LOS RIOS COMMUNITY COLLEGE DISTRICT MEASURES A AND M BONDS

SACRAMENTO, CALIFORNIA

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORTS

YEAR ENDED JUNE 30, 2011

LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BONDS

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JUNE 30, 2011

Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Los Rios Community College District
Sacramento, California

We have audited the accompanying Financial Statements of the Measures A and M Bond Funds (the Measures) of Los Rios Community College District (the District) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in note 1, the financial statements present only the Measures and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2011, and the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measures as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

Our discussion and analysis of the Los Rios Measures A and M Bond Funds audit report provides an overview of the financial activities related to the Bond Funds for the fiscal year ended June 30, 2011. The financial statements referenced begin on page 6 of the audit report.

Accounting Standards

The format of these financial statements follows Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The California Community College Chancellor's Office recommends all state community college districts follow the Business Type Activity (BTA) model of the standard and these statements are prepared in accordance with that recommendation.

Using This Annual Report

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

Financial Highlights

Measure A

Since August 2002, four series of bonds have been issued totaling $217.5 million of the $265 million authorized by the voters in March 2002. Proceeds from Series A ($27.5 million issued in August 2002), Series B ($65 million issued in April 2004), and Series C ($70 million issued in July 2006) have been fully expended. Series D bonds ($55 million issued in August 2009) have been fully allocated to designated projects and approximately $37.5 million has been expended through June 30, 2011.

In October 2010, with interest rates at a forty year low, the District refinanced the entire outstanding balance of the Series A bonds. The outstanding Series A bonds totaling $22 million were called and refunded by issuing $21 million of 2010 Refunding Bonds. The true interest cost (TIC) of this refunding bond issue was 3.206% and will save the taxpayers approximately $1.7 million (net present value) over the 17 year term of this new issue.

Subsequent to year end, on October 20, 2011, the District partially refunded outstanding 2002 Series B General Obligations Bonds. Of the $53.2 million of outstanding Series B General Obligations Bonds, $41.1 million of the bonds were called and refunded by issuing $40.2 million of 2011 Refunding Bonds. The called bonds will be paid in full, including a 2% call premium and interest earned, on August 1, 2012. The true interest cost (TIC) of this refunding bond issue was 3.336% and will save the taxpayers approximately $1.3 million (net present value) over the 16 year term of this new issue.

Through June 30, 2011, expenditures have been made on a total of 50 projects ranging from early planning phases to completion. Cosumnes River College has 13 projects with expenditures to date totaling $33.9 million. American River College, Folsom Lake College and Sacramento City College each have 11 projects with amounts expended to date of $40.6 million, $62.4 million, and $55.7 million, respectively. Expenditures for the four projects for the District Office were $7.3 million. To date, the District has added more than one million square feet and modernized over 186,000 square feet of facilities from Measure A, State and local sources. This will allow the District to serve nearly 20,000 additional students.

Measure M

In October 2010, the District issued its first series of Measure M bonds, 2008 Series A, for $130 million. Through June 30, 2011, $8.5 million has been expended on various projects.

Through June 30, 2011, expenditures have been made on a total of 16 projects in the early planning and construction phases. American River College has six projects with expenditures to date totaling $2.3 million and Cosumnes River College has five projects totaling $2.3 million. Folsom Lake College has one project totaling $1.2 million; Sacramento City College has two projects totaling $2.7 million; and the District Office has two projects with expenditures totaling $20,500.

Other Financial Highlights

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

Measure A	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Measure A Actual Rate	$2.90	$1.50	$6.00	$3.20	$7.20	$6.60	$7.40	$12.40	$9.00

The District received insured ratings of AAA from Standard & Poor's and Aaa from Moody's on the first three issuances, resulting in lower bond interest costs. Prior to issuance of Measure A, Series D, the District received an upgrade of its Standard & Poor's uninsured rating from A+ to AA- which will result in an estimated savings of $4.5 million to local taxpayers over the term of the Series D bonds. In March 2010, the District also received an upgrade in its Moody's rating from Aa3 to Aa2.

The Statement of Net Assets reflects the assets and liabilities of the funds. Assets primarily consist of amounts expended to date for projects, net of depreciation, and funds available for future projects or debt service. Liabilities consist primarily of outstanding debt, related interest payable and amounts payable to vendors. Net assets are, by definition, the difference between assets and liabilities.

The Statement of Revenues, Expenses and Changes in Net Assets summarizes operating and financing activity, but excludes proceeds from the sale of bonds and construction, purchases and other project costs. The primary components of revenues are property taxes assessed for debt service and investment income; expenses include depreciation of assets completed and put into service, interest expense on outstanding bonds, and the amortization of bond issuance costs. Changes in net assets result from interest income earned on unexpended bond proceeds, property taxes collected for future debt service less accrued bond interest expense, non-cash adjustments for current year depreciation expense, and the amortization of bond premiums and bond issuance costs.

The Statement of Cash Flow reports the cash flow related to categories shown on the previous two statements discussed above. Categories include noncapital financing activities, capital and related financing activities and investing activities. The increase or decrease in cash balance depends on the timing of cash flow activities.

Total assets are $359.2 million. This is a $128.8 million increase from 2009-10 and is primarily a result of the issuance of Measure M, Series A bonds for $130 million.

Liabilities consist of $346.4 million and are predominantly related to the debt obligation from Measures A and M. The increase of $133.2 million from 2009-10 is due primarily to the issue of $130 million in additional general obligation bonds (Measure M, Series A) in October 2010.

For the year ended June 30, 2011 and 2010, net assets changed as follows:

	2011	2010
Beginning net assets	$ 17,234,499	$ 13,764,042
Increase (decrease) in net assets	(4,455,835)	3,470,457
Ending Net Assets	$ 12,778,664	$ 17,234,499

Economic Factors That May Affect the Future

The District continues to receive favorable construction bids. Due to the general economic downturn, projects typically receive multiple bids at competitive prices. This continuing benefit has enabled the District to deliver high quality educational facilities at a very cost effective price. Consistent with statewide declines in property values, the total assessed valuation of property within the District's jurisdiction declined by 3% in 2010-11. This will result in an increase in tax rates in future years; however, it is expected Measure A assessments will remain well within the projected tax rate outlined in the related Tax Rate Statement.

Due to the significant financial downturn, and in spite of literally billions of dollars needed for community college capital facilities projects, there has not been a State education bond measure since 2006. As a result, the only funding available for eligible projects is carryover funds from previous authorizations between 1996 and 2006. Los Rios has been authorized to receive funds for the construction phases of two of the thirteen projects approved statewide for funding.

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

Contacting Financial Management

This financial report is designed to provide an overview of the financial activity of Measures A and M bond funds and to demonstrate that the funds are being used as intended. If you have any questions about this report or need additional financial information, contact Los Rios Community College District, 1919 Spanos Court, Sacramento, CA 95825. You may also view Oversight Committee minutes and reports at www.losrios.edu/lrc/lrc_bondmeasures.php

FINANCIAL STATEMENTS

LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS

STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Current assets:	
Restricted cash and cash equivalents	$ 77,426,264
Interest receivable	611,492
Total current assets	78,037,756
Noncurrent assets:	
Restricted investments	94,300,258
Deferred charges	2,374,575
Capital assets, net	184,512,056
Total noncurrent assets	281,186,889
TOTAL ASSETS	$ 359,224,645
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 1,477,925
Interest payable	6,269,854
Long-term debt - current portion	13,600,522
Total current liabilities	21,348,301
Noncurrent liabilities:	
Long-term debt - net of current portion	325,097,680
Total liabilities	346,445,981
Net assets:	
Restricted for Measures A and M Bonds	12,778,664
TOTAL LIABILITIES AND NET ASSETS	$ 359,224,645

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

LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

OPERATING EXPENSES	
Depreciation	$ 5,523,396
OPERATING LOSS	(5,523,396)
NON-OPERATING REVENUES (EXPENSES)	
Interest income - noncapital	42,083
Investment loss - noncapital	(25,596)
Amortization of deferred charges	(100,324)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(83,837)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(5,607,233)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
Local property taxes and revenues, capital	12,456,160
Interest income - capital	1,037,641
Investment loss - capital	(412,362)
Interest expense on capital asset-related debt	(11,904,446)
Loss on disposal	(25,595)
TOTAL OTHER REVENUES, EXPENSES, GAINS OR LOSSES	1,151,398
DECREASE IN NET ASSETS	(4,455,835)
NET ASSETS - BEGINNING OF YEAR	17,234,499
NET ASSETS - END OF YEAR	$ 12,778,664

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

LOS RIOS COMMUNITY COLLEGE DISTRICT
MEASURES A AND M BOND FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest on noncapital investments	$ 68,308
Net cash used by noncapital financing activities	68,308
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of capital debt	141,213,628
Proceeds from refunding bonds	23,225,947
Debt issuance costs	(1,137,194)
Local property taxes and other receipts for capital purposes	12,456,160
Interest on capital investments	529,423
Purchases of capital assets	(24,909,145)
Principal paid on capital debt	(5,930,000)
Principal payment on refunded bond	(22,000,000)
Call premium on refunded bonds	(440,000)
Interest paid on capital debt	(11,264,370)
Net cash provided by capital and related financing activities	111,744,449
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	242,947,056
Purchase of investments	(305,918,397)
Net cash used for investing activities	(62,971,341)
NET INCREASE IN CASH AND EQUIVALENTS	48,841,416
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	28,584,848
CASH AND EQUIVALENTS -- END OF YEAR	$ 77,426,264
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	$ (5,523,396)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation expense	5,523,396
Net cash provided by operating activities	$ -

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity - Los Rios Community College District (the District) provides higher education in the greater Sacramento area, which consists of portions of five counties. The District consists of four colleges, three centers, and several satellite locations located throughout the service area (the Primary Institution). These financial statements present only the Measures A and M General Obligation Bond Funds (the Measures), which consists of building funds and the bond debt service funds. These financial statements do not include financial data for the remainder of the District's funds and component unit, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

The Measure A bond authorization is a facilities and equipment bond measure adopted by the District's Board of Trustees and passed by voters in March 2002. This measure authorizes up to $265,000,000 in bond issues. Through June 30, 2011, bonds totaling $217,500,000 have been issued as follows:

- In August 2002, $27,500,000 in Series A Bonds were issued. Subsequently, in October 2010, all the outstanding Series A Bonds totaling $22,000,000 were called and refunded with the issuance of $21,025,000 of 2010 Refunding Bonds. The 2010 Refunding Bonds consist of serial bonds financed over one (1) to seventeen (17) years with interest payments due each February and August beginning February 1, 2011. Maturing principal is paid each August in conjunction with interest payments beginning August 1, 2011.

- In April 2004, $65,000,000 in Series B Bonds were issued. These bonds consisted of a total of $56,860,000 in serial bonds financed over one (1) to twenty-five (25) years with interest payments each February and both interest and principal payments each August. In addition, $8,140,000 of term bonds were issued with interest payable semiannually and principal due and payable on August 1, 2027.

- In July 2006, $70,000,000 in Series C Bonds were issued. These bonds consisted of a total of $52,680,000 in serial bonds financed over one (1) to twenty (20) years with interest payments each February and both interest and principal payments each August. In addition, $17,320,000 of term bonds were issued with interest payable semiannually and principal due and payable on August 1, 2030.

- In August 2009, $55,000,000 in Series D Bonds were issued. These bonds consisted of a total of $38,005,000 in serial bonds financed over one (1) to twenty (20) years with interest payments each February and both interest and principal payments each August. In addition, $16,995,000 of term bonds were issued with interest payable semiannually and principal due and payable on August 1, 2034.

The Measure M bond authorization is a facilities and equipment bond measure adopted by the District's Board of Trustees and passed by voters in November 2008. This measure authorizes up to $475,000,000 in bond issues. Through June 30, 2011, $130,000,000 in bonds have been issued as follows:

- In October 2010, $130,000,000 in 2008 Series A Bonds were issued. These bonds consisted of a total of $72,935,000 in serial bonds financed over one (1) to twenty (20) years with interest payments each February and both interest and principal payments each August. In addition, $57,065,000 of term bonds were issued with interest payable semiannually and principal of $19,725,000 and $37,340,000 due and payable on August 1, 2032 and 2035, respectively.

The Sacramento County Board of Supervisors is empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and interest on the bonds. The District has established separate capital project funds and separate debt service funds to account for the activities of the Measures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and, where applicable, Financial Accounting Standards Board (FASB) statements issued through 1989.

The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community Colleges, which is consistent with generally accepted accounting principles.

Restricted Cash and Cash Equivalents - The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Sacramento County Treasury (County) as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, State registered warrants, notes, bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The County does not invest in derivatives. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The value of the District's position in the pool is the fair value of the pool shares. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2011, the fair value of the County pool is 100.28% of the carrying value. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

Cash and investments are externally restricted for contractual obligations, such as debt service payments, sinking or reserve funds, or to purchase or construct capital assets.

Restricted Investments - Investments are reported at fair value. Fair value is determined from quoted market prices. The District is restricted by State law and the Board's investment policy in the types of investments that can be made. Permissible investments include the County treasury, the State Local Agency Investment Fund (LAIF), federally insured deposits, and individual securities. The District's investment policy further limits its investments to U.S. government and government agency instruments, negotiable certificates of deposits, and corporate notes and bonds. The weighted average maturity of all investments shall be three years or less. The District's investment policy established safety of principal as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity.

Deferred Charges - Bond issuance costs are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method.

Capital Assets - Capital assets are recorded at cost on the date of acquisition or fair market value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of $200 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Depreciation is computed on a straight-line basis using the half-year convention over the estimated useful life of the assets; generally 50 years for buildings, 10 years for land improvements, 8 years for equipment, 5 years for library books, and 3 years for technology equipment.

Bond Premium - Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are recorded as long-term liabilities.

Budgets and Budgetary Accounting - By State law, the District's Board of Trustees must approve a tentative budget no later than July 1 and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption. The District's Board of Trustees satisfied these requirements.

The budget is revised during the year to incorporate categorical funds which are awarded during the year and for miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's Board of Trustees.

Estimates Used in Financial Reporting - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual results could differ from those estimates. The Measures' largest source of revenue is property taxes, which are subject to some estimation at the date of the financial statements.

Net Assets - The District's net assets are classified as follows:

> *Restricted for Measures A and M Bonds* includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Insurance Coverage - The District is self-insured for liability and property damage on the first $250,000 and $100,000 of each claim, respectively. The District is also self-insured for workers' compensation claims on the first $500,000 of each claim. Estimated losses and changes in prior-year reserve balances are expensed in the current period.

Coverage in excess of self-insurance limits for workers' compensation is purchased through an insurance broker. Coverage in excess of self-insurance limits for property damage and liability up to $500,000,000 and $50,000,000, respectively, are provided by pooled insurance as members of a joint powers authority of California community colleges and school districts.

Property Tax - Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Unsecured property taxes are payable in three installments on or before February 10, June 10, and August 10. The counties of El Dorado, Placer, Sacramento, Solano, and Yolo bill and collect the taxes for the District.

3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of restricted cash, cash equivalents and investments at June 30, 2011:

	Fair Value
POOLED INVESTMENTS	
County treasurer's investment pool	$ 77,426,264
U.S. GOVERNMENT AGENCY SECURITIES	
Federal Home Loan Mortgage Corporation	73,583,031
Federal Home Loan Bank	12,070,227
Federal National Mortgage Association	8,647,000
Total U.S Government Agency Securities	94,300,258
Total restricted cash, cash equivalents and investments	$ 171,726,522

Credit Risk - Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated. The District's investments in the U.S. government agency securities have an insured rating of AAA by Standard & Poor's.

Concentration of Credit Risk - Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of the Measures' investment in a single issuer. The Measures hold 42.85%, 7.03% and 5.04% of their cash, cash equivalents and investments in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and Federal National Mortgage Association, respectively.

Interest Rate Risk - Investments

The schedule of maturities at June 30, 2011, is as follows:

	Fair Value	Maturity (in Years) Less than 1
County treasurer's investment pool	$ 77,426,264	$ 77,426,264
Federal Home Loan Mortgage Corporation	73,583,031	73,583,031
Federal Home Loan Bank	12,070,227	12,070,227
Federal National Mortgage Association	8,647,000	8,647,000
Totals	$ 171,726,522	$ 171,726,522

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

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deductions/ Transfers	Balance June 30, 2011
Depreciable Assets				
Buildings and improvements	$ 104,956,832	$ 39,037,194	$ -	$ 143,994,026
Site improvements	17,934,215	894,891	-	18,829,106
Equipment	10,406,675	1,579,659	(3,790)	11,982,544
Nondepreciable Assets				
Construction in progress	49,279,775	17,872,041	(34,401,643)	32,750,173
Land	3,312,171	-	(3,116,997)	195,174
Total	185,889,668	59,383,785	(37,522,430)	207,751,023
Less: Accumulated depreciation	(17,718,322)	(5,523,396)	2,751	(23,238,967)
Total Capital Assets - Net	$ 168,171,346	$ 53,860,389	$ (37,519,679)	$ 184,512,056

5. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Additions	Payments and Reductions	Balance June 30, 2011	Current Portion
General obligation bonds	$ 199,815,000	$ 151,025,000	$ (27,930,000)	$ 322,910,000	$ 12,015,000
Bond issuance premiums	4,665,438	13,414,575	(1,253,666)	16,826,347	1,695,013
Deferred amount on refunding	-	(1,124,242)	86,097	(1,038,145)	(109,491)
Total	$ 204,480,438	$ 163,315,333	$ (29,097,569)	$ 338,698,202	$ 13,600,522

The outstanding general obligation bonded debt as of June 30, 2011, is as follows:

	Original Issue	Outstanding Balance
2002 Series B general obligation bond, due in annual installments of $650,000 to $4,345,000 beginning February 1, 2005, through August 1, 2028 at interest from 2.00% to 5.00%	$ 65,000,000	$ 55,305,000
2002 Series C general obligation bond, due in annual installments of $1,680,000 to $4,620,000 beginning February 1, 2007, through August 1, 2030, at interest from 4.25% to 5.25%	70,000,000	62,815,000
2002 Series D general obligation bond, due in annual installments of $1,235,000 to $3,765,000 beginning February 1, 2010, through August 1, 2034, at interest from 2.00% to 5.375%	55,000,000	53,765,000
2008 Series A general obligation bond, due in annual installments of $320,000 to $13,590,000 beginning February 1, 2011, through August 1, 2035, at interest from 2.00% to 5.00%	130,000,000	130,000,000
2010 general obligation refunding bond, due in annual installments of $905,000 to $1,730,000 beginning February 1, 2011, through August 1, 2027, at interest from 2.00% to 5.00%	21,025,000	21,025,000
Total	$ 341,025,000	$ 322,910,000

The outstanding general obligation bonded debt mature as follows:

Years Ending June 30,	Principal	Interest	Total
2012	$ 12,015,000	$ 14,888,225	$ 26,903,225
2013	10,305,000	14,554,613	24,859,613
2014	7,070,000	14,247,669	21,317,669
2015	7,480,000	13,982,931	21,462,931
2016	8,010,000	13,694,625	21,704,625
2017-2021	50,145,000	62,366,975	112,511,975
2022-2026	71,270,000	48,455,188	119,725,188
2027-2031	85,610,000	28,163,969	113,773,969
2032-2036	71,005,000	9,154,375	80,159,375
Total	$ 322,910,000	$ 219,508,570	$ 542,418,570

On October 7, 2010, the District issued 2010 general obligation refunding bonds in the amount of $21,025,000 to advance refund the 2002 Series A general obligation bonds. The District completed the refunding to reduce debt service payments by $2,224,425 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $1,756,644 in aggregate. The 2002 Series A general obligation bond is considered to be legally defeased and the liability for that bond is removed from the statement of net assets. All liability of the District with respect to the 2002 Series A general obligation bond has ceased and has been discharged.

6. JOINT POWERS AGREEMENTS

The District is a participant in the Schools Excess Liability Fund (SELF). SELF is a joint powers authority (JPA) created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of a self-funded excess liability fund for public educational agencies, which are parties thereto. Should excess liability claims exceed amounts funded to SELF by all participants, the District may be required to provide additional funding.

The District is a participant in the Alliance of Schools for Cooperative Insurance Program (ASCIP). ASCIP is a JPA established for the purpose of providing the services, facilities, and items necessary and appropriate for the establishment, operation, and maintenance of a self-insurance system for property, liability, and workers' compensation claims and losses against public educational agencies who are members thereof. The District only participates in the JPA property and liability programs. Should property claims exceed amounts funded to ASCIP by all participants, the District may be required to provide additional funding. Should liability claims exceed established ASCIP limits, the District has excess coverage with SELF. ASCIP also provides for additional insurance and risk management programs and services, as well as a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding self insurance for losses and other insurance and risk management programs and services.

The SELF and ASCIP are independently accountable for their fiscal matters and are not components of the District for financial reporting purposes. Condensed financial information is as follows:

	June 30, 2010	
	SELF	**ASCIP**
Total Assets	$ 196,974,000	$ 242,839,611
Total Liabilities	160,464,000	136,884,803
Net Assets	$ 36,510,000	$ 105,954,808
Total Revenues	$ 19,384,000	$ 177,534,227
Total Expenses	30,536,000	162,916,342
Net Increase (Decrease) in Net Assets	$ (11,152,000)	$ 14,617,885

7. CONSTRUCTION COMMITMENTS

As of June 30, 2011, the District had outstanding construction commitments totaling $67,268,175.

8. SUBSEQUENT EVENT

In October 2011, the District issued 2011 General Obligation Refunding Bonds, which partially advance refunded the Election 2002 Series B General Obligation Bonds. The 2011 Refunding Bonds were issued for $40,195,000 par value to refund $41,095,000 of the $53,220,000 Election 2002 Series B General Obligation Bond outstanding on October 20, 2011. This refunding will save the taxpayers an estimated $1,345,000 (net present value) over the remaining life of these refunding bonds.

OTHER REPORT

Gilbert Associates, Inc.
CPAs and Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Los Rios Community College District
Sacramento, California

We have audited the financial statements of the Measures A and M Bond Funds (the Measures) of Los Rios Community College District (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 of the Measures, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Measures' financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measures' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 14, 2011