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**BELMONT REDWOOD-SHORES SCHOOL DISTRICT**  
**COUNTY OF SAN MATEO**  
**BELMONT, CALIFORNIA**  
**AUDITED FINANCIAL STATEMENTS**  
**2005 GENERAL OBLIGATION, SERIES A BOND FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**BELMONT REDWOOD-SHORES SCHOOL DISTRICT**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report on Financial Statements	1
Balance Sheet	2
Statement of Revenues, Expenditures, and Changes in Fund Balance	3
Notes to the Financial Statements	4-8

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Belmont Redwood-Shores School District  
Belmont, California

We have audited the accompanying financial statements of the 2005 General Obligation, Series A Bond Fund of Belmont Redwood-Shores School District as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of Belmont Redwood-Shores School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

As discussed in Note 1, the financial statements present only the 2005 General Obligation, Series A Bond Fund and do not purport to and do not present fairly the financial position of Belmont Redwood-Shores School District, as of June 30, 2008 and the changes in its financial position for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2005 General Obligation, Series A Bond Fund of Belmont Redwood-Shores School District as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Patel & Associates*

Oakland, California

January 9, 2009

BELMONT REDWOOD-SHORES SCHOOL DISTRICT  
BALANCE SHEET  
2005 GENERAL OBLIGATION, SERIES A BOND FUND  
JUNE 30, 2008

ASSETS

Cash and investments (Note 3)	\$ 24,399,104
Accounts receivable	192,150
Due from other funds (Note 4)	<u>77,133</u>
Total assets	<u>\$ 24,668,387</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ <u>130,715</u>
Total liabilities	<u>130,715</u>
Fund balance:	
Designated for capital outlay	<u>24,537,672</u>
Total liabilities and fund balance	<u>\$ 24,668,387</u>

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

**BELMONT REDWOOD-SHORES SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE**  
**2005 GENERAL OBLIGATION, SERIES A BOND FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Revenues	
Revenues from local sources:	
Interest	\$ <u>835,985</u>
Total revenues	<u>835,985</u>
Expenditures	
Classified salaries	5,184
Employee benefits	289
Books and supplies	1,010
Services and other operating expenditures	84,576
Capital outlay	1,022,895
Other outgo	
Debt service - issuance cost	<u>625,000</u>
Total expenditures	<u>1,738,954</u>
Deficiency of revenues under expenditures	<u>(902,969)</u>
<b><u>Other Financing Sources / (Uses)</u></b>	
Proceeds from sale of bonds	25,000,000
Premium on bonds	649,809
Operating transfer out (Note 5)	<u>(209,168)</u>
Total other financing sources	<u>25,440,641</u>
Net change in fund balance	24,537,672
Fund balance - June 30, 2007	<u>                    </u>
Fund balance - June 30, 2008	<u>\$ <u>24,537,672</u></u>

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

**BELMONT REDWOOD-SHORES SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
2005 GENERAL OBLIGATION, SERIES A BOND FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1 - A. BACKGROUND**

Belmont Redwood-Shores School District (The District) issued 2005 General Obligation, Series A bond on August 30, 2007. The 2005 General Obligation Series A Bonds represent all of the bonds authorized at an election held on November 8, 2005. The voters authorized the issuance and sale of \$25,000,000 of general obligation bonds to finance the acquisition of land and the construction of a new elementary school and to pay the cost of issuance associated with the bonds. The Bonds are being issued by the County on behalf of the District under and pursuant to the provisions of Chapter 2 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California, and other applicable laws, and all laws amendatory thereof or supplemental thereto insofar as they govern, and pursuant to the provisions of the District Resolution and the County Resolution.

The Bonds were authorized by the voters of the District pursuant to provisions of the Constitution of the State of California including Proposition 39, the initiative passed by voters on November 7, 2000, permitting approval of certain general obligation bonds of school and community college districts by a 55% vote.

**B. DEFINITION OF THE FUND**

The 2005 General Obligation, Series A Bond Fund (Bond Fund) is used to account for the expenditures related to the acquisition and the construction of the new school.

The fund is part of the Building Fund of the District and represents only the expenditures incurred under the fund.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the Department of Education's *California School Accounting Manual*.

B. Fund Structure - The accompanying financial statements are used to account for the transactions of the bond fund as defined in Note 1 and are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

C. Basis of Accounting

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

The bond fund is accounted for using the modified accrual basis of accounting. Its revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

D. Budgets and Budgetary Accounting

The Board of Trustees adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board of Trustees during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

E. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in bank and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash under the fund in the San Mateo County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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 federal depository insurance or are collateralized.

2. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables.

3. Capital Assets

Property, plant and equipment used in the fund operations are accounted for in the government-wide financial statements of the District. Thus, they are not included in the accompanying financial statement.

4. Long-Term Obligations

The District reports long-term debt of the fund in the liabilities section of the District's statement of net assets.

5. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

6. Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**NOTE 3 - CASH AND INVESTMENTS**

The cash and investments under the bond fund consist of the following at June 30, 2008:

Cash in County treasury	\$ <u>24,399,104</u>
Total cash and investments	\$ <u><u>24,399,104</u></u>

Cash with County treasury – 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 fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Information regarding the characteristics of the entire investment pool can be found in the County's June 30, 2008 basic financial statements. A copy of that report may be obtained by contacting the Controller's Office, County of San Mateo, 555 County Center, and Redwood City 94063.

## Policies and Practices

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

## General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<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 notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through funds	5 years	20%	None
County pooled investment funds	N/A	None	None
Local agency investment fund (LAIF)	N/A	None	None
Joint powers authority pools	N/A	None	None

## 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. The District manages its exposure to interest rate risk by purchasing 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.

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity of the District's investment in County Pool is 1.2 years.

### **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 San Mateo County Pool and the State Investment Pool are not rated.

#### **NOTE 4: DUE FROM OTHER FUNDS**

During the year, the District incurred expenditures on some other projects which were paid through the bond funds. As of June 30, 2008, the balance of due from other funds was \$77,133. The District will transfer the amount to the bond funds in the year 2008-09.

#### **NOTE 5: TRANSFER-OUT**

In the prior years, the District incurred expenditures for the acquisition and the construction of the new school site which were paid through other funds. After the issuance of the bond, the District reimbursed the other funds for these expenditures. The total amount transferred out for the prior year expenditures was \$209,168.

#### **NOTE 6: SUBSEQUENT EVENTS**

##### **INVESTMENT LOSS**

Due to Lehman Brother's Bankruptcy filed on September 15, 2008, San Mateo County Investment pool suffered a significant loss. The County Treasury's Office will write off Lehman Brother's holdings as nonperforming assets until the bankruptcy hearings are completed. Investment loss will be distributed to all funds based on the average daily cash balance for the quarter of July – September 2008. The District's portion of the loss for the bond funds is \$1,179,710.