

**Antelope Valley Community
College District**

Proposition 39 General Obligation Bonds
General Obligation Bonds Election 2004 Series A
and 2006 General Obligation Refunding Bonds

AUDIT REPORT
June 30, 2011

Antelope Valley Community College District

Proposition 39 General Obligation Bonds

General Obligation Bonds Election 2004 Series A and 2006 General Obligation Refunding Bonds

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Antelope Valley Community College District
Lancaster, California

We have audited the accompanying balance sheet of the Proposition 39/Prop AA General Obligation Bonds of the Antelope Valley Community College District as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2011. 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 and performance 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 opinions.

As discussed in Note 1, the financial statements present only the Proposition 39/Prop AA General Obligation Bond Building Fund and is not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition 39/Prop AA General Obligation Bond Building Fund of Antelope Valley Community College District, as of June 30, 2011, and the results of its operations for the period 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 December 21, 2011 on our consideration of the Proposition 39/Prop AA General Obligation Bond Building Fund of the Antelope Valley Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 21, 2011

Financial Section

Antelope Valley Community College District

Proposition 39 General Obligation Bonds

General Obligation Bonds Election 2004 Series A and 2006 General Obligation Refunding Bonds

BALANCE SHEET

June 30, 2011

	<u>Building Fund</u>
ASSETS	
Cash and cash equivalents	\$ 22,680,586
Accounts Receivable	<u>84,380</u>
Total Assets	<u><u>\$ 22,764,966</u></u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	<u>\$ 3,272,166</u>
Total Liabilities	3,272,166
 Fund Balances:	
Undesignated	<u>19,492,800</u>
Total Liabilities and Fund Balances	<u><u>\$ 22,764,966</u></u>

The notes to the financial statements are an integral part of this statement.

Antelope Valley Community College District

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2011

	Building Fund
REVENUES	
Other local sources	\$ 483,684
Total Revenues	<u>483,684</u>
EXPENDITURES	
Current	
Salaries	94,914
Benefits	16,230
Supplies	728,077
Contracted Services/other operating expenditures	328,096
Capital outlay	24,308,843
Total Expenditures	<u>25,476,160</u>
Excess (Deficiency) of Revenues Over Expenditures	(24,992,476)
OTHER FINANCING SOURCES (USES)	<u>-</u>
NET CHANGE IN FUND BALANCE	(24,992,476)
Fund Balance - Beginning	<u>44,485,276</u>
Fund Balance - Ending	<u><u>\$ 19,492,800</u></u>

The notes to the financial statements are an integral part of this statement.

Antelope Valley Community College District

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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In April 2005, Antelope Valley Community College District' authorized up to \$30,000,000 in General Obligation Bonds (Series A) for the purpose of upgrading expanding and constructing new school facilities . In response, an advisory committee to the Antelope Valley Community College District Governing Board and Superintendent, the Citizens Bond Oversight Committee, was established. The Committee's oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, verifying that project plans are in alignment with the budget, and ensuring compliance with the conditions of Proposition AA.

In August, 2006 the Antelope Valley Community College District issued the additional general obligation bonds, for \$24,336,792. The bond proceeds and uses are accounted for in the District's Bond Building Fund. The statements presented are for the individual Prop AA General Obligation Bond Building Fund and are not intended to be a complete presentation of the District's financial position or the results of operations. For the year ending June 30, 2011, the project expenditures amounted to \$25,041,490 .

Pursuant to the requirements of Proposition 39 and related State legislation, the Board of Trustees of the District has appropriately established a Citizens' Bond Oversight Committee and appointed its members. The principal purpose of the Citizens' Bond Oversight Committee, as set out in State law, is to inform the public as to the expenditures of the proceeds of the bonds issued pursuant to the Election of 2004 bond authorization. The Citizens' Bond Oversight Committee is required to issue at least one report annually as to its activities and findings.

The statements presented are for the 2004 and 2006 General Obligation Bonds and are not intended to be a complete presentation of the District's financial position or the results of operations.

Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

Fund Structure

The Statement of Revenues, Expenditures, and Change in Fund Balance is a statement of financial activities of the Bond Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the year as would a statement of income for a profit-type organization.

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June 30, 2011

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Proposition AA General Obligation Bond Building Fund are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Encumbrances

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

Policy 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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – Antelope Valley Community College District is considered to be an involuntary participant in an external investment pool as the Antelope Valley Community College District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the Antelope Valley Community College District's investment in the pool is reported in the accounting financial statements at amounts based upon the Antelope Valley Community College 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.

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General Authorizations

The authority to invest Antelope Valley Community College District's funds deposited with the County Treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its web site. The table below identifies some of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in 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	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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. The investment with the Los Angeles County Investment Pool is unrated.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 3 – GENERAL OBLIGATION BONDS

A summary of the outstanding bonded debt of the Antelope Valley Community College District, as of June 30, 2011, is shown below:

	Balance July 01, 2010	Additions	Accretion	Deductions	Due in One Year	Long-term Balance
Governmental Activities						
General obligation bonds (GO) Bonds:						
Series 2006						
Current interest	\$ 17,535,000	\$ -	\$ -	\$ -	\$ -	\$ 17,535,000
Capital appreciation	6,755,127	-	703,305	1,165,000	682,246	5,611,186
Series 2004						
Current interest	83,750,000	-	-	415,000	575,000	82,760,000
Capital appreciation	31,063,146	-	1,765,999	-	-	32,829,145
Issuance costs and premiums, net	658,641	-	-	24,394	-	634,247
	<u>\$ 139,761,914</u>	<u>\$ -</u>	<u>\$ 2,469,304</u>	<u>\$ 1,604,394</u>	<u>\$ 1,257,246</u>	<u>\$ 139,369,578</u>

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

Series 2004:

Year	Series 2004		
	Principal	Interest	Total
2012	\$ 575,000	\$ 4,223,166	\$ 4,798,166
2013	755,000	4,197,391	4,952,391
2014	940,000	4,163,953	5,103,953
2015	1,140,000	4,122,363	5,262,363
2016	1,360,000	4,071,706	5,431,706
2017-2021	6,200,000	19,507,831	25,707,831
2022-2026	24,005,000	16,402,369	40,407,369
2027-2031	19,497,736	36,313,702	55,811,438
2032-2036	12,788,812	51,791,251	64,580,063
2037-2042	42,679,985	14,970,546	57,650,531
2043	-	-	-
Accreted Interest	6,222,612	(6,222,612)	0
Total	<u>\$ 116,164,145</u>	<u>\$ 153,541,666</u>	<u>\$ 269,705,811</u>

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Series 2006:

Year	Series 2006		
	Principal	Interest	Total
2011	\$ 682,246	\$ 1,404,504	\$ 2,086,750
2012	629,772	1,501,978	2,131,750
2013	580,593	1,596,157	2,176,750
2014	536,598	1,690,152	2,226,750
2015	493,495	1,778,255	2,271,750
2016 - 2020	11,159,590	4,617,910	15,777,500
2021 - 2025	7,035,000	198,208	7,233,208
Accreted Interest	2,711,138	(2,711,138)	-
Total	<u>\$ 23,828,432</u>	<u>\$ 10,076,026</u>	<u>\$ 33,904,458</u>

Other Independent Auditors' Reports

**INDEPENDENT AUDITORS' 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***

The Board of Trustees
Antelope Valley Community College District
Lancaster, California

We have audited the accompanying balance sheet of the Proposition AA General Obligation Bond Building Fund of Antelope Valley Community College District as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Antelope Valley Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Antelope Valley Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Antelope Valley Community College District's internal control over financial reporting.

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

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

The Board of Trustees
Antelope Valley Community College District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition AA General Obligation Bond Building Fund of Antelope Valley Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Proposition AA General Obligation Bond Oversight Committee, the District Governing Board, Management, and the taxpayers of Antelope Valley Community College District and is not intended to be and should not be used by anyone other than the specified parties.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 21, 2011

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Trustees
Antelope Valley Community College District
Lancaster, California

We have audited the basic financial statements of the Proposition AA General Obligation Bond Building Fund of Antelope Valley Community College District as of and for the year ended June 30, 2011 and have issued our report thereon dated December 21, 2011. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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 findings and conclusions based on our audit objectives.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition AA General Obligation Bond Fund for the fiscal year ended June 30, 2011. The objective of the examination of compliance applicable to the Antelope Valley Community College District is to determine with reasonable assurance that the proceeds from the sale of the bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, including teacher and administrator salaries and other operating expenses.

Our audit of compliance made for the purposes set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the Antelope Valley Community College District complied with the compliance requirements for the Proposition AA General Obligation Bond Fund proceeds listed and tested above.

This report is intended for the information of the Board of Trustees, management and the Proposition AA General Obligation Bond Oversight Committee; however, this report is a matter of public record.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 21, 2011