

**INYO-KERN SCHOOLS FINANCING AUTHORITY**

**Regular Meeting of the Board of Directors**

**MARCH 14, 2013**

**Ridgecrest City Council Chambers**

**100 W. California Ave.**

**Ridgecrest, CA 93555**

**A G E N D A**

CALL TO ORDER AND PLEDGE TO THE FLAG

7:00 P.M.

Amy Covert  
Judy Dietrichson  
Bill Farris, Chairman  
Tom Pearl  
Kurt Rockwell, Vice Chairman  
Michael Scott  
Marjianne Yonge, Lone Pine Representative

Joanna Rummer, Secretary of the Board

1. ADOPTION OF AGENDA
2. Approval of Minutes of the Regular Meeting of February 21, 2013.
3. Acceptance of the 2011-12 Inyo-Kern Schools Financing Authority Audit
4. ADJOURNMENT

**INYO-KERN SCHOOLS FINANCING AUTHORITY**

**Meeting of the Board of Directors**

DATE OF MEETING: February 21, 2013  
TIME OF MEETING: 7:00 p.m.  
PLACE OF MEETING: Ridgecrest City Council Chambers  
MEMBERS PRESENT: Dietrichson, Farris, Pearl, Rockwell, Scott  
MEMBERS ABSENT: Covert, Yonge  
STAFF PRESENT: Joanna Rummer, Superintendent

1. ADOPTION OF AGENDA

The agenda was adopted by consensus as posted.

2. APPROVAL OF MINUTES of the regular meeting of January 17, 2013.

Minutes were approved as presented.

3. ADJOURNMENT was at 9:00 p.m.

Board of Directors

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Joanna Rummer, Superintendent/Secretary of the Board of Directors

recorder: Alison Burson

3. BUSINESS ADMINISTRATION

3. Acceptance of 2011-12 Audit Report for the Inyo-Kern Schools Financing Authority

BACKGROUND INFORMATION: In accordance with Education Codes 35145 and 41020, the district is required to conduct an annual audit and report the findings of the Inyo-Kern Schools Financing Authority audit to the board.

CURRENT CONSIDERATIONS: The 2011-12 audit reports have been prepared by the auditing firm of Burkey Cox Evans Bradford & Alden Accountancy Corporation and have been provided for review. During the February 21, 2013 regular meeting of the Board of Education, the board voted to accept the audit for both the Sierra Sand Unified School District audit as well as the Inyo-Kern Schools Financing Authority audit. Currently the audit is being presented to the Board of Directors of the Inyo-Kern Schools Financing Authority for acceptance.

FINANCIAL IMPLICATIONS: None

SUPERINTENDENT'S RECOMMENDATION: It is recommended that the 2011-12 audit report for the Inyo-Kern Schools Financing Authority be accepted as presented.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**

**COUNTY OF KERN  
RIDGECREST, CALIFORNIA**

**AUDIT REPORT  
JUNE 30, 2012**

**BURKEY COX EVANS & BRADFORD  
Accountancy Corporation  
1058 West Avenue M-14, Suite B  
Palmdale, CA 93551**

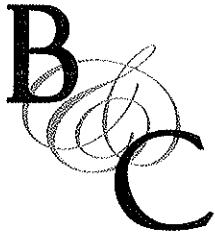
## **INTRODUCTORY SECTION**

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
JUNE 30, 2012

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## FINANCIAL INFORMATION



**BURKEY COX  
EVANS & BRADFORD**  
ACCOUNTANCY CORPORATION

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GARY W. COX, CPA (retired)

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HAROLD W. MANNING, CPA  
JAMES MANNIE, CPA  
JANETTE HENRIQUEZ, CPA  
JENNIFER VICKERY, CPA  
MARTHA J. WILLEY, CPA

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Trustees  
Inyo-Kern Schools Financing Authority  
Ridgecrest, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Inyo-Kern Schools Financing Authority, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Inyo-Kern Schools Financing Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Inyo-Kern Schools Financing Authority as of June 30, 2012, and the respective changes in financial position 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 1, 2012, on our consideration of Inyo-Kern Schools Financing Authority's 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 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.

As discussed in Note 13, the Inyo-Kern Schools Financing Authority has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States of America have determined necessary to supplement, although and required to be a part of the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the basic financial statements which collectively comprise the Inyo-Kern Schools Financing Authority's basic financial statements. The accompanying supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Inyo-Kern Schools Financing Authority. This information has been subjected



Inyo-Kern Schools Financing Authority  
Page 2

to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burkey & Cox, CPAs*  
BURKEY COX EVANS & BRADFORD  
Accountancy Corporation

Palmdale, California  
November 1, 2012

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| Cash and Investments                                       | \$ 8,267,148                       |
| Accounts Receivable (net of allowances for uncollectibles) | <u>656</u>                         |
| Total Assets   | <u>8,267,804</u>                   |
| <b>LIABILITIES</b>   |                                    |
| Due to Member District                                     | 888,666                            |
| Noncurrent Liabilities - Assessment Bonds:                 |                                    |
| Due in one year  | 130,000                            |
| Due in more than one year                                  | <u>3,810,000</u>                   |
| Total Liabilities  | <u>4,828,666</u>                   |
| <b>NET ASSETS</b>  |                                    |
| Restricted for:  |                                    |
| Debt Service   | 297,136                            |
| Unrestricted   | <u>3,142,002</u>                   |
| Total Net Assets   | <u>\$ 3,439,138</u>                |

The accompanying Notes to Financial Statements are an integral part of these Statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

| <u>Functions</u>                 | <u>Expenses</u>     | <u>Program<br/>Revenues<br/>Charges for<br/>Services</u> | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</u> |
|----------------------------------|---------------------|--|--|
| Governmental Activities:         |                     |  |  |
| General Government               | \$ 1,428,380        | \$ 1,553,632   | \$ 125,252   |
| Interest on Long Term Debt       | <u>167,983</u>      | <u>0</u>   | <u>(167,983)</u>   |
| Total Governmental Activities    | <u>1,596,363</u>    | <u>1,553,632</u>   | <u>(42,731)</u>  |
| Total Primary Government         | <u>\$ 1,596,363</u> | <u>\$ 1,553,632</u>                                      | <u>(42,731)</u>  |
|                                  |                     |  |  |
| General Revenues:                |                     |  |  |
| Unrestricted Investment Earnings |                     |  | <u>58,088</u>  |
| Total General Revenues           |                     |  | <u>58,088</u>  |
| Change in Net Assets             |                     |  | 15,357   |
| Net Assets - Beginning of Year   |                     |  | <u>3,423,781</u>   |
| Net Assets - End of Year         |                     |  | <u>\$ 3,439,138</u>  |

The accompanying Notes to Financial Statements are an integral part of these Statements.

**FUND FINANCIAL STATEMENTS**

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

|   | General<br>Fund     | Debt<br>Service<br>Fund | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------------|--------------------------------|
| <b>ASSETS</b>   | <u>        </u>     | <u>        </u>         | <u>        </u>                |
| Current Assets:                                       |                     |                         |                                |
| Cash in County Treasury                               | \$ 7,970,012        | \$ 0                    | \$ 7,970,012                   |
| Cash with Fiscal Agent                                | 0                   | 297,136                 | 297,136                        |
| Receivables<br>(net of allowances for uncollectibles) | <u>656</u>          | <u>0</u>                | <u>656</u>                     |
| Total Assets  | <u>\$ 7,970,668</u> | <u>\$ 297,136</u>       | <u>\$ 8,267,804</u>            |
| <b>LIABILITIES AND FUND BALANCES</b>                  |                     |                         |                                |
| Current Liabilities:                                  |                     |                         |                                |
| Due to Member Districts                               | <u>\$ 888,666</u>   | <u>\$ 0</u>             | <u>\$ 888,666</u>              |
| Total Liabilities                                     | <u>888,666</u>      | <u>0</u>                | <u>888,666</u>                 |
| Fund Balances:  |                     |                         |                                |
| Unreserved  | 7,082,002           | 0                       | 7,082,002                      |
| Reserved for Debt Service                             | <u>0</u>            | <u>297,136</u>          | <u>297,136</u>                 |
| Total Fund Balances                                   | <u>7,082,002</u>    | <u>297,136</u>          | <u>7,379,138</u>               |
| Total Liabilities and Fund Balance                    | <u>\$ 7,970,668</u> | <u>\$ 297,136</u>       | <u>\$ 8,267,804</u>            |

The accompanying Notes to Financial Statements are an integral part of these Statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

|   |                     |
|---|---------------------|
| Total Fund Balances - Governmental Funds Balance Sheet  | \$ 8,267,804        |
| Amounts reported for governmental activities in the<br>Statement of Net Assets are different because: |                     |
| Payables for Due to Member Districts  | (888,666)           |
| Payables for bond principal which are not due in the<br>current period are not reported in the funds. | <u>(3,940,000)</u>  |
| Total Net Assets - Governmental Activities  | <u>\$ 3,439,138</u> |

The accompanying Notes to Financial Statements are an integral part of these Statements.



**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|                                      | General<br>Fund     | Debt<br>Service<br>Fund | Total<br>Governmental<br>Funds |
|--------------------------------------|---------------------|-------------------------|--------------------------------|
| <b>REVENUE</b>                       |                     |                         |                                |
| Lease Payments from Member Districts | \$ 1,260,649        | \$ 292,983              | \$ 1,553,632                   |
| Investment Earnings                  | 58,088              | 0                       | 58,088                         |
| Total Revenues                       | <u>1,318,737</u>    | <u>292,983</u>          | <u>1,611,720</u>               |
| <b>EXPENDITURES</b>                  |                     |                         |                                |
| Current:                             |                     |                         |                                |
| General Government                   | 1,428,380           | 0                       | 1,428,380                      |
| Debt Service:                        |                     |                         |                                |
| Principal on Long Term Debt          | 0                   | 125,000                 | 125,000                        |
| Interest on Long Term Debt           | 0                   | 167,983                 | 167,983                        |
| Total Expenditures                   | <u>1,428,380</u>    | <u>292,983</u>          | <u>1,721,363</u>               |
| Net Change in Fund Balances          | <u>(109,643)</u>    | <u>0</u>                | <u>(109,643)</u>               |
| Fund Balances - Beginning of Year    | <u>7,191,645</u>    | <u>297,136</u>          | <u>7,488,781</u>               |
| Fund Balances - Ending of Year       | <u>\$ 7,082,002</u> | <u>\$ 297,136</u>       | <u>\$ 7,379,138</u>            |

The accompanying Notes to Financial Statements are an integral part of these Statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|  |              |
|--|--------------|
| Total Net change in Fund Balances - Governmental Funds | \$ (109,643) |
|--|--------------|

Issuance of long-term financial obligations is a source of revenue in the governmental funds, but the receipt of these proceeds increases long-term liabilities in the statement of net assets.

|   |                   |
|---|-------------------|
| Current Year Principal Payment on Bonds | <u>\$ 125,000</u> |
|---|-------------------|

|       |                |
|-------|----------------|
| Total | <u>125,000</u> |
|-------|----------------|

|  |                         |
|--|-------------------------|
| Total Change in Net Assets - Governmental Activities | <u><u>\$ 15,357</u></u> |
|--|-------------------------|

The accompanying Notes to Financial Statements are an integral part of these Statements.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

# INYO-KERN SCHOOLS FINANCING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of Inyo-Kern Schools Financing Authority (the "Authority") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing and governmental accounting and financial reporting principles.

#### A. The Reporting Entity

The Authority was formed by a joint exercise powers agreement dated December 3, 1990, between the Sierra Sands Unified School Authority (Sierra Sands) and the Lone Pine Unified School District (Lone Pine). The purpose of the Authority is to provide assistance for the educational purposes of Sierra Sands and Lone Pine. The Authority is a public entity separate and distinct from each of its participant districts.

The Authority is administered by a Board of Directors consisting of all the persons who act as the members of the Board of Education of Sierra Sands, together with one member of the Board of Education of Lone Pine as may be designated by such Board. The Board of Directors has decision-making authority, the power to designate management, the ability to influence operations and primary accountability for fiscal matters. While the Authority is a separate entity, it has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Authority as a Component Unit of Sierra Sands Unified School Authority and the Lone Pine Unified School District.

Sierra Sands and Lone Pine have reorganized by the transfer of certain land from the territory of Sierra Sands to the territory of Lone Pine. In consideration of the mutual undertaking of the reorganization, Lone Pine conveyed to the Authority fee title to certain land together with buildings, facilities and improvements situated thereon, which are currently not used or needed for classroom buildings. Such real property is leased by the Authority to Lone Pine pursuant to the Lease Agreement dated December 3, 1990. The Lease Agreement became effective for the fiscal year ended June 30, 1992. Also see Note 3.

The value of the real property conveyed to the Authority from the Lone Pine Unified School District was not determinable at June 30, 2012. The value of the real property was not determinable, as governmental property in Inyo County is not assessed.

#### B. Basis of Presentation, Basis of Accounting

##### 1. Basis of Presentation

**Government-wide Statements:** The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Authority does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Authority's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Authority reports the following major governmental funds:

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs. Specifically, the fund is used to repay the bond issue.

2. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the Authority incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Authority's policy to use restricted resources first, then unrestricted resources.

3. Budgetary Data

The Authority has not established any budgets or budgetary information for the fiscal year ended June 30, 2012.

**NOTE 2 – CASH AND INVESTMENTS**

**General**

The Authority has adopted Governmental Accounting Standards Board Statement 31 (GASB 31) which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the County Treasury investments have a remaining maturity of less than 90 days. In addition, GASB 31 does not apply to immaterial cost/value differences.

For the year ended June 30, 2005, the Authority adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Unrestricted**

Cash and investments consisted of the following at June 30, 2012:

|                           | <u>Governmental<br/>Funds</u> |
|---------------------------|-------------------------------|
| Pooled Investments - Kern |                               |
| County Treasury           | \$ 7,970,012                  |
| Cash with Fiscal Agent    | <u>297,136</u>                |
| Total                     | <u>\$ 8,267,148</u>           |

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure Authority deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the Authority's deposits. The Authority may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the Authority may be invested in any of the approved investments contained in the California Government code Sections 53600 et seq., limited further by the investment policy adopted by the Authority.

**Investments Authorized by the Entity's Investment Policy**

The Authority's investment policy authorizes investment in the local government investment pool administered by Kern County. The Authority's investment policy does not contain any specific provisions intended to limit the Authority's exposure to interest rate risk, credit risk, and concentration of credit risk.

Additionally, the Authority may invest idle or surplus funds in accordance with California Government Code Section 53601. The following represents permissible investments per this code section

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper
- Certificates of deposit (or time deposits) 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
- Certificate of Participation
- Obligations with first priority security
- Collateralized mortgage obligations

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The Authority had no debt proceeds investments as of June 30, 2012.

# INYO-KERN SCHOOLS FINANCING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### NOTE 2 – CASH AND INVESTMENTS (Continued)

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of fiscal year-end, the weighted average maturity of the investments contained in the Kern County Investment Pool is approximately seventeen (17) months and in U.S. Bank six (6) months.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

|   | <u>Maturity<br/>Date</u> | <u>Carrying<br/>Amount</u> | <u>Fair Value<br/>Adjustment</u> | <u>Fair<br/>Value</u> |
|---|--------------------------|----------------------------|----------------------------------|-----------------------|
| Kern County Investment Pool -<br>Unrestricted | 17 months<br>average     | <u>\$ 7,970,012</u>        | <u>\$ (46,306)</u>               | <u>\$ 7,923,706</u>   |
| U.S. Bank - Cash with<br>Fiscal Agent         | 6 months<br>average      | <u>\$ 297,136</u>          | <u>\$ -</u>                      | <u>\$ 297,136</u>     |

#### Disclosures Relating to Credit Risk

Generally, 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 Kern County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

#### Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

As of June 30, 2012, \$7,970,012 of the cash and investments are held in the form of a nonnegotiable unrated investment in the Kern County Investment Pool.

As of June 30, 2012 \$297,136 of the cash and investments are held in the form of a nonnegotiable unrated investment in the U.S. Bank Trust Account as Cash with Fiscal Agent.

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the Authority's deposits with financial institutions were in excess of federal depository insurance limits.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the Kern County Investment Pool.

**Investment in Kern County Investment Pool**

The Authority is a voluntary participant in the Kern County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of Kern. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by Kern County 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 Kern County, which are recorded on an amortized cost basis.

**Derivative Investments**

The Authority did not directly enter into any derivative investments.

**Investment-Restricted**

The Authority did not enter into any restricted investments.

**NOTE 3 – LEASE AGREEMENT**

In consideration of the mutual undertakings of the reorganization of Sierra Sands and Lone Pine, Lone Pine made the following contributions to the Authority:

- A. Lone Pine conveyed to the Authority fee title in and to certain real property owned by Lone Pine and not used for classroom buildings. The real property is leased by Lone Pine pursuant to the Lease Agreement dated December 3, 1990. The term of the Lease Agreement is 30 years. The Authority has the right to extend the term of the Lease Agreement for one or more additional 30 years upon written notice. The term of the Lease Agreement will end in the event that no additional net revenues will be received by Lone Pine for a period of three consecutive fiscal years or the Board will make the determination that no additional net revenues are reasonably expected to be received by Lone Pine during the next five fiscal years.
- B. Lone Pine will pay to the Authority an annual amount of contributions each fiscal year. Such amounts are payable at the times and in the manner set forth in Section 3.4 of the Lease Agreement.

In accordance with the terms of the Lease Agreement, lease payments were determined to be \$1,260,649 for the fiscal year ended June 30, 2012. Of this amount \$0 was due to the Authority at June 30, 2012.

**NOTE 4 – CAPITAL ASSETS**

The Authority had no capital assets as of June 30, 2012.



**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5 – INTERFUND TRANSACTIONS**

Interfund Receivables / Payables – There were no individual fund interfund receivables and payables balances at June 30, 2012.

Interfund Transfers – There were no interfund transfers during the year ended June 30, 2012.

**NOTE 6 – OTHER DEBT AND LONG-TERM DEBT SCHEDULE**

**Lease Revenue Bonds**

On March 1, 2007, the Inyo-Kern Schools Financing Authority component unit of the Sierra Sands Unified School District sold \$4,500,000 of Lease Revenue Bonds. These bonds were issued to reimburse the acquisition and construction of school facilities and improvements to be owned and operated by Sierra Sands Unified School District.

The outstanding Lease Revenue Bonds of Inyo-Kern Schools Financing Authority at June 30, 2012 is:

| <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Outstanding June 30, 2010</u> | <u>Issued in Current Year</u> | <u>Redeemed in Current Year</u> | <u>Outstanding June 30, 2011</u> |
|----------------------|----------------------|----------------------|----------------------------------|-------------------------------|---------------------------------|----------------------------------|
| 03/01/07             | 4.00% to 4.29%       | 05/01/32             | \$ 4,065,000                     | \$ 0                          | \$ 125,000                      | \$ 3,940,000                     |

The annual requirements to amortize these Lease Revenue Bonds payable outstanding at June 30, 2012 are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-----------------------------|---------------------|---------------------|---------------------|
| 2013                        | \$ 130,000          | \$ 162,983          | \$ 292,983          |
| 2014                        | 135,000             | 157,782             | 292,782             |
| 2015                        | 140,000             | 152,382             | 292,382             |
| 2016                        | 150,000             | 146,783             | 296,783             |
| 2017                        | 155,000             | 140,783             | 295,783             |
| 2018-2022                   | 865,000             | 606,315             | 1,471,315           |
| 2023-2027                   | 1,060,000           | 414,440             | 1,474,440           |
| 2028-2032                   | 1,305,000           | 171,061             | 1,476,061           |
| <b>Totals</b>               | <b>\$ 3,940,000</b> | <b>\$ 1,952,529</b> | <b>\$ 5,892,529</b> |

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 7 – COMPLIANCE AND ACCOUNTABILITY**

A. Finance-Related Legal and Contractual Provisions.

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None reported    | Not applicable      |

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None reported    |                       | Not applicable |

**NOTE 8 – SHORT-TERM DEBT ACTIVITY**

The Authority had no short-term debt for the year ended June 30, 2012.

**NOTE 9 – LEASES**

The Authority had not entered into any operating or capital leases as of June 30, 2012.

**NOTE 10 – PENSION PLAN**

Inyo-Kern Schools Financing Authority had no direct employees (only expense allocations) during the fiscal year ended June 30, 2012, and thus had no retirement systems established.

**NOTE 11 – SUBSEQUENT EVENTS**

The Authority had no reportable subsequent events for the audit period ended June 30, 2012.

**NOTE 12 – BUDGETS AND APPROPRIATIONS**

The Authority has not established any budgets or budgetary information for the fiscal year ended June 30, 2012.

**NOTE 13 – MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis is a required part of the basic financial statements. Management's Discussion and Analysis is omitted because Inyo-Kern Schools Financing Authority is reported in a consolidated format with the Sierra Sands Unified School District. The Management's Discussion and Analysis as it relates to the Inyo-Kern Schools Financing Authority can be found in the Sierra Sands Unified School District basic financial statements audit report.

**OTHER SUPPLEMENTARY INFORMATION**

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**BOARD OF TRUSTEES**  
**JUNE 30, 2012**

The members of the Board of Trustees of the Inyo-Kern School Financing Authority holding office during the audit period were as follows:

| <u>BOARD OF TRUSTEES</u> |               |                     |
|--------------------------|---------------|---------------------|
| <u>MEMBER</u>            | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
| Tim Johnson              | Chairman      | December, 2014      |
| Bill Farris              | Vice Chairman | December, 2014      |
| Tom Pearl                | Member        | December, 2014      |
| Amy Covert               | Member        | December, 2012      |
| Judy Dietrichson         | Member        | December, 2014      |
| Kurt Rockwell            | Member        | December, 2012      |
| Michael Scott            | Member        | December, 2014      |
| LeRoy Kritz              | Member        | December, 2012      |

**OTHER INDEPENDENT AUDITORS' REPORT**



# BURKEY COX EVANS & BRADFORD

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JAMES MANNIE, CPA  
JANETTE HENRIQUEZ, CPA  
JENNIFER VICKERY, CPA  
MARTHA J. WILLEY, CPA

## 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  
Inyo-Kern Schools Financing Authority  
Ridgecrest, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Inyo-Kern Schools Financing Authority, as of and for the year ended June 30, 2012, which collectively comprise the Inyo-Kern Schools Financing Authority's basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Inyo-Kern Schools Financing Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Inyo-Kern Schools Financing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Inyo-Kern Schools Financing Authority'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. A *significant deficiency* is a deficiency or 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Inyo-Kern Schools Financing Authority'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.

**BURKEY COX  
EVANS & BRADFORD**  
ACCOUNTANCY CORPORATION

Inyo-Kern Schools Financing Authority  
Page 2

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Burkey Cox CPAs*  
BURKEY COX EVANS & BRADFORD  
Accountancy Corporation

Palmdale, California  
November 1, 2012

## **FINDINGS AND QUESTIONED COSTS**



**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
**CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2012**

**FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS**

No findings.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2012

**FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS**

No findings.