether financial and financially related reports to state and federal agencies are presented fairly.
- To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.



TERESA DREYFUSS  
INTERIM SUPERINTENDENT/PRESIDENT

December 1, 2012

BOARD OF TRUSTEES

ANGELA ACOSTA-SALAZAR

NORMA EDITH GARCÍA

The Board of Trustees  
Rio Hondo College District

GARY MENDEZ

Dear Board Members:

VICKY SANTANA

I have received and reviewed the Annual Financial Report of the Rio Hondo Community College District for the fiscal year ended June 30, 2012. The report is hereby submitted to you for your acceptance.

MADLINE SHAPIRO

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.

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, 2012. 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,

A handwritten signature in black ink, appearing to read "Teresa Dreyfuss", with a long horizontal flourish extending to the right.

Teresa Dreyfuss  
Interim/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, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the basic information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as 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, and is also 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Vergara + Company LLP*

**Los Angeles, California**  
**December 6, 2012**

## **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, 2012. 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<br>Change |
|---|-------------------|-------------------|------------------------|
|   | 2012              | 2011              |                        |
| <b>ASSETS</b>                                   |                   |                   |                        |
| Current Assets                                  |                   |                   |                        |
| Cash and cash equivalents                       | \$ 28,374         | \$ 39,654         | -28.4%                 |
| Accounts receivable, net                        | 24,445            | 17,187            | 42.2%                  |
| Other current assets                            | 891               | 911               | -2.2%                  |
| Total current assets                            | 53,710            | 57,752            | -7%                    |
| Noncurrent Assets                               |                   |                   |                        |
| Restricted cash                                 | 66,620            | 84,982            | -21.6%                 |
| Deferred charges                                | 3,226             | 3,437             | -6.1%                  |
| Capital assets, net                             | 195,742           | 170,184           | 15.0%                  |
| Total noncurrent assets                         | 265,588           | 258,603           | 14.6%                  |
| <b>Total Assets</b>                             | <b>\$ 319,298</b> | <b>\$ 316,355</b> | <b>.1%</b>             |
| <b>LIABILITIES</b>                              |                   |                   |                        |
| Current Liabilities                             |                   |                   |                        |
| Accounts payable and accrued liabilities        | \$ 25,901         | \$ 29,059         | -10.9%                 |
| Deferred revenue                                | 3,023             | 1,676             | 80.4%                  |
| Compensated absences                            | 751               | 736               | 1.0%                   |
| Noncurrent liabilities - current portion        | 4,611             | 4,345             | 6.1%                   |
| Total current liabilities                       | 34,286            | 35,819            | -4.3%                  |
| Noncurrent Liabilities                          |                   |                   |                        |
| Bond payable                                    | 175,967           | 175,783           | .1%                    |
| Unamortized bond premium                        | 4,602             | 4,885             | -5.8%                  |
| Other Post Employment Benefits                  | 10,287            | 5,366             | 91.7%                  |
| Total noncurrent liabilities                    | 190,856           | 184,034           | 3.7%                   |
| <b>Total Liabilities</b>                        | <b>225,142</b>    | <b>221,853</b>    | <b>1.5%</b>            |
| <b>NET ASSETS</b>                               |                   |                   |                        |
| Invested in capital assets, net of related debt | 48,756            | 48,756            | 0%                     |
| Restricted for debt service                     | 8,583             | 8,362             | 2.6%                   |
| Unrestricted                                    | 36,817            | 37,384            | -1.5%                  |
| <b>Total Net Assets</b>                         | <b>94,156</b>     | <b>94,502</b>     | <b>-3%</b>             |
| <b>Total liabilities and Net Assets</b>         | <b>\$ 319,298</b> | <b>\$ 316,355</b> | <b>.1%</b>             |

**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 current assets decreased by \$22,404,565 mainly due to the decrease in restricted cash while non-current assets increased by \$25,347,567 due to the increase in capital assets for buildings and improvements. Net assets decreased by \$346,372 mainly due to the decrease in unrestricted assets.

**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<br><u>Change</u> |
|----------------------------------|--------------------|-------------|-------------------------------|
|                                  | <u>2012</u>        | <u>2011</u> |                               |
| Operating revenues               | \$ 39,177          | \$ 38,598   | 1.5%                          |
| Operating expenses               | 104,929            | 109,620     | - 4.3%                        |
| Operating loss                   | (65,752)           | (71,022)    | 7.4%                          |
| Nonoperating revenues (expenses) | 65,406             | 72,808      | -10.2%                        |
| Change in net assets             | -346               | 1,786       | -119.3                        |
| Net assets—beginning of year     | 94,502             | 92,716      | 1.9%                          |
| Net assets—end of year           | \$ 94,156          | \$ 94,502   | -.3%                          |

Operating revenues include tuitions, fees, federal, state and local grants. Total operating revenues increased by \$ 579,000 primarily due to the increase in Sales and other operating Revenues.

Nonoperating revenues (expenses) consisting of state apportionment, state bond capital construction fund, local property taxes, investment income, and interest expenses. Nonoperating revenues decreased by \$7.4 million (or -10.2%) which includes a decrease in State apportionment by 9.4 million dollars, a decrease in Local property taxes by 1 million dollars. This was offset by an increase in State bond capital construction fund of \$3.0 million dollars. There was minimal difference in the net investment income and expense.

**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 decreased by \$4.6 million (or 4.3%) compared to prior year. The District did not accrue \$2 million dollars in expenses in the current fiscal to the retiree unfunded liability as we did in the prior fiscal year. The District also had decreased \$2.6 million in Services and other operating expenses.

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 2011-12 fiscal year FTES were 13,892 as compared to 13,510 in the 2010-11 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)                                       | <b>Year Ended June 30</b> |                          | <b>Year-to-year</b> |
|--|---------------------------|--------------------------|---------------------|
|  | <b>2012</b>               | <b>2011</b>              | <b>Change</b>       |
| Cash received from operations                        | \$ 35,231                 | \$ 34,157                | 3.1%                |
| Cash expended for operations                         | <u>(101,187)</u>          | <u>(98,720)</u>          | 2.5%                |
| Net cash used in operating activities                | (65,956)                  | (64,563)                 | 2.2%                |
| Net cash provided by noncapital financing activities | 70,927                    | 78,275                   | -9.4%               |
| Net cash provided by (used in) capital and related   |                           |                          |                     |
| financing activities                                 | (35,678)                  | (19,920)                 | -79.1%              |
| Net cash provided by investing activities            | <u>1,065</u>              | <u>1,413</u>             | -24.6%              |
| Net increase (decrease) in cash and cash equivalent  | (29,642)                  | 35,045                   | -184.6%             |
| Cash and cash equivalents                            |                           |                          |                     |
| - beginning of year                                  | <u>124,636</u>            | <u>89,591</u>            | 39.1%               |
| - end of year  | <u><u>\$ 94,994</u></u>   | <u><u>\$ 124,636</u></u> | -23.8%              |

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, 2011, the District had net capital assets of \$70.2 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2012 our net capital assets increased to \$195 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 2011-12 was approved by the board on June 13, 2012

## **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 78 percent of the total sources of revenues received by the District for fiscal year 2011-12.

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 16 billion dollars in 2012-13.

Although the extent of fiscal impact to Rio Hondo College is unclear at this point, due to the state budget deficit of 2012-13 and 2013-14 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, 2012**

**ASSETS**

**Current assets**

|                           |    |            |
|---------------------------|----|------------|
| Cash and cash equivalents | \$ | 28,373,527 |
| Accounts receivable, net  |    | 24,445,318 |
| Prepaid expenses          |    | 28,719     |
| Inventories               |    | 20,361     |
| Advances to employees     |    | 532,256    |
| Due from fiduciary funds  |    | 308,650    |
| Total current assets      |    | 53,708,831 |

**Noncurrent assets**

|                         |  |             |
|-------------------------|--|-------------|
| Restricted cash         |  | 66,620,354  |
| Deferred charges        |  | 3,226,026   |
| Capital assets, net     |  | 195,742,468 |
| Total noncurrent assets |  | 265,588,848 |

**Total assets** \$ 319,297,679

**LIABILITIES AND NET ASSETS**

**Current liabilities**

|   |    |            |
|---|----|------------|
| Accounts payable and accrued liabilities  | \$ | 15,374,808 |
| Accrued payroll and payroll taxes         |    | 8,034,006  |
| Accrued interest                          |    | 2,426,401  |
| Due to fiduciary funds                    |    | 66,000     |
| Unearned revenue                          |    | 3,023,172  |
| Compensated absences                      |    | 750,692    |
| Current portion of noncurrent liabilities |    | 4,610,619  |
| Total current liabilities                 |    | 34,285,698 |

**Noncurrent liabilities**

|   |  |             |
|---|--|-------------|
| Bonds payable, net of current portion                   |  | 175,966,849 |
| Unamortized bond premium                                |  | 4,602,414   |
| Other postemployment benefits other than pension (OPEB) |  | 10,287,128  |
| Total noncurrent liabilities                            |  | 190,856,391 |

**Total liabilities** 225,142,089

**Net assets**

|   |  |            |
|---|--|------------|
| Invested in capital assets, net of related debt |  | 48,755,974 |
| Restricted for debt service                     |  | 8,582,376  |
| Unrestricted                                    |  | 36,817,240 |
| Total net assets                                |  | 94,155,590 |

**Total liabilities and net assets** \$ 319,297,679

*See notes to financial statements.*

**Rio Hondo Community College District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year ended June 30, 2012**

---

**Revenues**

|  |                          |
|--|--------------------------|
| Operating revenues                       |                          |
| Student tuition and fees - gross         | \$ 11,018,059            |
| Less scholarship discounts and allowance | <u>(6,413,190)</u>       |
| Net tuition and fees                     | 4,604,869                |
| Grants and contracts, non-capital:       |                          |
| Federal                                  | 22,954,823               |
| State                                    | 7,935,701                |
| Local                                    | 3,361,648                |
| Sales and other operating revenues       | <u>319,429</u>           |
| <b>Total operating revenues</b>          | <b><u>39,176,470</u></b> |

**Expenses**

|                                       |                            |
|---------------------------------------|----------------------------|
| Operating expenses                    |                            |
| Salaries:                             |                            |
| Certificated                          | 33,635,033                 |
| Classified                            | 14,653,908                 |
| Employee benefits                     | 22,244,376                 |
| Books and supplies                    | 1,016,912                  |
| Services and other operating expenses | 7,366,643                  |
| Financial aid                         | 21,930,919                 |
| Depreciation                          | <u>4,080,786</u>           |
| <b>Total operating expenses</b>       | <b><u>104,928,577</u></b>  |
| <b>Operating loss</b>                 | <b><u>(65,752,107)</u></b> |

**Nonoperating revenues (expenses)**

|                                      |                          |
|--------------------------------------|--------------------------|
| State apportionments                 | 49,735,947               |
| State bond capital construction fund | 6,649,914                |
| Local property taxes                 | 14,541,264               |
| Investment income                    | 1,064,850                |
| Interest expense                     | <u>(6,586,240)</u>       |
| <b>Net nonoperating revenues</b>     | <b><u>65,405,735</u></b> |

**Change in net assets** (346,372)

**Net assets**

|                   |                             |
|-------------------|-----------------------------|
| Beginning of year | <u>94,501,962</u>           |
| End of year       | <b><u>\$ 94,155,590</u></b> |

*See notes to financial statements.*

**Rio Hondo Community College District**  
**Statement of Cash Flows**  
**Year ended June 30, 2012**

|  |                      |
|--|----------------------|
| <b>Cash flows from operating activities</b>                      |                      |
| Tuition and fees   | \$ 4,604,869         |
| Federal grants and contracts                                     | 15,695,942           |
| State grants and contracts                                       | 9,279,967            |
| Local grants and contracts                                       | 3,361,648            |
| Payments to suppliers  | (11,375,439)         |
| Payments to/on-behalf of employees                               | (65,991,135)         |
| Payments for scholarships and grants                             | (21,930,919)         |
| Sales and other operating revenues                               | 319,429              |
| Repayment from affiliates  | 73,228               |
| <b>Net cash used in operating activities</b>                     | <u>(65,962,410)</u>  |
| <b>Cash flows from non-capital financing activities</b>          |                      |
| State apportionments   | 49,735,947           |
| State bond capital construction fund                             | 6,649,914            |
| Property taxes   | 14,541,264           |
| <b>Net cash provided by non-capital financing activities</b>     | <u>70,927,125</u>    |
| <b>Cash flows from capital and related financing activities</b>  |                      |
| Purchases of capital assets                                      | (29,639,316)         |
| Principal paid on capital debt                                   | (4,345,000)          |
| Interest paid on capital debt                                    | (1,687,876)          |
| <b>Net cash used in capital and related financing activities</b> | <u>(35,672,192)</u>  |
| <b>Cash flows from investing activities</b>                      |                      |
| Interest on investments  | <u>1,064,850</u>     |
| <b>Net change in cash and cash equivalents</b>                   | (29,642,627)         |
| <b>Cash and cash equivalents - beginning of year</b>             | <u>124,636,508</u>   |
| <b>Cash and cash equivalents - end of year</b>                   | <u>\$ 94,993,881</u> |
| Cash and cash equivalents  | \$ 28,373,527        |
| Restricted cash  | 66,620,354           |
| <b>Total cash and cash equivalents</b>                           | <u>\$ 94,993,881</u> |

*See notes to financial statements.*

**Rio Hondo Community College District**  
**Statement of Cash Flows (Continued)**  
**Year ended June 30, 2012**

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**Reconciliation of operating loss to  
net cash used in operating activities**

|   |                            |
|---|----------------------------|
| Operating loss  | \$ (65,752,107)            |
| Adjustments to reconcile operating income (loss)<br>to net cash used in operating activities: |                            |
| Depreciation expense  | 4,080,786                  |
| (Increase) decrease in assets:  |                            |
| Receivables   | (7,258,881)                |
| Inventories   | 961                        |
| Prepaid expenses  | (13,551)                   |
| Advances to employees   | 10,181                     |
| Due from fiduciary funds  | 23,228                     |
| Increase (decrease) in liabilities:   |                            |
| Accounts payable and accrued liabilities  | (2,979,294)                |
| Accrued payroll and payroll taxes   | (403,623)                  |
| Unearned revenue  | 1,344,266                  |
| Other postemployment benefit obligation   | 4,920,932                  |
| <b>Net cash used in operating activities \$</b>   | <u><u>(65,962,410)</u></u> |

**Supplemental disclosure of cash flow information**

|                              |                            |
|------------------------------|----------------------------|
| Capitalized interest expense | \$ <u><u>3,511,604</u></u> |
|------------------------------|----------------------------|

*See notes to financial statements.*

Rio Hondo Community College District  
Statement of Fiduciary Net Assets  
June 30, 2012

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|   | Associated<br>Student Body<br>Fund | Auxiliary<br>Services<br>Organization<br>Fund |
|---|------------------------------------|---|
| <b>ASSETS</b>                           |                                    |   |
| Cash in banks                           | \$ 221,108                         | \$ 808,529                                    |
| Due from District                       | 16,000                             | 50,000  |
| Accounts receivable                     | 650                                | 64,695  |
| <b>Total assets</b>                     | <b>\$ 237,758</b>                  | <b>\$ 923,224</b>                             |
| <b>LIABILITIES AND NET ASSETS</b>       |                                    |   |
| Liabilities - trust fund accounts       | \$ 74,179                          | \$ 735,884                                    |
| Accounts payable                        | 30,470                             | 137,551                                       |
| Due to other funds                      | 50,000                             | -   |
| Total liabilities                       | 154,649                            | 873,435                                       |
| <b>Net assets</b>                       |                                    |   |
| Unrestricted                            | 83,109                             | 49,789  |
| <b>Total liabilities and net assets</b> | <b>\$ 237,758</b>                  | <b>\$ 923,224</b>                             |

*See notes to financial statements.*

**Rio Hondo Community College District  
Statement of Changes in Fiduciary Net Assets  
Year ended June 30, 2012**

---

|                             | <u>Associated<br/>Student Body<br/>Fund</u> | <u>Auxiliary<br/>Services<br/>Organization<br/>Fund</u> |
|-----------------------------|---|---|
| <b>Revenues</b>             |   |   |
| Program income              | \$ <u>176,400</u>                           | \$ <u>349,936</u>                                       |
| <b>Expenses</b>             |   |   |
| Salaries                    | 50,000                                      | -   |
| Activities and functions    | <u>121,878</u>                              | <u>343,903</u>  |
|                             | <u>171,878</u>                              | <u>343,903</u>  |
| <b>Change in net assets</b> | 4,522                                       | 6,033   |
| <b>Net assets</b>           |   |   |
| Beginning of year           | 78,587                                      | 43,756  |
| End of year                 | <u>\$ <u>83,109</u></u>                     | <u>\$ <u>49,789</u></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)**

Additional information is included in Note 12 to the financial statements. 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 13 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 non-operating revenues. Federal and State grants received to provide direct grants to students are classified as non-operating 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 non-operating. 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.

The District reviews the carrying amount of its capital assets for possible impairments when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

**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**

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Unearned revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

**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.

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 – expendable

Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Restricted net assets - nonexpendable

Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net assets - nonexpendable.

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, as designated, to meet current expenses for specific future purposes.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 non-operating according to the following criteria:

Operating Expenses

Operating expenses are necessary costs to provide the services of the District 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 service of the District.

**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,

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 No. 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.

**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 funds of the District 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.

**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:

| <u>Authorized Investment Type</u>       | <u>Maximum<br/>Remaining<br/>Maturity</u> | <u>Maximum<br/>Percentage<br/>of Portfolio</u> | <u>Maximum<br/>Investment in<br/>One Issuer</u> |
|---|---|--|---|
| 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, 2012 are composed of the following:

|   |    |                          |
|---|----|--------------------------|
| Cash on hand and in banks (Unrestricted)  | \$ | 187,183                  |
| Cash in County Treasury:                  |    |                          |
| Unrestricted                              | \$ | 28,186,344               |
| Restricted cash for building construction |    | 58,037,978               |
| Restricted cash for debt service          |    | <u>8,582,376</u>         |
| Total cash in County Treasury             |    | <u>94,806,698</u>        |
| Total cash and cash equivalents           | \$ | <u><u>94,993,881</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     | 94,806,698 | 617                               |

**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, 2012 | Fair Market Value |
|--------------------------|----------------------|----------------------|-------------------|
| County Pooled Investment | Not Required         | Not Rated            | 94,806,698        |

**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, 2012, the District's bank balance amounting to \$2,076,797 was in excess of Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000.

**NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)**

**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 uncategorized and the fair value approximates carrying value shown above in the credit risk schedule. Deposits with the County Treasury are not categories 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, 2012, \$94,806,698 is invested in the Los Angeles County Treasurer's Pooled Investment Fund.

**NOTE 4 ACCOUNTS RECEIVABLE**

The accounts receivable balance as of June 30, 2012 is composed of the following:

|          |    |                          |
|----------|----|--------------------------|
| Federal  | \$ | 835,362                  |
| State    |    | 22,810,736               |
| Local    |    | 242,652                  |
| Interest |    | 301,064                  |
| Others   |    | <u>255,504</u>           |
| Total \$ |    | <u><u>24,445,318</u></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 funds of the District have been eliminated in the consolidation process.

**Rio Hondo Community College District**  
**Notes to Financial Statements**  
**Year ended June 30, 2012**

**NOTE 6 CAPITAL ASSETS**

The following provides a summary of changes in capital assets for the year ended June 30, 2012:

|                                | Balance<br>July 1, 2011 | Additions            | Reductions           | Balance<br>June 30, 2012 |
|--------------------------------|-------------------------|----------------------|----------------------|--------------------------|
| Nondepreciable capital assets  |                         |                      |                      |                          |
| Land                           | \$ 2,125,023            | \$ -                 | \$ -                 | \$ 2,125,023             |
| Work-in-progress               | 33,687,395              | 16,223,698           | 12,257,882           | 37,653,211               |
| Total                          | <u>35,812,418</u>       | <u>16,223,698</u>    | <u>12,257,882</u>    | <u>39,778,234</u>        |
| Depreciable capital assets     |                         |                      |                      |                          |
| Buildings and improvements     | 155,343,714             | 25,242,719           | -                    | 180,586,433              |
| Equipment and furniture        | 7,702,397               | 430,781              | 19,226               | 8,113,952                |
| Capitalized equipment          | 1,742,033               | -                    | -                    | 1,742,033                |
| Total                          | <u>164,788,144</u>      | <u>25,673,500</u>    | <u>19,226</u>        | <u>190,442,418</u>       |
| Less accumulated depreciation  |                         |                      |                      |                          |
| Buildings and improvements     | 22,725,746              | 3,653,128            | -                    | 26,378,874               |
| Equipment and furniture        | 6,384,350               | 340,556              | 19,226               | 6,705,680                |
| Capitalized equipment          | 1,306,528               | 87,102               | -                    | 1,393,630                |
| Total                          | <u>30,416,624</u>       | <u>4,080,786</u>     | <u>19,226</u>        | <u>34,478,184</u>        |
| Net depreciable capital assets | <u>134,371,520</u>      | <u>21,592,714</u>    | <u>-</u>             | <u>155,964,234</u>       |
| Capital assets, net            | <u>\$ 170,183,938</u>   | <u>\$ 37,816,412</u> | <u>\$ 12,257,882</u> | <u>\$ 195,742,468</u>    |

Total depreciation expense amounted to \$4,080,786 for the year.

**NOTE 7 UNEARNED REVENUE**

Unearned revenue at year end consists of the following:

|                         | Amount              |
|-------------------------|---------------------|
| Principal Apportionment | \$ 2,372,000        |
| Student fees            | 651,172             |
| Total                   | <u>\$ 3,023,172</u> |

**NOTE 8 COMPENSATED ABSENCES**

Compensated absences at year end is as follows:

|                           | Amount            |
|---------------------------|-------------------|
| Balance beginning of year | \$ 736,000        |
| Additions                 | 14,692            |
| Deductions                | -                 |
| Balance end of year       | <u>\$ 750,692</u> |

**Rio Hondo Community College District**  
**Notes to Financial Statements**  
**Year ended June 30, 2012**

**NOTE 9 LONG-TERM LIABILITIES**

A schedule of changes in long-term debt for the year ended June 30, 2012 is shown below:

|   | Balance<br>July 1, 2011 | Additions           | Accreted<br>Interest | Reductions          | Balance<br>June 30, 2012 | Due within<br>one year |
|---|-------------------------|---------------------|----------------------|---------------------|--------------------------|------------------------|
| <b>General Obligation Bonds</b>         |                         |                     |                      |                     |                          |                        |
| 2004 Series A General obligation bonds  | \$ 6,945,000            | \$ -                | -                    | \$ 1,605,000        | \$ 5,340,000             | \$ 1,690,000           |
| 2005 General obligation refunding bonds | 44,601,005              | -                   | -                    | 1,395,000           | 43,206,005               | 1,150,619              |
| 2009 Series B General obligations bonds | 65,989,689              | -                   | 392,644              | 1,345,000           | 65,037,333 *             | 1,770,000              |
| 2010 Series C General obligations bonds | 62,592,439              | -                   | 4,401,691            | -                   | 66,994,130 **            | -                      |
| Unamortized bond premium                | 4,885,115               | -                   | -                    | 282,701             | 4,602,414                | -                      |
| Total General Obligation Bonds          | <u>185,013,248</u>      | <u>-</u>            | <u>4,794,335</u>     | <u>4,627,701</u>    | <u>185,179,882</u>       | <u>4,610,619</u>       |
| <b>Other Liabilities</b>                |                         |                     |                      |                     |                          |                        |
| Net OPEB obligation                     | 5,366,196               | 4,920,932           | -                    | -                   | 10,287,128               | -                      |
|   | <u>5,366,196</u>        | <u>4,920,932</u>    | <u>-</u>             | <u>-</u>            | <u>10,287,128</u>        | <u>-</u>               |
| Total long-term liabilities             | <u>\$ 190,379,444</u>   | <u>\$ 4,920,932</u> | <u>\$ 4,794,335</u>  | <u>\$ 4,627,701</u> | <u>\$ 195,467,010</u>    | <u>\$ 4,610,619</u>    |

\* Include accrete interest amount of \$1,385,480 from issue date

\*\* Include accrete interest amount of \$6,953,150 from issue date

**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

**NOTE 9 LONG-TERM LIABILITIES (CONTINUED)**

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's issued \$60,040,980 of Measure A, Series C General Obligation Bonds to finance of 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 Appreciation Bonds. Capital Appreciation Bonds accrete interest from the date of delivery, compounded semiannually on February 1, and August 1 of each year, commencing February 1, 2011, and will be payable solely at maturity, with accretion rates ranging from 6.99% to 12.00%. The bonds mature in August 1, 2038. The Convertible Capital Appreciation Bonds was 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 Outstanding     |             | Accreted Interest   |                     | Bonds Outstanding June 30, 2012 |
|------------|---------------|---------------|----------------|-----------------------|-------------|---------------------|---------------------|---------------------------------|
|            |               |               |                | July 1, 2011          | Additions   | Additions           | Refunded            |                                 |
| 2004       | 2014          | 300-525%      | \$ 53,000,000  | \$ 6,945,000          | \$ -        | \$ -                | \$ 1,635,000        | \$ 5,340,000                    |
| 2005       | 2024          | 446%          | 47,117,244     | 44,601,005            | -           | -                   | 1,395,000           | 43,206,005                      |
| 2009       | 2033          | 300-669%      | 64,996,844     | 65,989,689            | -           | 392,644             | 1,345,000           | 65,087,333                      |
| 2010       | 2042          | 629-699%      | 60,040,980     | 62,592,439            | -           | 4,401,691           | -                   | 66,994,130                      |
|            |               |               |                | <u>\$ 180,128,133</u> | <u>\$ -</u> | <u>\$ 4,794,335</u> | <u>\$ 4,345,000</u> | <u>\$ 180,577,468</u>           |

**Rio Hondo Community College District**  
**Notes to Financial Statements**  
**Year ended June 30, 2012**

**NOTE 9      LONG-TERM LIABILITIES (CONTINUED)**

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

| <u>Fiscal Year</u> | <u>Principal</u>    | <u>Interest to<br/>Maturity</u> | <u>Total</u>        |
|--------------------|---------------------|---------------------------------|---------------------|
| 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>\$ 5,340,000</u> | <u>\$ 429,976</u>               | <u>\$ 5,769,976</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u>     | <u>Interest to<br/>Maturity</u> | <u>Total</u>         |
|--------------------|----------------------|---------------------------------|----------------------|
| 2013               | \$ 1,150,619         | \$ 2,308,844                    | \$ 3,459,463         |
| 2014               | 1,480,000            | 1,955,588                       | 3,435,588            |
| 2015               | 563,050              | 2,915,537                       | 3,478,587            |
| 2016               | 1,132,336            | 4,311,252                       | 5,443,588            |
| 2017               | 3,525,000            | 1,830,462                       | 5,355,462            |
| 2018-2022          | 20,465,000           | 6,252,812                       | 26,717,812           |
| 2023-2025          | 14,890,000           | 2,389,381                       | 17,279,381           |
|                    | <u>\$ 43,206,005</u> | <u>\$ 21,963,876</u>            | <u>\$ 65,169,881</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u>     | <u>Accreted<br/>Interest *</u> | <u>Interest to<br/>Maturity</u> | <u>Total</u>          |
|--------------------|----------------------|--------------------------------|---------------------------------|-----------------------|
| 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               | 1,630,000            | -                              | 2,750,362                       | 4,380,362             |
| 2018-2022          | 11,675,000           | -                              | 12,303,438                      | 23,978,438            |
| 2023-2027          | 19,055,000           | -                              | 8,573,819                       | 27,628,819            |
| 2028-2032          | 24,560,929           | 5,529,071                      | 2,518,525                       | 32,608,525            |
| 2033-2034          | 3,120,914            | 11,859,085                     | -                               | 14,979,999            |
|                    | <u>\$ 63,651,843</u> | <u>\$ 17,388,156</u>           | <u>\$ 37,501,619</u>            | <u>\$ 118,541,618</u> |

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

**NOTE 9      LONG-TERM LIABILITIES (CONTINUED)**

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

| Fiscal Year | Principal            | Accreted Interest *   | Interest to Maturity  | Total                 |
|-------------|----------------------|-----------------------|-----------------------|-----------------------|
| 2013        | -                    | -                     | -                     | -                     |
| 2014        | -                    | -                     | -                     | -                     |
| 2015        | -                    | -                     | -                     | -                     |
| 2016        | -                    | -                     | -                     | -                     |
| 2017        | -                    | -                     | -                     | -                     |
| 2018-2022   | -                    | -                     | -                     | -                     |
| 2023-2027   | 250,979              | 1,424,020             | 20,858,520            | 22,533,519            |
| 2028-2032   | 3,237,446            | 12,217,554            | 34,764,200            | 50,219,200            |
| 2033-2037   | 12,626,603           | 56,933,398            | 34,764,200            | 104,324,201           |
| 2038-2042   | 43,925,952           | 76,369,048            | 24,931,755            | 145,226,755           |
|             | <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, 2012 and 2011, the unamortized premiums and issuance costs were \$4,602,414 and \$4,885,115 respectively. Premiums and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

**NOTE 10      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 10      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 2011-12 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 2011-12 was 10.923%.

**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<br>June 30, | STRS                     |                          |                        | PERS                     |                          |                        |
|------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
|                        | Required<br>Contribution | Employer<br>Contribution | Percent<br>Contributed | Required<br>Contribution | Employer<br>Contribution | Percent<br>Contributed |
| 2012                   | \$ 2,533,196             | 8.25%                    | 100%                   | \$ 1,422,126             | 10.923%                  | 100%                   |
| 2011                   | \$ 2,581,729             | 8.25%                    | 100%                   | \$ 1,384,140             | 10.71%                   | 100%                   |
| 2010                   | 2,529,374                | 8.25%                    | 100%                   | 1,290,024                | 9.71%                    | 100%                   |

**NOTE 10      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, 2012 the balance in this plan amounted to \$93,572.

**NOTE 11      POST-EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT 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.

**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 District's the OPEB obligation:

**NOTE 11 POST-EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB) OBLIGATION (CONTINUED)**

|  |    |                          |
|--|----|--------------------------|
| Annual required contribution (ARC)     | \$ | 4,920,932                |
| Contributions made                     |    | -                        |
| Change in net OPEB obligation          |    | <u>4,920,932</u>         |
| Net OPEB obligation, beginning of year |    | <u>5,366,196</u>         |
| Net OPEB obligation, end of year       | \$ | <u><u>10,287,128</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<br>Cost | Actual<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation |
|-----------------|---------------------|------------------------|---------------------------|------------------------|
| 6/30/2010       | \$ 3,572,632        | \$ 2,700,000           | 76%                       | \$ 2,445,264           |
| 6/30/2011       | \$ 4,920,932        | \$ 2,000,000           | 41%                       | \$ 5,366,196           |
| 6/30/2012       | \$ 4,920,932        | -                      | 0%                        | \$ 10,287,128          |

**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 \$71,904,496, and the ratio of the UAAL to the covered payroll was 88%. 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 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 11 POST-EMPLOYMENT HEALTH-CARE BENEFITS (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, 2012, is 28 years. The actuarial value of the assets was not determined in this actuarial study.

**NOTE 12 RIO HONDO FOUNDATION**

The Condensed financial information of the Foundation is as follows:

|                        | Foundation<br>June 30, 2011<br>(Audited) |
|------------------------|--|
|                        |  |
| Total assets           | \$ 2,470,425                             |
| Total liabilities      | 362,716                                  |
| Net assets             | 2,107,709                                |
| <br>                   |  |
| Total revenues         | \$ 999,810                               |
| Total expenditures     | 639,043                                  |
| Increase in net assets | \$ 360,767                               |

**NOTE 13 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.

**Rio Hondo Community College District**  
**Notes to Financial Statements**  
**Year ended June 30, 2012**

**NOTE 13 JOINT POWERS AGREEMENT AND SELF-INSURANCE (CONTINUED)**

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.

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<br>Compensation<br>Insurance Fund | Retiree Health<br>Insurance<br>Fund |                     |
| Total assets           | \$ 21,400,922                             | \$ 29,440,226                       | \$ 256,717,310      |
| Total liabilities      | 662,785                                   | -                                   | 144,684,365         |
| Net assets             | <u>\$ 20,738,137</u>                      | <u>\$ 29,440,226</u>                | <u>112,032,945</u>  |
| <br>                   |   |                                     |                     |
| Total revenues         | \$ 7,489,133                              | \$ 1,606,086                        | \$ 184,317,132      |
| Total expenditures     | 7,194,072                                 | 1,500                               | 178,238,995         |
| Increase in net assets | <u>\$ 295,061</u>                         | <u>\$ 1,604,586</u>                 | <u>\$ 6,078,137</u> |

The above financial information has been audited by other external auditors whose reports were unqualified.

**NOTE 14 FUNCTIONAL EXPENSES**

Details of functional expenses for the year ended June 30, 2012 are as follows:

|   | Salaries and<br>Benefits | Supplies,<br>Materials and<br>Other Expenses<br>& Services | Financial<br>Aid     | Depreciation<br>Expense | Total                 |
|---|--------------------------|--|----------------------|-------------------------|-----------------------|
| Instructional activities                    | \$ 41,010,677            | \$ 1,833,877   | -                    | -                       | \$ 42,844,554         |
| Academic support                            | 7,553,654                | 1,942,546  | -                    | -                       | 9,496,200             |
| Student services                            | 10,260,250               | 831,208  | -                    | -                       | 11,091,458            |
| Operation and maintenance of plant          | 3,415,949                | 359,778  | -                    | -                       | 3,775,727             |
| Institutional support services              | 6,877,454                | 2,391,949  | -                    | -                       | 9,269,403             |
| Community services and economic development | 415,378                  | 243,691  | -                    | -                       | 659,069               |
| Ancillary services and auxiliary operations | 386,158                  | 607,211  | -                    | -                       | 993,369               |
| Childcare center                            | 613,797                  | 64,410   | -                    | -                       | 678,207               |
| Physical property and related acquisitions  | -                        | 99,360   | -                    | -                       | 99,360                |
| Student aid                                 | -                        | 9,524  | 21,930,919           | -                       | 21,940,443            |
| Depreciation expenses                       | -                        | -  | -                    | 4,080,786               | 4,080,786             |
| Total                                       | <u>\$ 70,533,317</u>     | <u>\$ 8,383,555</u>  | <u>\$ 21,930,919</u> | <u>\$ 4,080,786</u>     | <u>\$ 104,928,577</u> |

**NOTE 15      COMMITMENTS AND CONTINGENCIES**

**Lease Commitments**

Operating lease commitments are primarily for computer and printing equipment used by the various departments of the District. Total lease expense during the year amounted to \$145,052.

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

| Year  | Amount          |
|-------|-----------------|
| 2013  | \$      135,166 |
| 2014  | 124,192         |
| 2015  | 97,820          |
| 2016  | 10,573          |
| Total | \$      367,751 |

**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, 2012.

**NOTE 16      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 17      CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT**

After spending close to a year exploring and debating reforms to public pension systems in California, lawmakers in Sacramento passed Assembly Bill 340 (AB 340) on August 31, 2012. AB 340 known as the California Public Employees' Pension Reform Act of 2013 (PEPRA) which amends various provisions of the Public Employees' Retirement Law (PERL) and County Employee's Retirement Law of 1937 (CERL), was signed into law by the Governor on September 12, 2012. PEPRA

**NOTE 17      CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT (CONTINUED)**

will take effect on January 1, 2013. The District will be working with CalPERS to thoroughly analyze the complex legislation's impact on the District and its employees. Management asserts that PEPRA will not have a significant impact on the District's June 30, 2012 financial statements.

**NOTE 18      SUBSEQUENT EVENTS**

The District has evaluated events subsequent to June 30, 2012 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 6, 2012, 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, 2012**

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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, 2012, the Board of Trustees is composed of the following members:

Board of Trustees

| <u>Name</u>           | <u>Office</u>  | <u>Term Expires</u> |
|-----------------------|----------------|---------------------|
| Norma Edith Garcia    | President      | 12/2013             |
| Vicky Santana         | Vice President | 12/2015             |
| Madeline Shapiro      | Clerk          | 12/2013             |
| Angela Acosta-Salazar | Member         | 12/2013             |
| Gary Mendez           | Member         | 12/2015             |
| Lupe Pasillas         | Student Member | 12/2013             |

District Executive Officers

|                       |  |
|-----------------------|--|
| Teresa Dreyfuss       | Interim President and Vice President, Finance and Business |
| Dr. Ted Martinez, Jr. | President (Retired July 1, 2012)                           |
| Dr. Kenn Pierson      | Vice President, Academic Services                          |
| Henry Gee             | Vice President, Student and Community Services             |

**Rio Hondo Community College District  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2012**

| Federal Grantor<br>/ Pass - Through Grantor<br>/Program Name                        | Federal<br>Catalog<br>Number | Pass-Through<br>Entity<br>Identifying<br>Number | Total<br>Program<br>Expenditures |
|---|------------------------------|---|----------------------------------|
| <b>U.S. Department of Education</b>   |                              |   |                                  |
| <b>Student Financial Assistance Cluster</b>   |                              |   |                                  |
| Federal Pell Grant Program  | * 84.063                     | N/A   | \$ 18,707,586                    |
| Direct Loans  | * 84.268                     | N/A   | 1,237,706                        |
| Federal Work Study Program  | * 84.033                     | N/A   | 257,322                          |
| Federal Supplemental Educational Opportunity Grants                                 | * 84.007                     | N/A   | 254,111                          |
| <b>Total Student Financial Aid Cluster</b>  |                              |   | <u>20,456,725</u>                |
| <b>Higher Education Act</b>   |                              |   |                                  |
| Trio Cluster:   |                              |   |                                  |
| Upward Bound  | * 84.047                     | N/A   | 287,621                          |
| Student Support Services  | * 84.042                     | N/A   | 249,655                          |
| S 3 STEM  | * 84.042A                    | N/A   | 224,853                          |
| Total Trio Cluster  |                              |   | <u>762,129</u>                   |
| Instructional Development and Educational Assessment<br>for Student Success (IDEAS) | * 84.031S                    | N/A   | 694,943                          |
| Gaining Early Awareness and Readiness for Undergraduate<br>Programs (GEAR-UP)       | * 84.334A                    | N/A   | 247,960                          |
| <b>Total Higher Education Act</b>   |                              |   | <u>1,705,032</u>                 |
| <b>Career and Technical Education Act</b>   |                              |   |                                  |
| Pass through from California Community Colleges<br>Chancellor's Office              |                              |   |                                  |
| Perkins IV, Title 1, Part C   | * 84.048                     | 11-C01-044                                      | 708,814                          |
| Perkins Title I-B, Regional Consortia   | * 84.048                     | 11-342-005                                      | 384,895                          |
| Transitions   | * 84.048                     | 11-112-880                                      | 47,038                           |
| <b>Total Career and Technical Education Act</b>                                     |                              |   | <u>1,140,747</u>                 |
| <b>Total U.S. Department of Education</b>   |                              |   | <u><b>23,302,504</b></u>         |
| <b>Department of Health and Human Services</b>                                      |                              |   |                                  |
| Pass through from California Community Colleges<br>Chancellor's Office              |                              |   |                                  |
| Temporary Assistance for Needy Families(TANF)                                       | 93.558                       | N/A   | 70,184                           |
| Pass through from California Community Colleges<br>Chancellor's Office              |                              |   |                                  |
| Foster Kinship Care Education   | 93.658                       | N/A   | 202,968                          |
| <b>Total U.S. Department of Health and Human Services</b>                           |                              |   | <u>273,152</u>                   |
| <b>Department of Justice</b>  |                              |   |                                  |
| Bureau of Justice Assistance  |                              |   |                                  |
| Congressionally Recommended Awards  | 16.753                       | N/A   | 53,608                           |
| <b>Department of Labor</b>  |                              |   |                                  |
| Pass through Mt. San Antonio Community College                                      |                              |   |                                  |
| ARRA- Healthcare Sector and Other Emerging<br>Industries Grant                      | * 17.275                     | GJ 20034-10-60-A-6                              | 119,119                          |
| <b>Small Business Administration</b>  |                              |   |                                  |
| Giving Rio Hondo Environmental Education To Our<br>Neighbours                       |                              |   |                                  |
|   | 59.000                       | N/A   | 6,429                            |
| <b>Total Federal Programs</b>   |                              |   | <u><b>\$ 23,754,812</b></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, 2012**

| Program Name                                    | Program Revenues    |                     |                  |                     | Total Program Expenditures |
|---|---------------------|---------------------|------------------|---------------------|----------------------------|
|   | Cash Received       | Accounts Receivable | Deferred Revenue | Total               |                            |
| State Awards                                    |                     |                     |                  |                     |                            |
| Disabled Student Program and Services           | \$ 469,678          | \$ -                | \$ -             | \$ 469,678          | \$ 728,534                 |
| Extended Opportunity Program and Services /Care | 1,113,086           | -                   | -                | 1,113,086           | 1,121,688                  |
| Cal Grant                                       | 1,033,231           | -                   | -                | 1,033,231           | 1,164,738                  |
| Cal Works                                       | 217,754             | -                   | -                | 217,754             | 223,722                    |
| Child Development Center                        | 11,647              | -                   | -                | 11,647              | 11,647                     |
| Matriculation                                   | 771,275             | -                   | -                | 771,275             | 1,318,027                  |
| Apprenticeship                                  | 952,810             | -                   | -                | 952,810             | -                          |
| Part-time Faculty                               | 288,623             | -                   | -                | 288,623             | 409,000                    |
| Staff Development                               | 7,196               | -                   | -                | 7,196               | 7,196                      |
| Basic Skills                                    | 164,599             | -                   | -                | 164,599             | 414,896                    |
| BFAP  | 412,331             | -                   | -                | 412,331             | 412,331                    |
| Other Contributions and Grants                  | 905,257             | -                   | -                | 905,257             | 905,257                    |
| Total State Programs                            | \$ <u>6,347,487</u> | \$ <u>-</u>         | \$ <u>-</u>      | \$ <u>6,347,487</u> | \$ <u>6,717,036</u>        |

*See accompanying notes to the supplementary information.*

**Rio Hondo Community College District  
Schedule of Workload Measures for State General Apportionment  
Year ended June 30, 2012**

| <u>Categories</u>   | <u>Reported<br/>Data</u> | <u>Audit<br/>Adjustments</u> | <u>Audited<br/>Data</u> |
|---|--------------------------|------------------------------|-------------------------|
| A. Summer Intersession (Summer 2011 only)                     |                          |                              |                         |
| 1. Noncredit  | 96.78                    | -                            | 96.78                   |
| 2. Credit   | 508.25                   | -                            | 508.25                  |
| B. Summer Intersession (Summer 2012- Prior to July 1, 2012)   |                          |                              |                         |
| 1. Noncredit  | 2.89                     | -                            | 2.89                    |
| 2. Credit   | 1,147.63                 | -                            | 1,147.63                |
| C. Primary Terms (Exclusive of Summer Intersession)           |                          |                              |                         |
| 1. Census Procedure Courses                                   |                          |                              |                         |
| (a) Weekly Census Contact Hours                               | 8,759.33                 | -                            | 8,759.33                |
| (b) Daily Census Contact Hours                                | 596.96                   | -                            | 596.96                  |
| 2. Actual Hours of Attendance Procedure Courses               |                          |                              |                         |
| (a) Noncredit   | 527.10                   | -                            | 527.10                  |
| (b) Credit  | 874.32                   | -                            | 874.32                  |
| 3. Independent Study/Work Experience                          |                          |                              |                         |
| (a) Weekly Census Contact Hours                               | 861.62                   | -                            | 861.62                  |
| (b) Daily Census Contact Hours                                | 517.53                   | -                            | 517.53                  |
| (c) Noncredit Independent Study/Distance<br>Education Courses | -                        | -                            | -                       |
| D. Total FTES   | <u>13,892.41</u>         | <u>-</u>                     | <u>13,892.41</u>        |
| <b>Supplemental Information</b>                               |                          |                              |                         |
| E. In-Service Training Courses (FTES)                         | <u>340.33</u>            | <u>-</u>                     | <u>340.33</u>           |
| H. Basic Skills Courses and Immigrant Education               |                          |                              |                         |
| 1. Noncredit  | 127.82                   | -                            | 127.82                  |
| 2. Credit   | 983.83                   | -                            | 983.83                  |
|   | <u>1,111.65</u>          | <u>-</u>                     | <u>1,111.65</u>         |
| <u>OCFS 320 Addendum</u><br><u>ODCP Noncredit FTES</u>        | <u>68.20</u>             | <u>-</u>                     | <u>68.20</u>            |

*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, 2012**

| Fund   | General<br>Fund     | Debt<br>Service<br>Fund | Special<br>Revenue<br>Funds | Capital<br>Projects Fund | Internal<br>Service<br>Funds | Fiduciary<br>Funds |
|--|---------------------|-------------------------|-----------------------------|--------------------------|------------------------------|--------------------|
| June 30, 2012, Annual Financial and Budget Report<br>(Form CCFS-311) Fund Balances | \$ 5,445,260        | \$ 7,758,699            | \$ 4,653,699                | \$ 66,697,127            | \$ 7,510,973                 | \$ 431,372         |
| Adjustment and reclassification increasing<br>fund balance:                        | -                   | -                       | -                           | -                        | -                            | -                  |
| Net adjustment and reclassifications   | -                   | -                       | -                           | -                        | -                            | -                  |
| June 30, 2012 Audited Financial Statements<br>Fund Balance                         | <u>\$ 5,445,260</u> | <u>\$ 7,758,699</u>     | <u>\$ 4,653,699</u>         | <u>\$ 66,697,127</u>     | <u>\$ 7,510,973</u>          | <u>\$ 431,372</u>  |

*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, 2012 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, 2012, and have issued our report thereon dated December 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, 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.

*Varguez + Company LLP*

**Los Angeles, California**  
**December 6, 2012**

**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance 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 could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. 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, 2012.

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, 2012, and have issued our report thereon dated December 6, 2012. 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, Audits of State, Local Governments and Not-Profit Organizations*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements 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.

*Vargay + Company LLP*

**Los Angeles, California  
December 6, 2012**

## **Independent Accountants' Report on State Compliance Requirements**

### **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, 2012 in accordance with Section 400 of the Chancellor's Office California Community Colleges Contracted District Audit Manual (CDAM):

|             |   |
|-------------|---|
| Section 412 | Salaries of Classroom Instructors: 50% Law  |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts  |
| Section 424 | State General Apportionment Funding System  |
| Section 425 | Residency Determination for Credit Courses  |
| Section 426 | Students Actively Enrolled  |
| Section 427 | Concurrent Enrollment of K-12 Students in Community College Credit Course   |
| Section 431 | Gann Limit Calculation  |
| Section 433 | California Work Opportunity and Responsibility to Kids (CalWORKS) – Use of State and Federal Temporary Assistance for Needy Families (TANF) Funding |
| Section 435 | Open Enrollment   |
| Section 437 | Student Fees – Instructional and Other Materials  |
| Section 438 | Student Fees – Health Fees and Uses of Health Fee Funds   |
| Section 474 | Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)   |
| Section 475 | Disabled Students Programs and Services (DSPS)  |
| Section 476 | Curriculum and Instruction  |
| Section 479 | To Be Arranged Hours (TBA)  |

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, except for findings S12-01 through S12-03 described in the accompanying schedule of State awards and compliance findings, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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.

*Vargay + Company LLP*

**Los Angeles, California**  
**December 6, 2012**

**Rio Hondo Community College District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012**

**Section I – Summary of Auditors’ Results**

Financial Statements

|  |             |
|--|-------------|
| Type of auditors’ report on the financial statements:                                  | Unqualified |
| Internal control over financial reporting:   |             |
| • Material weakness identified:  | No          |
| • Significant deficiency 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 identified:   | No          |
| • Significant deficiency 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, 84.033, 84.063,<br>and 84.268 | Student Financial Assistance Cluster of Programs                               |
| 84.048                                | Career and Technical Education Act Cluster (Perkins)                           |
| 84.042, 84.042A and 84.047            | TRIO Cluster   |
| 84.331                                | Instructional Development and Education Assessment for Student Success (IDEAS) |
| 84.334A                               | Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)     |
| 17.275                                | ARRA- Healthcare Sector and Other Emerging Industries Grant                    |

|  |           |
|--|-----------|
| Dollar threshold used to distinguish between Type A and type B programs: | \$300,000 |
| Auditee qualified as a low-risk auditee:                                 | Yes       |

**Rio Hondo Community College District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012**

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**Section II – Financial Statement Findings**

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None.

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**Section III – Federal Award Finding**

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None.

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**Section IV – State Award and Compliance Finding**

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**S 12-01**

**Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)**

**Criteria**

The EOPS and CARE Programs Guidelines require the establishment of Advisory Committees. The Advisory Committees of each program are required to conduct annual meetings at least once for EOPS and twice for CARE during each academic year.

**Condition**

The District did not have a list of the advisory committee members for both EOPS and CARE and no meetings were held as required by the program guidelines.

**Questioned Costs**

None

**Effect**

The condition identified results in non-compliance with the program guidelines.

**Cause**

Controls have not been established to ascertain compliance with all EOPS and CARE program guidelines.

**Recommendation for Corrective Action**

The EOPS and CARE program officials need to establish Advisory Committees and ensure that annual meetings are held as required by the program guidelines.

**District Response**

The EOPS/CARE Program here at Rio Hondo College is currently in the process of re-establishing an Advisory Committee for the 2012-13 academic year. The District is aware of not being in compliance and not having advisory committee meetings this past year and is currently working with the Dean of Counseling & Student Development to ensure our compliance by establishing a new advisory committee for both EOPS and CARE (the combined committees will have at least two meetings before the academic year is out). Names of the advisory committee will be forwarded to the Vice President of Student Services for approval after which we will call our first meeting and record all meetings as require by the Program Guidelines.

**S 12-02**

**Disabled Student Programs and Services – Student Eligibility**

**Criteria**

A student with disability or a disabled student is a person enrolled at a community college who has a verified impairment which limits one or more major life activities as defined in 28 CFR 35.104, and which imposes an educational limitation as defined in Section 56004. For purposes of reporting to the Chancellor under Section 56030, students with disabilities shall be reported in the categories described in Sections 56032-44.

Documentation that students meet these criteria should be available in their files. These files should include but are not limited to the following: (i) a signed application for services and verification of enrollment at the community college; (ii) verification of disability and identification of educational limitation(s) due to disability; (iii) a Student Educational Contract; and (iv) documentation of services provided.

- Section 67312, 70901 1nd 84850 Education Code
  
- Section 67310-12 and 84850 Education Code

**Condition**

During our testing of DSPTS student files to determine compliance with eligibility requirements, we noted that some students did not have the verification of disability and educational limitation assessment on file.

**Questioned Costs**

Not applicable

**Effect**

The condition identified results in non-compliance with program requirements.

**Recommendation for Corrective Action**

We recommend that the District strengthen controls to ensure that it maintains adequate documentation to support compliance with the eligibility requirements of DSPTS program and the Title V Implementing guidelines.

**District Response**

File management systems in DSPTS will be reviewed and will include the modification of DSPTS student forms. This will streamline file management, student intake, and the process for requesting accommodations. These modifications will ensure that all students have the verification of disability and educational limitation assessment on file to determine program eligibility. Primary to this review would be the combining of the “DSPTS Support Services Chart” (application for services) with the “DSPTS Educational Accommodations” form. This would facilitate file completion and reduce the number of forms that students are required to be complete. DSPTS will also work closely with Information Technology staff to develop timelines and enhance reporting elements to ensure accurate report submissions. These changes will allow the District to strengthen controls to ensure that it maintains adequate documentation to support compliance with eligibility with DSPTS program requirements.

**S 12-03**

**To Be Arranged Hours (TBA)**

**Criteria**

- Second To Be Arranged (TBA) Hours Follow-Up Memorandum, June 10, 2009
- TBA Hours Follow-Up Memorandum, January 26, 2009
- TBA Hours Compliance Advice (Legal Advisory 08-02), October 1, 2008
- *Education Code* Sections 84040 and 88240
- CCR, Title 5, Sections referred to are 55002, 55002.5, 53415, 58000, 58003.1, 58006, 58020, 58030, 58050, 58051, 58056, 58102, 5804, 58108, 58168, 58170, 58172, 59020, and 59112
- Student Attendance Accounting Manual

Districts are required to list TBA Hours in the schedule of classes and describe them in the course outline.

Districts need to track TBA Hour student participation carefully and make sure that they do not claim apportionment for TBA Hours for students who have documented zero hours as of census point for a particular course.

**Condition**

During testing of compliance with regard to TBA Hours, we noted that some courses were not published in the official catalog and in the official schedule of classes, including the number of TBA hours.

**Questioned Costs**

Not applicable as the District is over capped on FTES for the current year.

**Effect**

The District is not in compliance with the provisions of Title 5 and Education code with regards to publication of courses to the public.

**Recommendation for Corrective Action**

The District should implement proper procedures to ensure that all classes are open to the general public and advertise them in the official catalog and schedule of classes including the number of hours.

**District Response**

The District will ensure that there are no courses scheduled that do not show up on the online schedule. We will run a report at the time the schedule goes live to ensure that all courses conducted are listed on the online schedule.

A follow up email citing Title 5 regulations will be sent out by the Vice President of Academic Affairs to confirm the procedures. In addition, a report will be run at the completion of the class schedule development to ensure that there are no unadvertised classes.

**Rio Hondo Community College District  
Status of Prior Year Findings and Questioned Costs  
Year ended June 30, 2012**

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None.

