# INYO-KERN SCHOOLS FINANCING AUTHORITY

## COUNTY OF KERN
## RIDGECREST, CALIFORNIA

## AUDIT REPORT

## JUNE 30, 2009

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
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**JUNE 30, 2009**


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# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Inyo-Kern Schools Financing Authority
Sierra Sands Unified School District
Ridgecrest, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Inyo-Kern Schools Financing Authority as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Inyo-Kern Schools Financing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Inyo-Kern Schools Financing Authority as of June 30, 2009, 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 January 29, 2010, on our consideration of the Inyo-Kern Schools Financing Authority's internal control over financial reporting and our tests of the Authority's compliance with certain provisions of laws, regulations, contracts, grants 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

As discussed in Note 6, 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 not required to be a part of, the basic financial statements.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

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 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
January 29, 2010

# BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2009**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and Investments | $ 6,286,610 |
| Accounts Receivable | 46,091 |
| Total Assets | 6,332,701 |
| **LIABILITIES** | |
| Long-term Liabilities - Assessment Bonds | |
| Due in One Year | 115,000 |
| Due in More than One Year | 4,185,000 |
| Total Liabilities | 4,300,000 |
| **NET ASSETS** | |
| Restricted for: | |
| Debt Service | 297,746 |
| Unrestricted | 1,734,955 |
| Total Net Assets | $ 2,032,701 |

The accompanying notes are an integral part of these statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2009**

| Functions | Expenses | Program Revenues Charges for Services | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|---|
| Governmental Activities: | | | |
| General Government | $ - | $ 3,088,946 | $ 3,088,946 |
| Capital Outlay | 3,837,547 | - | (3,837,547) |
| Interest on Long Term Debt | 181,983 | - | (181,983) |
| Total Governmental Activities | $ 4,019,530 | $ 3,088,946 | (930,584) |
| General Revenues: | | | |
| Unrestricted Investment Earnings and Other | | | 827,492 |
| Total General Revenues | | | 827,492 |
| Change in Net Assets | | | (103,092) |
| Net Assets - Beginning | | | 2,135,793 |
| Net Assets - Ending | | | $ 2,032,701 |

The accompanying notes are an integral part of these statements.

# FUND FINANCIAL STATEMENTS

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**BALANCE SHEET – GOVERNMENTAL FUNDS**
**JUNE 30, 2009**

| | General Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash in County Treasury | $ 5,988,864 | $ - | $ 5,988,864 |
| Cash with Fiscal Agent | - | 297,746 | 297,746 |
| Receivables | 46,091 | - | 46,091 |
| Total Assets | $ 6,034,955 | $ 297,746 | $ 6,332,701 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **LIABILITIES** | | | |
| Current Liabilities: | | | |
| Due to Member Districts | $ - | $ - | $ - |
| Total Liabilities | - | - | - |
| **FUND BALANCES** | | | |
| Reserved for Debt Service | $ - | $ 297,746 | $ 297,746 |
| Unreserved | 6,034,955 | - | 6,034,955 |
| Total Fund Balances | 6,034,955 | 297,746 | 6,332,701 |
| Total Liabilities and Fund Balances | $ 6,034,955 | $ 297,746 | $ 6,332,701 |

The accompanying notes 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**
**FOR THE YEAR ENDED JUNE 30, 2009**

| | |
|---|---|
| Total Fund Balances - Governmental Funds Balance Sheet | $ 6,332,701 |
| Amounts reported for governmental activities in the Statement of Net Assets are difference because: | |
| Payables for bond principal which are not due in the current period are not reported in the funds. | (4,300,000) |
| Total Net Assets - Governmental Activities | $ 2,032,701 |

The accompanying notes are an integral part of these statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2009**

| | General Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Charges for Services | | | |
| Lease Payments from Member Districts | $ 3,088,946 | $ - | $ 3,088,946 |
| Investment Earnings and Other | 150,499 | 676,993 | 827,492 |
| Total Revenues | 3,239,445 | 676,993 | 3,916,438 |
| **EXPENDITURES** | | | |
| Current | | | |
| Capital Outlay | 2,317,082 | 1,520,465 | 3,837,547 |
| Debt Service | | | |
| Principal on Long Term Debt | - | 115,000 | 115,000 |
| Interest on Long Term Debt | - | 181,983 | 181,983 |
| Total Expenditures | 2,317,082 | 1,817,448 | 4,134,530 |
| Net Change in Fund Balances | 922,363 | (1,140,455) | (218,092) |
| Fund Balances - Beginning of Year | 5,112,592 | 1,438,201 | 6,550,793 |
| Fund Balances - End of Year | $ 6,034,955 | $ 297,746 | $ 6,332,701 |

The accompanying notes are an integral part of these statements.

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**RECONCILIATION OF THE GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2009**

| | | |
|---|---|---|
| Total Net Change in Fund Balances - Governmental Funds | $ | (218,092) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Repayment of bond principal is an expenditure in funds but not an expense in the Statement of Activities. | | 115,000 |
| Total Change in Net Assets - Governmental Activities | $ | (103,092) |

The accompanying notes are an integral part of these statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 District (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, as amended by GASB Statement No. 39, *The Financial Reporting Entity,* for inclusion of the Authority as a Component Unit of Sierra Sands and Lone Pine.

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 4.

The value of the real property conveyed to the Authority from Lone Pine was not determinable at June 30, 2009. 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

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.

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

B. Basis of Presentation, Basis of Accounting (Continued)

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.

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.

C. 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 with 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.

D. Budgetary Data

The Authority has not established any budgets or budgetary information for the fiscal year ended June 30, 2009.

## 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.

### Unrestricted

Cash and investments consisted of the following at June 30, 2009:

| | General Fund | Debt Service Fund | Totals |
|---|---|---|---|
| Pooled Investments - Kern County Treasury | $ 5,988,864 | $ - | $ 5,988,864 |
| Cash with Fiscal Agent | - | 297,746 | 297,746 |
| Total | $ 5,988,864 | $ 297,746 | $ 6,286,610 |

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

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

**Investments Authorized by Debt Agreements**

Investment 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, 2009.

**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:

| | | Maturity Date |
|---|---|---|
| Kern County Investment Pool - Unrestricted | $ 5,988,864 | 14 month average |
| U.S. Bank - Cash with Fiscal Agent | $ 297,746 | 6 month average |

**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, 2009, $5,988,864 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, 2009, $297,746 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.

## NOTE 2 – CASH AND INVESTMENTS (Continued)

### 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.

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.

## NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Authority has not established any budgets or budgetary information for the fiscal year ended June 30, 2009.

## NOTE 4 – 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.

**NOTE 4 – LEASE AGREEMENT** (Continued)

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 $3,088,946 for the fiscal year ended June 30, 2009. Of this amount $0 was due to the Authority at June 30, 2009.

**NOTE 5 – LONG-TERM DEBT OBLIGATIONS**

**Lease Revenue Bonds**

On March 1, 2007, the Inyo-Kern Schools Financing Authority component unit of Sierra Sands 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.

The outstanding Lease Revenue Bonds of the Authority at June 30, 2009 are:

| Date of Issue | Interest Rate | Maturity Date | Outstanding July 1, 2008 | Issued in Current Year | Redeemed in Current Year | Outstanding June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|
| 03/01/07 | 4.00% to 4.29% | 05/01/32 | $ 4,415,000 | $ - | $ 115,000 | $ 4,300,000 | $ 115,000 |

The annual requirements to amortize these Lease Revenue Bonds payable outstanding at June 30, 2009 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 115,000 | $ 177,382 | $ 292,382 |
| 2011 | 120,000 | 172,783 | 292,783 |
| 2012 | 125,000 | 167,983 | 292,983 |
| 2013 | 130,000 | 162,983 | 292,983 |
| 2014 | 135,000 | 157,783 | 292,783 |
| 2015-2019 | 770,000 | 702,713 | 1,472,713 |
| 2020-2024 | 940,000 | 535,323 | 1,475,323 |
| 2025-2029 | 1,150,000 | 323,393 | 1,473,393 |
| 2030-2032 | 815,000 | 70,338 | 885,338 |
| Totals | $ 4,300,000 | $ 2,470,681 | $ 6,770,681 |

**NOTE 6 – MANAGEMENT DISCUSSION AND ANALYSIS**

Management Discussion and Analysis is a required part of the basic financial statements. Management Discussion and Analysis is omitted because the Authority is reported in a consolidated format with Sierra Sands. The Management Discussion and Analysis as it relates to the Authority can be found in Sierra Sands basic financial statements audit report.

# SUPPLEMENTARY INFORMATION

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**BOARD OF TRUSTEES AND ADMINISTRATION**
**JUNE 30, 2009**

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

| Name | Office | Term Expires |
|---|---|---|
| Michael Scott | President | December 2012 |
| Kurt Rockwell | Vice President / Clerk | December 2010 |
| Amy Covert | Member | December 2010 |
| Bill Farris | Member | December 2012 |
| Tim Johnson | Member | December 2012 |
| Tom Pearl | Member | December 2010 |
| Judy Dietrichson | Member | December 2010 |

**ADMINISTRATION**

Joanna Rummer – Superintendent

Ernie Bell – Assistant Superintendent, Human Resources

Shirley Kennedy – Assistant Superintendent, Curriculum and Instruction

Elaine Wunderlich Janson – Assistant Superintendent, Business Services

Elaine Littleton, Executive Director, SELPA

# OTHER INDEPENDENT AUDITOR'S REPORT

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## 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
Sierra Sands Unified School District
Ridgecrest, California

We have audited the basic financial statements of Inyo-Kern Schools Financing Authority as of and for the year ended June 30, 2009, which collectively comprise Inyo-Kern Schools Financing Authority's basic financial statements and have issued our report thereon dated January 29, 2010. 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 Inyo-Kern Schools Financing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Inyo-Kern Schools Financing Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Inyo-Kern Schools Financing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Inyo-Kern Schools Financing Authority's financial statements that is more than inconsequential will not be prevented or detected by Inyo-Kern Schools Financing Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs, Finding 2009-1, to be a significant deficiency in internal control over financial reporting.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Inyo-Kern Schools Financing Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider Finding 2009-1 to be a material weakness.

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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Inyo-Kern Schools Financing Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Inyo-Kern Schools Financing Authority's response and, accordingly, we express no opinion on it.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
January 29, 2010

**INYO-KERN SCHOOLS FINANCING AUTHORITY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**JUNE 30, 2009**

**2009-01 Internal Control Activities**

**Condition**
During our audit of the financial statements, we noted control activities related to the initiation, recording, processing and review of certain transaction classes and account balances were not operating effectively. Numerous material adjusting journal entries were proposed by the auditor to correct misclassifications, particularly in the areas of revenue, deferred revenue, interfund transactions and capital assets. Additionally, we noted significant delays in the preparation of complete financial statements and note disclosures and a lack of supporting schedules and documentation resulting in significant delays in obtaining sufficient audit evidence to render an opinion on the District's financial statements. Such misstatements were not initially detected by the District's internal control processes, and as such, indicate material weaknesses in the District's internal controls over financial reporting.

**Criteria**
An effective internal control environment should ensure there is a well-defined financial reporting process sufficient to ensure all account balances, transaction classes, and disclosures are complete, accurate, timely, and relevant. The system of internal controls over financial reporting should be sufficient to ensure financial statements are free of material misstatements and include sufficient, competent personnel to ensure all internal controls are properly designed and operating effectively.

**Effect**
The lack of a well-defined financial reporting process and internal control procedures creates a greater risk of material misstatements in the financial statements, inefficiency of accounting staff, and untimely filing of annual financial statements.

**Cause**
The primary factors contributing to the deficiencies in internal controls were likely due to turnover in key accounting positions and insufficient monitoring of the control processes in place. Near the end of the fiscal year, the District was informed of the resignation of their Director of Finance, the key person responsible for the financial statement close process and reporting responsibilities. The District was able to identify and hire a new Director of Finance near the end of the fiscal year to assist in the financial statement close and reporting process; however, the Director of Finance was not sufficiently knowledgeable of the District's policies, procedures, and systems of internal control within the period of time necessary to prepare all of the necessary financial statements and note disclosures, adjusting journal entries, and supporting documentary evidence.

**Recommendations**

Management should continue to monitor the policies, procedures and control activities which include key attributes such as the overall timing, methodology, format, and frequency of analysis and reconciliations. Roles and responsibilities in the process should be documented, communicated, and periodically reviewed. Changes in authoritative guidance and regulations should be consistently monitored by those charged with governance over the district.

Reconciliations of all material account balances should be performed on a monthly basis, and all adjustments should be well supported, reviewed and approved by management.

An independent review of all significant judgments and estimates, treatments of non-routine events and transactions, and journal entries should be performed in a timely manner by a member of management or consultants who are not directly involved in the preparation of the financial statements.

An independent review of the financial statements and all related disclosures should be performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with generally accepted accounting principles, federal and state regulations, and the District's accounting and disclosure policies.

**Client Response**

The situation described was a result of unique circumstances to the District and is not anticipated in the future. The District will continue to review its policies and procedures in this regard. This includes the review and amplification of existing documentation regarding same. It will also continue to schedule recapitulation of significant events as well as reconciliation of account balances on a monthly basis. Additionally, it will consult regularly with its audit firm regarding non-routine transactions, questions of accounting policy as well as any potential irregularities.