

INYO-KERN SCHOOLS FINANCING AUTHORITY

**COUNTY OF KERN
RIDGECREST, CALIFORNIA**

**AUDIT REPORT
JUNE 30, 2016**

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

INTRODUCTORY SECTION

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FINANCIAL INFORMATION



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Inyo-Kern Schools Financing Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

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

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 the Inyo-Kern Schools Financing Authority as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inyo-Kern Schools Financing Authority's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
December 13, 2016

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

INYO-KERN SCHOOLS FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 2,559,255
Accounts Receivable (net of allowances for uncollectibles)	<u>888,507</u>
Total Assets	<u>3,447,762</u>
LIABILITIES	
Due to Member District	1,013,779
Noncurrent Liabilities - Assessment Bonds:	
Due in one year	155,000
Due in more than one year	<u>3,230,000</u>
Total Liabilities	<u>4,398,779</u>
NET POSITION	
Restricted for:	
Debt Service	297,137
Unrestricted	<u>(1,248,154)</u>
Total Net Position	<u>\$ (951,017)</u>

The accompanying notes are an integral part of this statement.

INYO-KERN SCHOOLS FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:			
General Government	\$ 1,094,279	\$ 2,166,459	\$ 1,072,180
Interest on Long Term Debt	<u>146,783</u>	<u>-</u>	<u>(146,783)</u>
Total Governmental Activities	<u>1,241,062</u>	<u>2,166,459</u>	<u>925,397</u>
Total Primary Government	<u>\$ 1,241,062</u>	<u>\$ 2,166,459</u>	<u>925,397</u>
General Revenues:			
Unrestricted Investment Earnings			<u>11,360</u>
Total General Revenues			<u>11,360</u>
Change in Net Position			936,757
Net Position at the Beginning of the Year			<u>(1,887,774)</u>
Net Position at the End of the Year			<u>\$ (951,017)</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

INYO-KERN SCHOOLS FINANCING AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Current Assets:			
Cash in County Treasury	\$ 2,262,118	\$ -	\$ 2,262,118
Cash with Fiscal Agent	-	297,137	297,137
Receivables (net of allowances for uncollectibles)	888,507	-	888,507
Total Assets	<u>\$ 3,150,625</u>	<u>\$ 297,137</u>	<u>\$ 3,447,762</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Due to Member Districts	\$ 1,013,779	\$ -	\$ 1,013,779
Total Liabilities	<u>1,013,779</u>	<u>-</u>	<u>1,013,779</u>
Fund Balances:			
Unreserved	2,136,846	-	2,136,846
Reserved for Debt Service	-	297,137	297,137
Total Fund Balances	<u>2,136,846</u>	<u>297,137</u>	<u>2,433,983</u>
Total Liabilities and Fund Balance	<u>\$ 3,150,625</u>	<u>\$ 297,137</u>	<u>\$ 3,447,762</u>

The accompanying notes are an integral part of this statement.

INYO-KERN SCHOOLS FINANCING AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances of Governmental Funds	\$ 3,447,762
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Payables for Due to Member Districts	(1,013,779)
Payables for bond principal which are not due in the current period are not reported in the funds.	<u>(3,385,000)</u>
Net Position of Governmental Activities	<u>\$ (951,017)</u>

The accompanying notes are an integral part of this statement.

INYO-KERN SCHOOLS FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUE			
Lease Payments from Member Districts	\$ 1,869,676	\$ 296,783	\$ 2,166,459
Investment Earnings	11,359	1	11,360
Total Revenues	<u>1,881,035</u>	<u>296,784</u>	<u>2,177,819</u>
EXPENDITURES			
Current:			
General Government	1,094,279	-	1,094,279
Debt Service:			
Principal on Long Term Debt	-	150,000	150,000
Interest on Long Term Debt	-	146,783	146,783
Total Expenditures	<u>1,094,279</u>	<u>296,783</u>	<u>1,391,062</u>
Net Change in Fund Balances	<u>786,756</u>	<u>1</u>	<u>786,757</u>
Fund Balances - Beginning of Year	<u>1,350,090</u>	<u>297,136</u>	<u>1,647,226</u>
Fund Balances - Ending of Year	<u>\$ 2,136,846</u>	<u>\$ 297,137</u>	<u>\$ 2,433,983</u>

The accompanying notes are an integral part of this statement.

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, 2016

Net Change in Fund Balances Total Governmental Funds	\$	786,757
<p>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.</p>		
Current Year Principal Payment on Bonds	\$	<u>150,000</u>
Total		<u>150,000</u>
Change in Net Position of Governmental Activities	\$	<u><u>936,757</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

INYO-KERN SCHOOLS FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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, 2016. 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 position 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, 2016

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, 2016.

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, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments consisted of the following at June 30, 2016:

	<u>Governmental Funds</u>
Pooled Investments - Kern County Treasury	\$ 2,262,118
Cash with Fiscal Agent	<u>297,137</u>
Total	<u>\$ 2,559,255</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 District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

<u>Investments by Fair Value Level</u>	6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Debt Securities</i>				
U.S. Treasury Notes	\$ 297,137	\$ -	\$ 297,137	\$ -
Total Debt Securities	<u>297,137</u>	<u>-</u>	<u>297,137</u>	<u>-</u>
 Total Investments by Fair Value Level	 <u>297,137</u>	 <u>\$ -</u>	 <u>\$ 297,137</u>	 <u>\$ -</u>

**Investments Measured at the Net Asset
Value (NAV)**

Pooled Investments - Kern County Treasury	2,262,118
Total Investments Measured at the NAV	<u>2,262,118</u>
Total Investments Measured at Fair Value	<u>\$ 2,559,255</u>

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

INYO-KERN SCHOOLS FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

<u>Investments Measured at the Net Asset Value</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Pooled Investments - Kern County				
Treasury ⁽¹⁾	\$ 2,262,118	-	Daily	1 Day
Total Investments Measured at the NAV	<u>\$ 2,262,118</u>			

⁽¹⁾The District is a voluntary participant in the Pooled Investments – Kern County Treasury that is regulated by the California Government Code under the oversight of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by the State of California for the entire portfolio (in relation to the amortized cost of that portfolio). There are no limitations or restrictions on withdrawals and the fund’s Authority does not impose liquidity fees or redemption gates.

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, 2016.

INYO-KERN SCHOOLS FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 fifteen (15) 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 Date</u>	<u>Carrying Amount</u>	<u>Fair Value Adjustment</u>	<u>Fair Value</u>
Kern County Investment Pool - Unrestricted	15 months average	<u>\$ 2,262,118</u>	<u>\$ 1,721</u>	<u>\$ 2,263,839</u>
U.S. Bank - Cash with Fiscal Agent	6 months average	<u>\$ 297,137</u>	<u>\$ -</u>	<u>\$ 297,137</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, 2016, \$2,262,118 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, 2016 \$297,137 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, 2016

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 \$1,869,676 for the fiscal year ended June 30, 2016. Of this amount \$888,507 was due to the Authority at June 30, 2016.

NOTE 4 – CAPITAL ASSETS

The Authority had no capital assets as of June 30, 2016.

INYO-KERN SCHOOLS FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables / Payables – There were no individual fund interfund receivables and payables balances at June 30, 2016.

Interfund Transfers – There were no interfund transfers during the year ended June 30, 2016.

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, 2016 is:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2015</u>	<u>Issued in Current Year</u>	<u>Redeemed in Current Year</u>	<u>Outstanding June 30, 2016</u>
03/01/07	4.00% to 4.29%	05/01/32	\$ 3,535,000	\$ -	\$ 150,000	\$ 3,385,000

The annual requirements to amortize these Lease Revenue Bonds payable outstanding at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 155,000	\$ 140,783	\$ 295,783
2018	160,000	134,583	294,583
2019	165,000	128,183	293,183
2020	175,000	121,583	296,583
2021	180,000	114,583	294,583
2022-2026	1,015,000	456,696	1,471,696
2027-2031	1,250,000	224,075	1,474,075
2032	285,000	12,113	297,113
Totals	\$ 3,385,000	\$ 1,332,599	\$ 4,717,599

INYO-KERN SCHOOLS FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 Position of Individual Funds

Following are funds having deficit fund balances or fund net position 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	Not applicable

NOTE 8 – SHORT-TERM DEBT ACTIVITY

The Authority had no short-term debt for the year ended June 30, 2016.

NOTE 9 – LEASES

The Authority had not entered into any operating or capital leases as of June 30, 2016.

NOTE 10 – PENSION PLAN

Inyo-Kern Schools Financing Authority had no direct employees (only expense allocations) during the fiscal year ended June 30, 2016, and thus had no retirement systems established.

NOTE 11 – BUDGETS AND APPROPRIATIONS

The Authority has not established any budgets or budgetary information for the fiscal year ended June 30, 2016.

NOTE 12 – 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, 2016

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>
Amy Castillo-Covert	Member	December, 2018
Bill Farris	Member	December, 2016
Tim Johnson	Vice Chairman	December, 2018
Michael Scott	Chairman	December, 2018
Kurt Rockwell	Member	December, 2018
Ernest M. Bell Jr.	Secretary of the Board	December, 2018

OTHER INDEPENDENT AUDITORS' REPORT



BURKEY COX EVANS & BRADFORD

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KYLE LINDAMAN, CPA
KENNETH S. EVANS, CPA
JENNIFER M. EVANS, CPA
CHARISSA CROUCH, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Inyo-Kern Schools Financing Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**BURKEY COX
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Inyo-Kern Schools Financing Authority
Page 2

Purpose of this Report

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

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
December 13, 2016

FINDINGS AND QUESTIONED COSTS

INYO-KERN SCHOOLS FINANCING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

No findings.