

BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C
GENERAL OBLIGATION BONDS, ELECTION OF 2006
FINANCIAL AUDIT

JUNE 30, 2010



BYRON UNION ELEMENTARY SCHOOL DISTRICT
MEASURE C
GENERAL OBLIGATION BONDS, ELECTION OF 2006
JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Byron Union Elementary School District
and
Citizens' Oversight Committee
Measure C General Obligation Bonds, Election of 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Byron Union Elementary School District for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 3, 2010. We have also audited the accompanying Measure C General Obligation Bonds, Election of 2006, Balance Sheet as of June 30, 2010 and Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year ended June 30, 2010. These statements are the responsibility of the District's management. Our responsibility is to express opinions on them 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 Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balance are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Measure C General Obligation Bonds, Election of 2006, as of June 30, 2010 and the change in financial position thereof for the fiscal year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 3, 2010, on our consideration of Byron Union Elementary School District's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and do not 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 considered in assessing the results of our audit.

El Dorado Hills, California
December 3, 2010



BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C, GENERAL OBLIGATION BONDS, ELECTION OF 2006

BALANCE SHEET

June 30, 2010

Assets		
Deposits and Investments		\$ 6,632,702
Accounts Receivable		-
Total Assets		<u>6,632,702</u>
Liabilities		
Accounts Payable		<u>115,679</u>
Total Liabilities		<u>115,679</u>
Fund Balance		
Unreserved:		
Designated for Measure C Projects		<u>6,517,023</u>
Total Fund Balance		<u>6,517,023</u>
Total Liabilities and Fund Balance		<u>\$ 6,632,702</u>

The accompanying notes are an integral part of these statements

BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C, GENERAL OBLIGATION BONDS, ELECTION OF 2006

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE**

For the Fiscal Year Ended June 30, 2010

Revenues	
Interest Revenue	\$ 35,150
Total Revenues	<u>35,150</u>
Expenditures	
Districtwide Projects	1,532,773
Discovery Bay Projects	689,576
Timber Point Projects	143,422
Excelsior Projects	1,789,622
Total Expenditures	<u>4,155,393</u>
Net Change in Fund Balance	(4,120,243)
Fund Balance - July 1, 2009	10,637,266
Fund Balance - June 30, 2010	<u>\$ 6,517,023</u>

The accompanying notes are an integral part of these statements

BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C, GENERAL OBLIGATION BONDS, ELECTION OF 2006

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Byron Union Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the *Governmental Accounting Standards Board (GASB)* and the *American Institute of Certified Public Accountants (AICPA)*.

Fund Accounting

The accounts of the District are organized on the basis of funds, which are considered to be separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means, by which spending activities are controlled. The proceeds from the sale of general obligation bonds, and the subsequent expenditure of the bond funds, are accounted for in the Building Fund of the District.

Basis of Accounting

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

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measureable and available to finance expenditures of the current fiscal period. "Measureable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Deposits and Investments

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost.

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C, GENERAL OBLIGATION BONDS, ELECTION OF 2006

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, consist of \$6,632,702 of County Pool Investments and Local Agency Investment Funds.

County Pool Investments

County pool investments consist of District cash held by the Contra Costa County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

Local Agency Investment Fund (LAIF) – The Local Agency Investment Fund (LAIF) consists of amounts held in a special fund maintained by the California State Treasury through which local governments may pool investments. Each governmental agency may invest up to \$40,000,000 in each account in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest or principal. The full faith and credit of the State of California secure investments in LAIF. At June 30, 2010, the total cost of the District's investment in LAIF was \$4,705,309. The total fair value of the District's investment in LAIF was \$4,713,026. The fair value total includes unrealized gain of \$7,717. The unrealized gain was based on fair market adjustment factor of 1.00164 that was calculated by the State of California Treasurer's Office.

At June 30, 2010, the fair value of the State of California Pooled Money Investment Account (PMIA) including accrued interest was \$69.6 billion. Of that amount, 5.42 percent was invested in structured notes and asset-backed securities, and the remaining 94.58 percent was invested in other non-derivative financial products. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Board on an annual basis.

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NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

General Authorization

Limitation as they related to interest rate risk, credit risk, and concentration of credit risk are indicated in the following schedule:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to change in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 1,927,393	\$ 1,930,554	\$ 1,676,832	\$ 250,561

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2010. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 1,927,393	\$ 1,930,554	\$ -	\$ -	\$ 1,927,393

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer that represent five percent or more of the total investments held by the District.

Custodial Credit Risks – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

Custodial Credit Risk – Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2010, the District does not have any investments of this type.

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**INDEPENDENT AUDITOR'S 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 Education
Byron Union Elementary School District
and
Citizens' Oversight Committee
Measure C General Obligation Bonds, Election of 2006

We have audited the basic financial statements of Byron Union Elementary School District for the fiscal year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We have also audited the accompanying Measure C General Obligation Bonds, Election of 2006, Balance Sheet as of June 30, 2010 and Statement of Revenues, Expenditures, and Change in Fund Balance, as of and for the fiscal year ended June 30, 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 the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 that might be significant deficiencies or material weaknesses.

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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 the entity's internal control.

We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for information of the District's Board and the Measure C General Obligation Bonds, Election of 2006, Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

El Dorado Hills, California
December 3, 2010

BYRON UNION ELEMENTARY SCHOOL DISTRICT

MEASURE C, GENERAL OBLIGATION BONDS, ELECTION OF 2006

SUMMARY OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2010

There are no matters to report for the fiscal year ended June 30, 2010.