



Financial and Performance Audits  
Building Fund (Measure M)  
June 30, 2020

# Los Rios Community College District

**FINANCIAL AUDIT**

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Financial Audit  
Building Fund (Measure M)  
June 30, 2020

# Los Rios Community College District



## Independent Auditor's Report

Governing Board and  
Citizens Oversight Committee  
Los Rios Community College District  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Los Rios Community College District's (the District), Building Fund (Measure M), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the District's Building Fund (Measure M) preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's Building Fund (Measure M) internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measure M) of the Los Rios Community College District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Building Fund (Measure M) specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Los Rios Community College District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2021, on our consideration of the District's Building Fund (Measure M) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Building Fund (Measure M) internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund (Measure M) internal control over financial reporting and compliance.



San Ramon, California  
February 4, 2021

Los Rios Community College District  
Building Fund (Measure M)  
Balance Sheet  
June 30, 2020

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Assets	
Cash and investments	\$ 94,399,088
Accounts receivable	273,817
Due from other funds	<u>132,541</u>
Total assets	<u><u>\$ 94,805,446</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 2,647,683
Due to other funds	<u>2,456</u>
Total liabilities	<u><u>2,650,139</u></u>
Fund Balances	
Restricted for capital projects	<u>92,155,307</u>
Total Liabilities and Fund Balances	<u><u>\$ 94,805,446</u></u>

Los Rios Community College District  
 Building Fund (Measure M)  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Year Ended June 30, 2020

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Revenues	
Interest income	\$ 1,813,722
Other local revenue	9,856
	<u>1,823,578</u>
Expenditures	
Current	
Materials	4,445
Capital outlay	34,217,057
	<u>34,221,502</u>
Excess of Expenditures over Revenues	(32,397,924)
Other Financing Uses	
Bond administrative costs	(13,412)
	<u>(13,412)</u>
Net Change in Fund Balances	(32,411,336)
Fund Balance - Beginning	<u>124,566,643</u>
Fund Balance - Ending	<u><u>\$ 92,155,307</u></u>

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Los Rios Community College District's (the District) Building Fund (Measure M) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Los Rios Community College District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California Community Colleges *Budget and Accounting Manual*.

**Financial Reporting Entity**

The financial statements include only the Building Fund of the Los Rios Community College District used to account for Measure M projects. This Fund was established to account for the expenditures of general obligation bonds issued under General Obligation Bonds Election of 2008. The authorized issuance amount of the bonds is \$475,000,000. Through June 30, 2020, bonds totaling \$335,000,000 have been issued.

These financial statements are not intended to present fairly the financial position and results of operations of the Los Rios Community College District in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Basis of Accounting**

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.



### **Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid, and all outstanding encumbrances lapse at June 30.

### **Fund Balance**

As of June 30, 2020, the fund balance is classified as follows:

**Restricted** – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **Note 2 - Cash, Cash Equivalents, and Investments**

### **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 instrument; 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 agreement; 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.

### **Investment 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 their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement 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 Authorizations**

The District’s investment policy follows State code to limit its credit, interest rate, and concentration of credit risks. *California government Code*, Section 53601 reduces credit risk by limiting investments in commercial paper to “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations, and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor’s or Aaa, Aa, or A by Moody’s indices. Section 53061 reduces interest rate risk by limiting investments to maturities of five years, unless the District Board has granted express authority to make that investment no less than three months prior to the investment. Section 53601 and 53635 reduces concentration credit risk by limiting the concentration of an investment in a single issuer to less than 5% of its total investment balance.

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2020, consist of the following:

	Amortized Cost	Fair Value
Sacramento County Treasury Investment Pool	\$ 75,301,088	\$ 76,249,882
Debt Security - United States Treasury Bill (USTB)	19,098,000	20,134,525
	\$ 94,399,088	\$ 96,384,407

**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 is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Sacramento County Treasury Investment Pool. At June 30, 2020, the USTB investments mature in 1-5 years.

**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. At June 30, 2020, the actual rating of the USTB is AAA. The Sacramento County Treasury Investment Pool is not required to be rated.

**Concentration**

The investment policy contains no limitation on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. The investment in USTB represents five percent or more of the total investments.

**Note 3 - Fair Value Measurements**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Investments in the Sacramento County Treasury Investment Pool are not required to be measured using the input levels above. Debt securities and other investments are classified as level 2 because they are valued using a matrix pricing model.

**Note 4 - Commitments and Contingencies**

As of June 30, 2020, the Building Fund (Measure M) had the following commitments with respect to unfinished projects:

<u>MEASURE M PROJECTS</u>	<u>Remaining Construction Commitment</u>
<b><i>American River College</i></b>	
Liberal Arts Building Modernization	\$ 328,064
Liberal Arts Modernization (STEM)	1,952,516
New Swing Space Portable - Liberal Arts (STEM)	65,710
Chiller	328,475
Stadium Lighting Upgrade	43,275
Natomas Transportation, Access, and Parking	63,955
Yard Relocation	174,953
Natomas Center Phase II	1,842,099
Technology Modernization	3,259,328
<b><i>Cosumnes River College</i></b>	
Auto Tech Center Modernization/Expansion	233,951
College Center Expansion	1,325,486
Library Space Repurpose	34,088
Elk Grove Center Phase II	1,092,246
<b><i>Folsom Lake College</i></b>	
Science 2.1	2,498,672
<b><i>Sacramento City College</i></b>	
Lillard Hall	2,139,955
Mohr Hall Modernization	268,239
Mohr Hall Infrastructure	1,091,654
Swing Space Portable - Mohr Hall	10,051
<b><i>Districtwide</i></b>	
Infrastructure Projects	43,850
Workforce and Economic Development Facility	153,022
Security Improvements Phase 1A and 1B	2,775,129
Bond Administration	27,375
	<u>\$ 19,752,093</u>

**Litigation**

The District is involved in various litigation 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 Building Fund (Measure M) at June 30, 2020.



Independent Auditor's Report  
June 30, 2020

# Los Rios Community College District



**Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Governing Board and  
Citizens Oversight Committee  
Los Rios Community College District  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Los Rios Community College District (the District) Building Fund (Measure M), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2021.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Building Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Los Rios Community College District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Los Rios Community College District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Los Rios Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Los Rios Community College District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's Building Fund (Measure M) financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be, material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Los Rios Community College District's Building Fund (Measure M) 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Building Fund (Measure M) internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund (Measure M) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

San Ramon, California  
February 4, 2021

None reported.



Los Rios Community College District  
Building Fund (Measure M)  
Summary of Schedule of Prior Audit Findings  
June 30, 2020

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There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



Performance Audit  
Building Fund (Measure M)  
June 30, 2020

# Los Rios Community College District



## Independent Auditor's Report on Performance

Governing Board and  
Citizens Oversight Committee  
Los Rios Community College District  
Sacramento, California

We were engaged to conduct a performance audit of the Los Rios Community College District (the District) Building Fund (Measure M) for the year ended June 30, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District expended Building Fund (Measure M) funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

This report is intended solely for the information and use of the District, and is not intended to be and should not be used by anyone other than this specified party.

A handwritten signature in black ink that reads "Eide Bailly LLP".

San Ramon, California  
February 4, 2021

### **Authority for Issuance**

The Measure M Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The District received authorization at an election held in November 2008, to issue bonds of the District in an aggregate principal amount not to exceed \$475,000,000, to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2008 Authorization).

### **Purpose of Issuance**

The purpose of the Bond is as follows:

“... to improve student academic performance by building classrooms, facilities and labs throughout the district including for teacher green technologies; nursing and health care programs; architecture, engineering and construction management; computer sciences; early childhood development; and fire and policy public safety programs at the American River, Cosumnes River, El Dorado, Folsom, and Sacramento City College campuses.”

### **Authority for the Audit**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to

55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The district must list the specific school facilities projects to be funded in the ballot measure and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the district to appoint a citizen's oversight committee.
4. Requires the district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

### **Objectives of the Audit**

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure M.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure M and not for District general administration or operations.

### **Scope of the Audit**

The scope of our performance audit covered the period of July 1, 2019 to June 30, 2020. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2020, were not reviewed or included within the scope of our audit or in this report.

### **Methodology**

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2020 for the Building Fund (Measure M). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure M as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2019 and ending June 30, 2020, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$22,651,340. This represents 66 percent of the total expenditures and other uses of \$34,234,914.
3. We verified that funds from the Measure M Building Fund were expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

### **Conclusion**

The results of our tests indicated that, in all significant respects, the Los Rios Community College District has properly accounted for the expenditures held in the Building Fund (Measure M) and that such expenditures were made for authorized Bond projects.

None reported.

Los Rios Community College District  
Building Fund (Measure M)  
Summary of Schedule of Prior Audit Findings  
June 30, 2020

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There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.