

**KENTFIELD SCHOOL DISTRICT
COUNTY OF MARIN
KENTFIELD, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2016

KENTFIELD SCHOOL DISTRICT

JUNE 30, 2016

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KENTFIELD SCHOOL DISTRICT

JUNE 30, 2016

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Kentfield School District
Kentfield, 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 Kentfield School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District's primary government 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.

Auditor's 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.

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the discretely presented component unit is not reported. The amounts by which this departure would affect the assets, liabilities, net assets, revenues and expenses have not been determined in accordance with accounting principles generally accepted in the United States of America.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the District, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 Kentfield School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14, budgetary comparison information on page 55, schedule of funding progress on page 56, schedules of the proportionate share of the net pension liabilities on pages 57 and 58, and schedules of contributions on pages 59 and 60 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Concluded)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kentfield School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016 on our consideration of the Kentfield School District'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 Kentfield School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2016

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

This section of Kentfield School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 16 and 17, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 18 through 21, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved slightly during fiscal year 2015-16 as total current year revenues exceeded total current year expenses by \$747,245, which includes \$623,935 of one-time funds for outstanding mandate claims.
- Capital assets, net of depreciation, decreased \$533,290 due to accumulated depreciation growing at a faster rate than acquisitions and construction.
- Total long-term liabilities increased \$950,157. Although the District paid down \$1,155,000 of its outstanding current interest general obligation bond liability, the District's proportionate share of the net pension liabilities of CalSTRS and CalPERS increased \$2,186,183.
- The District's P-2 average daily attendance (ADA) remained stable; going from 1,179 ADA in fiscal year 2014-15, up to 1,181 ADA in fiscal year 2015-16.
- The General Fund produced an operating surplus of \$283,710, which included the receipt of \$623,935 for one-time funds for outstanding mandate claims in 2015-16. Without the receipt of those one-time funds, the District would have incurred an operating deficit of \$340,225.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2015-16, General Fund expenditures totaled \$16,694,285. At June 30, 2016, the District has available reserves of \$1,498,186 in the General Fund, which represents a reserve of 9.0%.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

Governmental Activities:

The basic services provided by the District, such as regular and special education, and administration, are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as special education transportation are also included here, but are financed by a combination of state and local revenues.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the Kentfield School District are the General Fund, the Bond Interest and Redemption Fund, and the Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has no funds of this type.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's overall status improved slightly in fiscal year 2015-16.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2015	2016
<u>Assets</u>		
Deposits and Investments	\$ 16,481,560	\$ 16,899,110
Receivables	250,776	345,186
Capital Assets, net	19,939,011	19,405,721
Total Assets	36,671,347	36,650,017
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	1,274,873	1,409,585
Deferred Amount on Refunding	326,336	297,479
Total Deferred Outflows of Resources	1,601,209	1,707,064
<u>Liabilities</u>		
Current	2,468,467	3,320,659
Long-term	40,224,697	40,290,083
Total Liabilities	42,693,164	43,610,742
<u>Deferred Inflows of Resources</u>		
Pension Deferrals	2,929,414	1,349,116
<u>Net Position</u>		
Net Investment in Capital Assets	2,270,430	2,815,673
Restricted	2,097,225	2,801,152
Unrestricted (Deficit)	(11,717,677)	(12,219,602)
Total Net Position (Deficit)	\$ (7,350,022)	\$ (6,602,777)
<i>Table includes financial data of the combined governmental funds</i>		

The unrestricted deficit balance, presented above, is a result of the District's requirement to record a liability in the financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$747,245.

<u>Comparative Statement of Changes in Net Position</u>		
	Governmental Activities	
	2015	2016
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,522,778	\$ 1,660,096
<u>General Revenues</u>		
Taxes Levied	12,590,766	14,706,325
Federal & State Aid	1,165,942	1,757,148
Interest & Investment Earnings	11,382	34,762
Miscellaneous	1,734,016	1,553,750
Total Revenues	17,024,884	19,712,081
<u>Expenses</u>		
Instruction	11,198,949	12,558,600
Instruction-Related Services	1,488,268	1,674,125
Pupil Services	536,329	586,783
General Administration	1,185,053	1,603,840
Plant Services	939,226	1,138,470
Ancillary Services	18,520	16,524
Community Services	6,462	6,463
Interest on Long-Term Debt	632,547	924,465
Other Expenses	757,900	455,566
Total Expenses	16,763,254	18,964,836
Changes in Net Position	261,630	747,245
Net Position (Deficit), Beginning	(7,611,652)	(7,350,022)
Net Position (Deficit), Ending	\$ (7,350,022)	\$ (6,602,777)
<i>Table includes financial data of the combined governmental funds</i>		

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

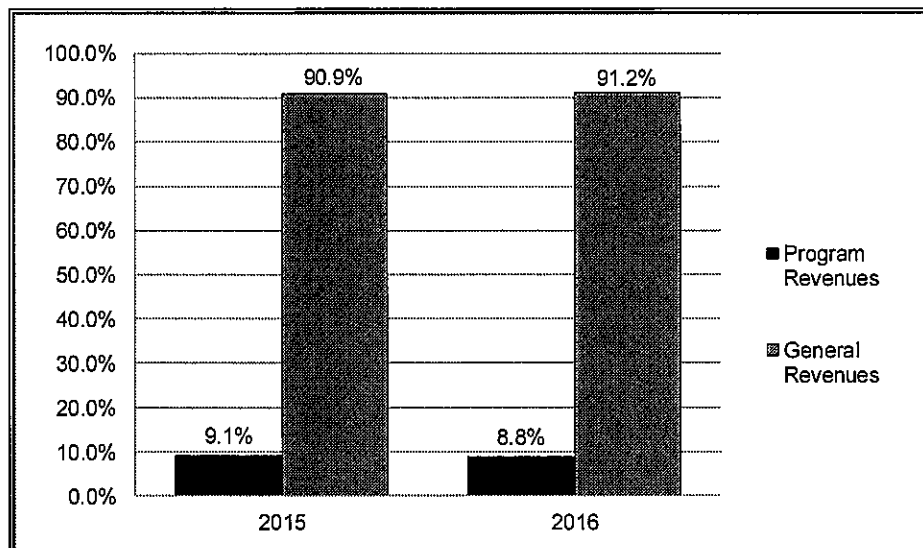
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Costs of Services</u>				
	Total Cost of Services		Net Cost of Services	
	2015	2016	2015	2016
Instruction	\$ 11,198,949	\$ 12,558,600	\$ 9,780,373	\$ 11,136,946
Instruction-Related Services	1,488,268	1,674,125	1,449,156	1,606,379
Pupil Services	536,329	586,783	484,798	540,280
General Administration	1,185,053	1,603,840	1,171,824	1,580,530
Plant Services	939,226	1,138,470	939,226	1,037,827
Ancillary Services	18,520	16,524	18,190	16,284
Community Services	6,462	6,463	6,462	6,463
Interest on Long-Term Debt	632,547	924,465	632,547	924,465
Other Outgo	757,900	455,566	757,900	455,566
Totals	\$ 16,763,254	\$ 18,964,836	\$ 15,240,476	\$ 17,304,740

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$17,304,740 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In fiscal year 2015-16, program revenues financed 8.8% of the total cost of providing the services listed above, while the remaining 91.2% was financed by the general revenues of the District.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

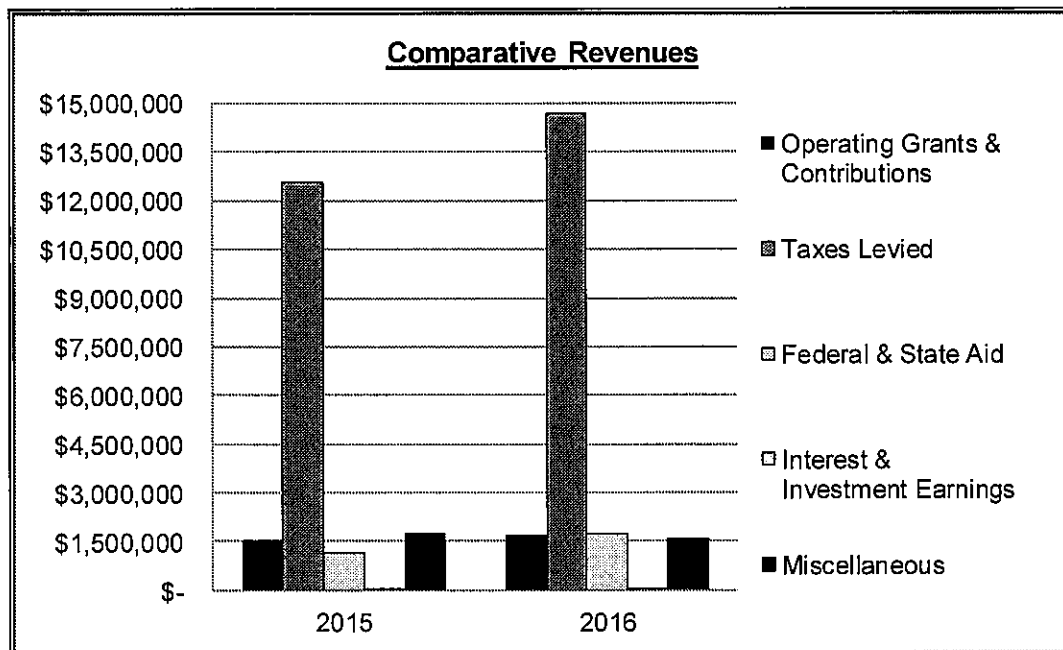
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Revenues For Governmental Functions

	FYE 2015 Amount	Percent of Total	FYE 2016 Amount	Percent of Total
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,522,778	8.94%	\$ 1,660,096	8.42%
<u>General Revenues</u>				
Taxes Levied	12,590,766	73.96%	14,706,325	74.61%
Federal & State Aid	1,165,942	6.85%	1,757,148	8.91%
Interest & Investment Earnings	11,382	0.07%	34,762	0.18%
Miscellaneous	1,734,016	10.19%	1,553,750	7.88%
Total Revenues	<u>\$ 17,024,884</u>	<u>100.00%</u>	<u>\$ 19,712,081</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds



**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

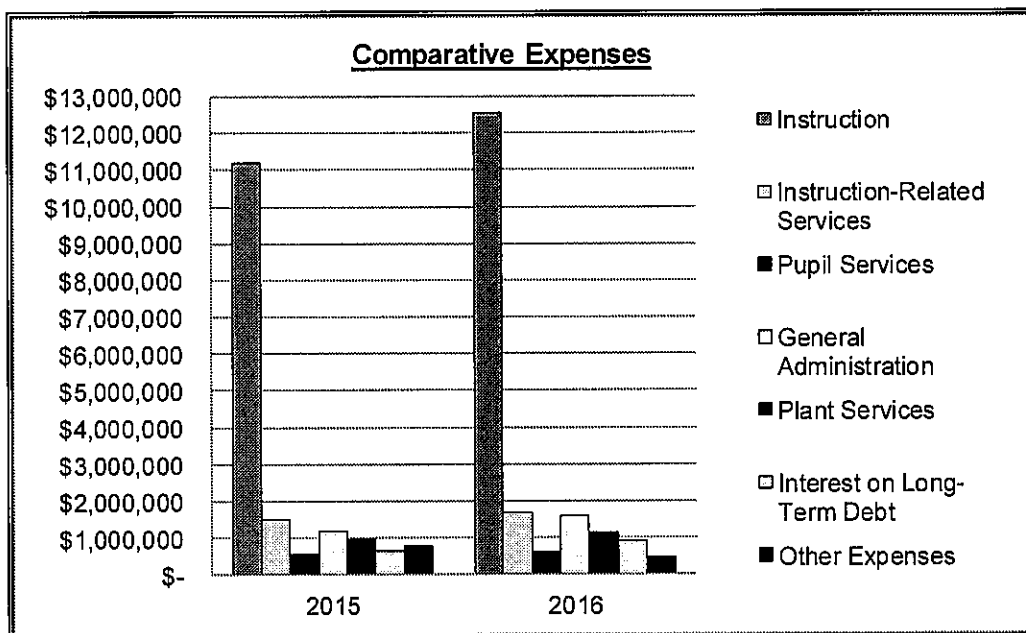
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2015 Amount	Percent of Total	FYE 2016 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 11,198,949	66.81%	\$ 12,558,600	66.22%
Instruction-Related Services	1,488,268	8.88%	1,674,125	8.83%
Pupil Services	536,329	3.20%	586,783	3.09%
General Administration	1,185,053	7.07%	1,603,840	8.46%
Plant Services	939,226	5.60%	1,138,470	6.00%
Interest on Long-Term Debt	632,547	3.77%	924,465	4.87%
Other Expenses	782,882	4.67%	478,553	2.52%
Total Expenses	\$ 16,763,254	100.00%	\$ 18,964,836	100.00%

Table includes financial data of the combined governmental funds



**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
Land	\$ 1,522,674	\$ 1,522,674
Sites and Improvements	3,401,533	3,401,533
Buildings and Improvements	29,781,081	29,854,283
Furniture and Equipment	215,984	215,984
Work-in-Progress	110,099	398,262
Subtotals	35,031,371	35,392,736
Less: Accumulated Depreciation	(15,092,360)	(15,987,015)
Capital Assets, net	<u>\$ 19,939,011</u>	<u>\$ 19,405,721</u>

Capital assets, net of depreciation, decreased \$533,290 due to accumulated depreciation growing at a faster rate than acquisitions and construction.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
Compensated Absences	\$ 87,814	\$ 102,331
General Obligation Bonds:		
Current Interest	26,680,000	25,525,000
Bond Premiums	1,717,056	1,566,631
Capital Leases	1,405,299	1,340,329
Early Retirement Incentives	40,376	39,761
Other Post Employment Benefits	538,031	658,498
Net Pension Liabilities	11,241,124	13,427,307
Totals	<u>\$ 41,709,700</u>	<u>\$ 42,659,857</u>

Total long-term liabilities increased \$950,157 due primarily to the increase in the District's proportionate share of the net pension liabilities.

The general obligation bonds are financed by local taxpayers and represent 64% of the District's total long-term liabilities. The District has satisfied all of its debt service requirements for its bonded debt and continues to maintain an excellent credit rating on its current debt issues.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The capital leases represent 3% of the District's total long-term liabilities and are financed by the General Fund and Capital Facilities Fund. The remaining liabilities represent 33% of the District's total long-term liabilities and will be financed by the General Fund.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2015	Fund Balances June 30, 2016	Increase (Decrease)
General	\$ 2,002,178	\$ 2,285,888	\$ 283,710
Bond Interest & Redemption	1,982,373	2,785,013	802,640
Building	11,758,009	11,472,191	(285,818)
Capital Facilities	32,376	48,776	16,400
Kent Middle School Gymnasium	114,044	111,784	(2,260)
Capital Projects - Special Reserve	88,230	9,557	(78,673)
Totals	<u>\$ 15,977,210</u>	<u>\$ 16,713,209</u>	<u>\$ 735,999</u>

The fund balance of the General Fund increased \$283,710 while the combined fund balances of all other governmental funds increased \$452,289.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time. The original budget presented on page 55 includes only new revenues for fiscal year 2015-16.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the foreseeable future. In addition, the economy has finished its seventh year of expansion, lasting two years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislation and local governments, including local education agencies, to plan for the next recession.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

Accordingly, the District's budget should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Kentfield School District, 750 College Avenue, Kentfield, California 94904.

BASIC FINANCIAL STATEMENTS

**KENTFIELD SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 16,899,110
Receivables (Note 3)	345,186
Capital Assets (Note 4)	
Land	1,522,674
Sites and Improvements	3,401,533
Buildings and Improvements	29,854,283
Furniture and Equipment	215,984
Work-in-Progress	398,262
Less: Accumulated Depreciation	(15,987,015)
Total Assets	<u>36,650,017</u>
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 9)	1,409,585
Bond Refunding	297,479
Total Deferred Outflows of Resources	<u>1,707,064</u>
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	531,087
Accrued Interest Payable	419,798
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	32,354
General Obligation Bonds	
Current Interest	2,040,000
Bond Premium	150,424
Capital Leases	126,803
Early Retirement Incentives	20,193
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 1H)	69,977
General Obligation Bonds (Note 5)	
Current Interest	23,485,000
Bond Premium	1,416,207
Capital Leases (Note 6)	1,213,526
Early Retirement Incentives (Note 7)	19,568
Other Post Employment Benefits (Note 8)	658,498
Net Pension Liabilities (Note 9)	13,427,307
Total Liabilities	<u>43,610,742</u>
<u>Deferred Inflows of Resources</u>	
Pension Deferrals (Note 9)	<u>1,349,116</u>
<u>Net Position</u>	
Net Investment in Capital Assets	2,815,673
Restricted:	
For Capital Projects	48,776
For Debt Service	2,365,215
For Educational Programs	386,461
For Other Purposes	700
Unrestricted (Deficit)	(12,219,602)
Total Net Position (Deficit)	<u>\$ (6,602,777)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 12,558,600		\$ 1,421,654		\$ (11,136,946)
Instruction-Related Services:					
Supervision of Instruction	109,567		32,908		(76,659)
Instructional Library and Technology	359,960		6,905		(353,055)
School Site Administration	1,204,598		27,933		(1,176,665)
Pupil Services:					
Other Pupil Services	586,783		46,503		(540,280)
General Administration:					
Data Processing Services	16,351				(16,351)
Other General Administration	1,587,489		23,310		(1,564,179)
Plant Services	1,138,470		100,643		(1,037,827)
Ancillary Services	16,524		240		(16,284)
Community Services	6,463				(6,463)
Interest on Long-Term Debt	924,465				(924,465)
Other Outgo	455,566				(455,566)
Total Governmental Activities	<u>\$ 18,964,836</u>	<u>\$ 0</u>	<u>\$ 1,660,096</u>	<u>\$ 0</u>	<u>(17,304,740)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					8,003,326
Taxes Levied for Debt Service					2,751,977
Taxes Levied for Specific Purposes					3,951,022
Federal and State Aid - Unrestricted					1,757,148
Interest and Investment Earnings					34,762
Miscellaneous					1,553,750
Total General Revenues					<u>18,051,985</u>
Change in Net Position					747,245
Net Position (Deficit) - July 1, 2015					<u>(7,350,022)</u>
Net Position (Deficit) - June 30, 2016					<u>\$ (6,602,777)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 2,420,651	\$ 2,785,013	\$ 11,525,453	\$ 167,993	\$ 16,899,110
Receivables (Note 3)	343,062			2,124	345,186
Total Assets	<u>\$ 2,763,713</u>	<u>\$ 2,785,013</u>	<u>\$ 11,525,453</u>	<u>\$ 170,117</u>	<u>\$ 17,244,296</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	<u>\$ 477,825</u>		<u>\$ 53,262</u>		<u>\$ 531,087</u>
Fund Balances: (Note 11)					
Nonspendable	700				700
Restricted	386,461	\$ 2,785,013	11,472,191	\$ 48,776	14,692,441
Assigned	400,541			121,341	521,882
Unassigned	1,498,186				1,498,186
Total Fund Balances	<u>2,285,888</u>	<u>2,785,013</u>	<u>11,472,191</u>	<u>170,117</u>	<u>16,713,209</u>
Total Liabilities and Fund Balances	<u>\$ 2,763,713</u>	<u>\$ 2,785,013</u>	<u>\$ 11,525,453</u>	<u>\$ 170,117</u>	<u>\$ 17,244,296</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

KENTFIELD SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances - Governmental Funds	\$ 16,713,209
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Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital Assets	\$ 35,392,736	
Accumulated Depreciation	(15,987,015)	
Net		19,405,721

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:

Deferred outflows of resources relating to pensions	1,409,585
Deferred inflows of resources relating to pensions	(1,349,116)

Unamortized costs: In governmental funds, the gain or loss from debt refunding activities is recognized in the period they are incurred. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from refunding, reported as deferred outflows of resources, are:

297,479

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities are:

Compensated Absences	\$ 102,331	
General Obligation Bonds:		
Current Interest	25,525,000	
Bond Premium	1,566,631	
Capital Leases	1,340,329	
Early Retirement Incentives	39,761	
Other Post Employment Benefits	658,498	
Net Pension Liabilities	13,427,307	
Total		(42,659,857)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owed at the end of the period was:

(419,798)

Total Net Position (Deficit) - Governmental Activities

\$ (6,602,777)

KENTFIELD SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
LCFF Sources:					
State Apportionment / Transfers	\$ 914,900				\$ 914,900
Local Taxes	8,003,326				8,003,326
Total LCFF Sources	8,918,226				8,918,226
Federal Revenue	163,329				163,329
State Revenue	1,677,130	\$ 10,639			1,687,769
Local Revenue	6,108,991	2,745,439	\$ 25,027	\$ 63,300	8,942,757
Total Revenues	16,867,676	2,756,078	25,027	63,300	19,712,081
<u>Expenditures</u>					
Current:					
Instruction	11,213,246				11,213,246
Supervision of Instruction	109,449				109,449
Instructional Library and Technology	351,949				351,949
School Site Administration	1,165,249				1,165,249
Other Pupil Services	565,270				565,270
Data Processing Services	16,351				16,351
Other General Administration	1,538,950				1,538,950
Plant Services	1,065,340				1,065,340
Facilities Acquisition and Construction	17,947		310,845	81,221	410,013
Ancillary Services	10,156				10,156
Other Outgo	453,536				453,536
Debt Service:					
Principal Retirement	145,642	1,155,000		29,647	1,330,289
Interest and Issuance Costs	41,200	818,284		16,965	876,449
Total Expenditures	16,694,285	1,973,284	310,845	127,833	19,106,247
Excess of Revenues Over (Under) Expenditures	173,391	782,794	(285,818)	(64,533)	605,834
<u>Other Financing Sources</u>					
Other Sources	110,319	19,846			130,165
Net Change in Fund Balances	283,710	802,640	(285,818)	(64,533)	735,999
Fund Balances - July 1, 2015	2,002,178	1,982,373	11,758,009	234,650	15,977,210
Fund Balances - June 30, 2016	\$ 2,285,888	\$ 2,785,013	\$ 11,472,191	\$ 170,117	\$ 16,713,209

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

KENTFIELD SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Governmental Funds	\$ 735,999
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlay Expenditures	\$ 361,365	
Depreciation Expense	(894,655)	
Net		(533,290)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

1,330,289

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premiums or discounts, were:

(110,319)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(191,460)

Compensated absences and early retirement incentives: In governmental funds, compensated absences and early retirement incentives are measured by the amounts paid during the period. In the statement of activities, compensated absences and early retirement incentives are measured by the amounts earned. The difference between amounts paid and amounts earned were:

(13,902)

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

(120,467)

Pensions: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:

(471,173)

Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as Other Financing Sources or Other Financing Uses in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. The premiums, discount, or gain or loss on debt refunding activities and the amortization for the period are:

Premiums, discounts, or gain or loss on debt refunding	\$ (19,846)	
Amortized premiums, discounts, or gain or loss on debt refunding	141,414	
Net		121,568

Change in Net Position of Governmental Activities	\$ 747,245
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KENTFIELD SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 31,732	\$ 31,732
<u>Liabilities</u>		
Due to Student Groups	31,732	31,732
<u>Net Position</u>		
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Kentfield School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Marin County. The District serves students in kindergarten through grade eight.

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 generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, the organization should be included as a component unit.

The nucleus of a financial reporting entity is usually a primary government. Governmental Accounting Standards Board Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, defines a *primary government* as any state government, general-purpose local government, or special-purpose government that meets all of the following criteria:

- It has a separately elected governing body
- It is legally separate
- It is fiscally independent of other state and local governments

The primary government consists of all funds that make up the legal entity. The primary government also consists of funds for which it has a fiduciary responsibility, even though those funds may represent organizations that do not meet the definition for inclusion in the financial reporting entity.

Component units include legally separate organizations (whether governmental, not-for-profit, or for-profit organizations) for which elected officials of the primary government are financially accountable. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board. The primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

In addition, GASB 61 also requires certain organizations to be included as component units if the nature and significance of their relationship with the primary government are such that excluding them would cause the financial reporting entity's financial statements to be misleading.

Based on the GASB 61 criteria and definitions, the District is the primary government and there are no material potential component units which should be included in the Financial Reporting Entity in these financial statements.

Governmental Accounting Standards Board Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that the Kentfield Schools Foundation (the Foundation), a non-profit, public benefit corporation, meets the criteria set forth in GASB 39. However, since the Foundation does not issue audited financial statements, the financial statements of the District include only the financial data of the primary government, which consists of all funds that comprise the District's legal entity, and all funds for which it has a fiduciary responsibility. The financial statements do not include financial data of the Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, these financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the financial reporting entity, or its respective changes in its financial position.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity within the governmental activities column has been removed from these statements.

Governmental activities are supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Fiduciary funds are reported using the economic resources measurement focus.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Certain grant funds received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. 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 District maintains the following governmental fund types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District's funds are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. For financial reporting purposes the financial activities and balances of the Deferred Maintenance Fund and Special Revenue - Special Reserve Fund have been combined with the General Fund.

The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for the repayment of District bonds, interest, and related costs.

The *Building Fund* is used to account for resources including bonds proceeds from the 2014 Measure D authorization to finance school improvement and expansion.

Non-Major Governmental Funds:

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

The *Kent Middle School Gymnasium Fund* was established to account for donations from the community and expenditures for the construction of a new gymnasium. The fund is currently used to account for facilities use fees generated by the gymnasium, which are used to maintain the facility.

The *Capital Projects - Special Reserve Fund* was established to account for revenues and expenditures associated with the acquisition of the new District Office. The fund is currently used for maintenance and improvements of the District Office acquired in 2007.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body activities at Adeline E. Kent Middle School and Anthony G. Bacich Elementary School. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 55.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

1. Deposits and Investments (Concluded)

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.

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.

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.

2. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	6-36
Buildings and Improvements	7-40
Furniture and Equipment	5-20

3. Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

3. Deferred Outflows/Inflows of Resources (Concluded)

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

4. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

5. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS), and additions to/deductions from the CalSTRS' and CalPERS' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

6. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Position. Premiums and discounts are deferred and amortized over the life of the obligation, when applicable. Liabilities are reported net of applicable premiums and discounts.

In the fund financial statements, governmental funds recognize premiums and discounts when the debt is issued. The face amount of the debt issued, premiums and discounts are reported as other financing sources or uses.

7. Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The five fund balance classifications used in the governmental fund financial statements are as follows:

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

7. Fund Balances (Concluded)

Nonspendable Fund Balance includes amounts that are not expected to be converted to cash, such as resources that are not in spendable form (e.g., inventories and prepaids) or that are legally or contractually required to be maintained intact.

Restricted Fund Balance includes amounts constrained to a specific purpose by their providers (e.g., creditors, grantors, and contributors), or by law.

Committed Fund Balance includes amounts that are constrained to specific purposes by the Board. For this purpose, all commitments of funds shall be approved by majority vote of the Board. The constraints shall be imposed no later than the end of the reporting period (June 30), although the actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

Assigned Fund Balance includes amounts which are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. The Board delegates authority to assign funds to the Superintendent and authorizes the assignment of such funds to be made any time prior to the issuance of the financial statements. The Superintendent may further delegate the authority to assign funds at his/her discretion.

Unassigned Fund Balance includes amounts that are available for any purpose.

The Board intends to maintain a minimum assigned and unassigned fund balance in an amount the Board deems sufficient to maintain fiscal solvency and stability to protect the District against unforeseen circumstances.

If the assigned and unassigned fund balance falls below the level set by the Board due to an emergency situation, unexpected expenditures, or revenue shortfalls, the Board shall develop a plan to recover the fund balance which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources.

When multiple types of funds are available for an expenditure, the District shall first utilize funds from the restricted fund balance, as appropriate, then from the committed fund balance, then from the assigned fund balance, and lastly from the unassigned fund balance.

8. Local Control Funding Formula (LCFF)/Property Tax

The formula for determining the level of funding per student is the "Local Control Funding Formula" (LCFF). District funding under the LCFF is generally provided by a mix of state aid and local property taxes.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

8. Local Control Funding Formula (LCFF)/Property Tax (Concluded)

The County of Marin is responsible for assessing, collecting and apportioning property taxes to the District. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF transition entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

Since the amount of property taxes received by the District exceeds the amount of the LCFF entitlement, the District is considered to be a "basic aid" school district, and is permitted to keep all of its property tax revenue. In addition, as guaranteed by the California Constitution, the State must apportion \$120 per pupil to the District. However, the categorical aid that the District receives counts toward this requirement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 31,732
Cash in Revolving Fund	\$ 700	
County Pool Investments	<u>16,898,410</u>	
Total Deposits and Investments	<u>\$ 16,899,110</u>	<u>\$ 31,732</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Summary of Deposits and Investments (Concluded)

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

County Pool Investments

County pool investments consist of District cash held by the Marin 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).

General Authorization

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 Securities	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

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 changes 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.

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	\$ 16,898,410	\$ 16,921,500	\$ 14,130,371	\$ 2,768,039

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. 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	\$ 16,898,410	\$ 16,921,500			\$ 16,898,410

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, at year-end, that represents five percent or more of the total investments held by the District.

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, 2016, the District does not have any investments that are held by counterparties.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - 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. As of June 30, 2016, the District has no bank balance that is exposed to custodial credit risk.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Marin County Treasury was not available.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2016 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 120,029		\$ 120,029
State Government	142,331		142,331
Local Governments	70,179		70,179
Miscellaneous	10,523	\$ 2,124	12,647
Totals	<u>\$ 343,062</u>	<u>\$ 2,124</u>	<u>\$ 345,186</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balances July 1, 2015	Additions	Deletions	Balances June 30, 2016
Land	\$ 1,522,674			\$ 1,522,674
Sites and Improvements	3,401,533			3,401,533
Buildings and Improvements	29,781,081	\$ 73,202		29,854,283
Furniture and Equipment	215,984			215,984
Work-in-Progress	110,099	410,014	\$ 121,851	398,262
Totals at Historical Cost	35,031,371	483,216	121,851	35,392,736
Less Accumulated Depreciation for:				
Sites and Improvements	2,393,925	77,843		2,471,768
Buildings and Improvements	12,624,457	800,931		13,425,388
Furniture and Equipment	73,978	15,881		89,859
Total Accumulated Depreciation	15,092,360	894,655	0	15,987,015
Governmental Activities Capital Assets, net	<u>\$ 19,939,011</u>	<u>\$ (411,439)</u>	<u>\$ 121,851</u>	<u>\$ 19,405,721</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 819,952
School Site Administration	14,336
Other General Administration	24,974
Plant Services	22,775
Ancillary Services	6,155
Community Services	6,463
Total Depreciation Expense	<u>\$ 894,655</u>

NOTE 5 - GENERAL OBLIGATION BONDS

The District's outstanding general obligation debt, excluding \$1,566,631 of unamortized bond premiums, as of June 30, 2016 is as follows:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2016
8/18/05	3.00-4.25	8/1/23	\$ 11,805,000	\$ 645,000		\$ 645,000	\$ 0
1/18/12	2.00-3.50	8/1/29	9,585,000	8,500,000		445,000	8,055,000
5/13/15	3.00-5.00	8/1/44	12,000,000	12,000,000			12,000,000
5/13/15	2.00-5.00	8/1/23	5,535,000	5,535,000		65,000	5,470,000
Totals			<u>\$ 38,925,000</u>	<u>\$ 26,680,000</u>	<u>\$ 0</u>	<u>\$ 1,155,000</u>	<u>\$ 25,525,000</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - GENERAL OBLIGATION BONDS (CONCLUDED)

The annual requirements to amortize the current interest general obligation bonds, as of June 30, 2016, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 2,040,000	\$ 963,856	\$ 3,003,856
2018	1,795,000	887,156	2,682,156
2019	1,130,000	828,006	1,958,006
2020	1,180,000	780,407	1,960,407
2021	1,220,000	730,856	1,950,856
2022-2026	5,350,000	2,922,206	8,272,206
2027-2031	3,900,000	2,102,675	6,002,675
2032-2036	2,055,000	1,659,034	3,714,034
2037-2041	3,185,000	1,214,388	4,399,388
2042-2046	3,670,000	387,000	4,057,000
Totals	<u>\$ 25,525,000</u>	<u>\$ 12,475,584</u>	<u>\$ 38,000,584</u>

NOTE 6 - CAPITAL LEASES

On October 7, 2011, the District refinanced the lease agreement for the District Office building on the outstanding principal amount of \$1,647,947 at an effective interest rate of 3.956%. The agreement requires monthly lease payments of \$11,652.94 and continues through September 7, 2027, at which time title will pass to the District.

On July 1, 2015, the District entered into a capital lease agreement to finance the purchase of \$110,319 of computer equipment. The lease agreement provides for title to pass upon expiration of the lease period. Future minimum lease payments under the agreement require two annual payments of \$38,077.

Future minimum lease payments under these agreements are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Lease</u> <u>Payments</u>
2017	\$ 177,913
2018	177,913
2019	139,835
2020	139,835
2021	139,835
2022-2026	699,177
2027-2031	<u>174,772</u>
Total payments	1,649,280
Less amounts representing interest	<u>(308,951)</u>
Present value of net minimum lease payments	<u>\$ 1,340,329</u>

The District will receive no sublease revenues or pay any contingent rentals for the leased assets.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - EARLY RETIREMENT INCENTIVES

In accordance with Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*, termination benefits including benefits provided by employers to employees as an inducement to hasten the termination of services, such as early retirement incentives, should be recognized when the employees accept the offer and the amounts can be estimated.

The District offers an early retirement incentive program through the Public Agency Retirement Services (PARS), where eligible employees receive a lump sum benefit based on their years of service at retirement. In general, this benefit is available to employees who are at least 50% FTE with 10 or more years of service with the District and who retire under the California State Teachers' Retirement System (CalSTRS).

The table below outlines the prorated lump sum benefit amount offered:

<u>Years of Service</u>	<u>Benefit Amount</u>
10-14	\$ 10,000
15-19	15,000
20-24	20,000
25-29	25,000
30-34	30,000
35+	35,000

The liability reported is the present value of future expected cash flows, using a 5% discount rate. The cost for this benefit in fiscal year 2015-16 was \$19,231. At June 30, 2016, the liability is estimated to be \$39,761 for six retirees with up to three more years of annual payments remaining.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the District offers other post employment benefits (OPEB) to employees who meet certain criteria. The District records the liability for this benefit in accordance with Governmental Accounting Standards Board Statement No. 45.

Plan Descriptions: The District's OPEB Plan provides medical, prescription drug, dental and vision benefits. Active employees and retirees are offered a choice of five medical/prescription drug options from Kaiser Permanente and Blue Shield of California, with prescription drug carved out and provided through Navitus for two Blue Shield options. These coverages are self-insured on a pooled basis by the Self-Insured Schools of California (SISC III), effective October 1, 2015. In addition, all groups are offered dental and vision benefits through Delta Dental and VSP Vision, respectively.

Certificated and classified employees (including management) who attain age 55 and have completed at least 5 years of continuous service are eligible to retire with District-paid medical, prescription drug, dental and vision coverages, to a maximum of the Kaiser Traditional single rate for active employees (currently \$600/month), plus retiree-only dental and vision premiums (currently \$55.95/month and \$17.70/month, respectively) for a total of \$673.65/month, pro-rated for part-time service, if applicable. Retirees may cover dependents at their own expense. District-paid benefits end at age 65.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by labor agreements.

The District had 118 active employees and 6 retired employees covered by the OPEB Plan as of July 1, 2015, the effective date of the triennial OPEB valuation. For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2016, the amount contributed to the Plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$658,498 for the year ended June 30, 2016.

Annual required contribution (ARC)	\$ 199,312
Interest on Net OPEB Obligation	21,521
Adjustment to ARC	<u>(31,114)</u>
Annual OPEB cost (expense)	189,719
Contributions for the fiscal year	<u>(69,252)</u>
Increase in Net OPEB Obligation	120,467
Net OPEB Obligation - June 30, 2015	<u>538,031</u>
Net OPEB Obligation - June 30, 2016	<u><u>\$ 658,498</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years are presented below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 189,719	36.5%	\$ 658,498
June 30, 2015	99,928	44.7%	538,031
June 30, 2014	100,875	47.4%	482,761

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

Actuarial Methods and Assumptions (Concluded):

Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In the July 1, 2015, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability is being amortized on the level dollar basis over an open 30 year amortization period. The actuarial assumptions utilized a 4% discount rate, the expected long-term rate of return on District assets. The valuation assumes an initial medical and prescription cost rate of 8%, which grades down to an ultimate rate of 5% by the 4th year, and constant 4% cost rate for dental and vision. The District caps on retiree health care premiums were assumed to increase at the full health care trend rates for all future years and assumes that 50% of future retirees will waive benefits.

NOTE 9 - RETIREMENT PLANS

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

The District reported net pension liabilities, deferred outflows of resources, and deferred inflows of resources in the accompanying statement of net position as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
CalSTRS	\$ 11,180,790	\$ 996,163	\$ 1,073,484
CalPERS	2,246,517	413,422	275,632
Totals	<u>\$ 13,427,307</u>	<u>\$ 1,409,585</u>	<u>\$ 1,349,116</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP.

The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on a members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided (Concluded)

CalSTRS 2% at 60 (Concluded)

CalSTRS calculates retirement benefits based on one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of service, or for classroom teachers with less than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for any 36 consecutive months of credited service.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Under CalSTRS 2% at 60, the member contribution rate was 9.20% of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, the member contribution rate was 8.56% of applicable member earnings for fiscal year 2015-16. The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 10.73% of applicable member earnings for fiscal year 2015-16. The District contributed \$856,411 to the plan for the fiscal year ended June 30, 2016.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2016 was 2.874%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 7.391% for the fiscal year ended June 30, 2016.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 11,180,790
State's proportionate share of the net pension liability associated with the District	<u>236,788</u>
Total net pension liability attributed to District	<u><u>\$ 11,417,578</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on a District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0164%
Proportion - June 30, 2015	<u>0.0166%</u>
Change - Increase (Decrease)	<u><u>0.0002%</u></u>

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$1,779,285, which includes \$532,064 of support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 856,411	
Differences between expected and actual experience		\$ 186,762
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	139,752	
Net differences between projected and actual earnings on plan investments		<u>886,722</u>
Totals	<u><u>\$ 996,163</u></u>	<u><u>\$ 1,073,484</u></u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (376,814)
2018	(376,814)
2019	(376,814)
2020	212,380
2021	(7,835)
2022	(7,835)

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit	2.00% simple for DB (Annually)
	Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses. CalSTRS uses a 7.5% assumed investment rate of return for funding purposes, which is net of administrative expenses.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Concluded)

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash / Liquidity	1%	0.00%
Total	<u>100%</u>	

* 10-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases as per AB 1469 - Bonta. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.60%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	Discount Rate 1% Decrease 6.60%	Discount Rate Current Rate 7.60%	Discount Rate 1% Increase 8.60%
District's proportionate share of the net pension liability	\$ 16,882,123	\$ 11,180,790	\$ 6,442,523

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 11.847% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2016 was \$208,867.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported a liability of \$2,246,517 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0146%
Proportion - June 30, 2015	<u>0.0152%</u>
Change - Increase (Decrease)	<u><u>0.0006%</u></u>

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$289,230. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 208,867	
Differences between expected and actual experience	129,498	
Changes of assumptions		\$ 139,221
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	75,057	78,686
Net differences between projected and actual earnings on plan investments		57,725
Totals	<u>\$ 413,422</u>	<u>\$ 275,632</u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (67,554)
2018	(67,554)
2019	(28,211)
2020	92,242

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Consumer Price Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return (1)	7.50%
Post Retirement Benefit Increase (2)	

(1) Net of pension plan investment and administrative expenses, includes inflation

(2) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor
on Purchasing Power applies, 2.75% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. For the Schools Pool, this difference was deemed immaterial.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Discount Rate (Concluded)

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	Discount Rate 1% Decrease 6.50%	Discount Rate Current Rate 7.50%	Discount Rate 1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 3,656,394	\$ 2,246,517	\$ 1,074,110

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. Both the District and participating employees were required to contribute 6.2% of an employee's gross earnings, up to the annual limit.

NOTE 10 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2016, is shown below.

	Balances July 1, 2015	Additions	Deductions	Balances June 30, 2016	Due within One Year
Compensated Absences	\$ 87,814	\$ 102,331	\$ 87,814	\$ 102,331	\$ 32,354
General Obligation Bonds:					
Current Interest	26,680,000		1,155,000	25,525,000	2,040,000
Bond Premiums	1,717,056	19,846	170,271	1,566,631	150,424
Capital Leases	1,405,299	110,319	175,289	1,340,329	126,803
Early Retirement Incentives	40,376	18,616	19,231	39,761	20,193
Other Post Employment Benefits	538,031	189,719	69,252	658,498	
Net Pension Liabilities	11,241,124	2,186,183		13,427,307	
Totals	\$ 41,709,700	\$ 2,627,014	\$ 1,676,857	\$ 42,659,857	\$ 2,369,774

The general obligation bonds are an obligation of the Bond Interest and Redemption Fund, which is primarily funded by property tax collections. The capital leases are obligations of the General Fund and Capital Facilities Fund. The remaining long-term liabilities will be financed by the General Fund.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - FUND BALANCES

The District's fund balances at June 30, 2016 consisted of the following:

	General Fund	Bond Interest & Redemption Fund	Building Fund	Non-Major Governmental Funds	Totals
Nonspendable:					
Revolving Cash	\$ 700				\$ 700
Total Nonspendable	<u>700</u>				<u>700</u>
Restricted:					
Categorical Programs	386,461				386,461
Capital Projects			\$ 11,472,191	\$ 48,776	11,520,967
Debt Service		\$ 2,785,013			2,785,013
Total Restricted	<u>386,461</u>	<u>2,785,013</u>	<u>11,472,191</u>	<u>48,776</u>	<u>14,692,441</u>
Assigned:					
Special Education	100,000				100,000
Other Assignments	300,541			121,341	421,882
Total Assigned	<u>400,541</u>	<u>0</u>	<u>0</u>	<u>121,341</u>	<u>521,882</u>
Unassigned:					
Reserve for Economic Uncertainties	828,798				828,798
Remaining Unassigned Balances	669,388				669,388
Total Unassigned	<u>1,498,186</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,498,186</u>
Total Fund Balances	<u>\$ 2,285,888</u>	<u>\$ 2,785,013</u>	<u>\$ 11,472,191</u>	<u>\$ 170,117</u>	<u>\$ 16,713,209</u>

NOTE 12 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 Education. This payment consists of state general fund contributions to CalSTRS of \$532,064 (7.12589% of creditable compensation subject to CalSTRS).

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015-16, the District participated in one joint power authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 14 - JOINT VENTURES

A. Marin Schools Insurance Authority (MSIA)

The District participates in a joint venture under a joint powers agreement with MSIA for workers' compensation and property and liability insurance. The relationship between the District and MSIA is such that MSIA is not a component unit of the District for financial reporting purposes.

MSIA arranges for and/or provides coverage for its members. MSIA is governed by a board consisting of a representative from each member district. MSIA's governing board controls the operations of MSIA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - JOINT VENTURES (CONCLUDED)

A. Marin Schools Insurance Authority (MSIA) (Concluded)

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in MSIA. MSIA is audited on an annual basis. Audit financial statements can be obtained by contacting MSIA's management.

B. Marin Pupil Transportation Agency (MPTA)

The District participates in a joint venture under a joint powers agreement with MPTA for pupil transportation services for special education children. The relationship between the District and MPTA is such that MPTA is not a component unit of the District for financial reporting purposes.

MPTA arranges for and/or provides special education transportation services for its members. MPTA is governed by a board consisting of a representative from each member district. MPTA's board controls the operations of MPTA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the Board. Each member district pays a fee commensurate with the level of service requested, and shares surpluses and deficits proportionately to their participation in MPTA. MPTA is audited on an annual basis. Audited financial statements can be obtained by contacting MPTA's management.

NOTE 15 - ECONOMIC DEPENDENCY

During the year, the District received \$3,950,770 of parcel tax revenue that is subject to voter approval. The District also received \$1,116,486 from the Kentfield Schools Foundation, a non-profit, public benefit corporation that is subject to voluntary public contributions to the organization.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 16 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

C. Construction Commitments

As of June 30, 2016, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Bacich Elementary School New Classroom Building *	\$ 413,580	Summer 2019
Bacich Elementary School Modernization *	199,075	Fall 2018
Kent Middle School Modernization and New Music Classroom *	642,600	Fall 2018
Kent Middle School New Classroom Building *	338,956	Winter 2017

** Represent ongoing contracts for architectural services only*

NOTE 17 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 6, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 777,454	\$ 916,452	\$ 914,900	\$ (1,552)
Local Sources	7,796,891	7,964,613	8,003,326	38,713
Total LCFF Sources	8,574,345	8,881,065	8,918,226	37,161
Federal Revenue	185,651	172,225	163,329	(8,896)
Other State Revenue	1,070,115	1,522,954	1,677,130	154,176
Other Local Revenue	6,149,515	6,187,637	6,108,991	(78,646)
Total Revenues	15,979,626	16,763,881	16,867,676	103,795
<u>Expenditures</u>				
Certificated Salaries	8,027,584	8,165,236	8,137,305	27,931
Classified Salaries	1,948,304	2,017,226	2,020,202	(2,976)
Employee Benefits	2,902,719	3,350,128	3,351,907	(1,779)
Books and Supplies	658,369	792,237	504,922	287,315
Services and Other				
Operating Expenditures	1,569,787	2,060,792	2,025,636	35,156
Capital Outlay	20,800	14,800	13,935	865
Debt Service:				
Principal Retirement			145,642	(145,642)
Interest and Fiscal Charges			41,199	(41,199)
Other Expenditures	565,246	523,656	453,537	70,119
Total Expenditures	15,692,809	16,924,075	16,694,285	229,790
Excess of Revenues Over (Under) Expenditures	286,817	(160,194)	173,391	333,585
<u>Other Financing Sources</u>				
Other Sources		110,319	110,319	
Net Change in Fund Balances	286,817	(49,875)	283,710	\$ 333,585
Fund Balances - July 1, 2015	2,002,178	2,002,178	2,002,178	
Fund Balances - June 30, 2016	\$ 2,288,995	\$ 1,952,303	\$ 2,285,888	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
7/1/15	\$ 0	\$ 1,340,399	\$ 1,340,399	0%	\$ 8,495,882	15.8%
7/1/12	0	658,863	658,863	0%	6,446,099	10.2%
7/1/09	0	1,432,000	1,432,000	0%	7,212,321	19.9%

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS *

JUNE 30, 2016

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Employee Payroll	District's Proportionate Share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2016	0.0166%	\$ 11,180,790	\$ 236,788	\$ 11,417,578	\$ 7,708,288	145.05%	74.02%
2015	0.0164%	9,583,668	226,889	9,810,557	7,294,958	131.37%	76.52%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS *

JUNE 30, 2016

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Employee Payroll	District's Proportionate Share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2016	0.0152%	\$ 2,246,517	\$ 1,687,308	133.14%	79.43%
2015	0.0146%	1,657,455	1,531,035	108.26%	83.38%

- * The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Employee Payroll</u>	<u>Contributions As a % of Covered Employee Payroll</u>
2016	\$ 856,411	\$ 856,411	\$ -	\$ 7,981,463	10.73%
2015	680,699	680,699	-	7,665,529	8.88%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Employee Payroll</u>	<u>Contributions As a % of Covered Employee Payroll</u>
2016	\$ 208,867	\$ 208,867	\$ -	\$ 1,763,037	11.847%
2015	198,612	198,612	-	1,687,299	11.771%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

Excess of expenditures over appropriations at June 30, 2016 are as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Classified Salaries	\$ 2,976
Employee Benefits	1,779
Debt Service: Principal Retirement	145,642
Debt Service: Interest and Fiscal Charges	41,199

The District incurred unanticipated expenditures in excess of appropriations in the above expenditure classifications for which the budget was not revised.

B. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

C. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered-employee payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

KENTFIELD SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

D. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered-employee payroll.

SUPPLEMENTARY INFORMATION SECTION

KENTFIELD SCHOOL DISTRICT
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ORGANIZATION

The Kentfield School District is situated in Marin County, approximately 10 miles north of San Francisco. The District currently operates one elementary school and one middle school. There were no changes in the boundaries of the District during the year.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Juli Kauffman	President	December 2019
Ashley Paff	Clerk	December 2017
Cynthia Roenisch	Member	December 2017
Quoc Tran	Member	December 2019
Heather McPhail Sridharan	Member	December 2017

ADMINISTRATION

Elizabeth Schott
Superintendent

Barbara Johnson
Business Manager

KENTFIELD SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Capital Facilities	Kent Middle School Gymnasium	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
<u>Assets</u>				
Deposits and Investments	\$ 46,652	\$ 111,784	\$ 9,557	\$ 167,993
Receivables	2,124			2,124
Total Assets	<u>\$ 48,776</u>	<u>\$ 111,784</u>	<u>\$ 9,557</u>	<u>\$ 170,117</u>
<u>Fund Balances</u>				
Restricted	\$ 48,776			\$ 48,776
Assigned		\$ 111,784	\$ 9,557	121,341
Total Fund Balances	<u>\$ 48,776</u>	<u>\$ 111,784</u>	<u>\$ 9,557</u>	<u>\$ 170,117</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**KENTFIELD SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Capital Facilities	Kent Middle School Gymnasium	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
<u>Revenues</u>				
Local Revenue	\$ 63,012	\$ 240	\$ 48	\$ 63,300
<u>Expenditures</u>				
Current:				
Facilities Acquisition and Construction		2,500	78,721	81,221
Debt Service:				
Principal Retirement	29,647			29,647
Interest and Issuance Costs	16,965			16,965
Total Expenditures	46,612	2,500	78,721	127,833
Net Change in Fund Balances	16,400	(2,260)	(78,673)	(64,533)
Fund Balances - July 1, 2015	32,376	114,044	88,230	234,650
Fund Balances - June 30, 2016	\$ 48,776	\$ 111,784	\$ 9,557	\$ 170,117

SEE NOTES TO SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	P-2 Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	491.09	424.34	264.30	1,179.73
Special Education - Nonpublic			1.00	1.00
Extended Year - Nonpublic			0.05	0.05
Totals	491.09	424.34	265.35	1,180.78

	Annual Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	491.44	425.38	264.62	1,181.44
Special Education - Nonpublic			1.00	1.00
Extended Year - Nonpublic			0.05	0.05
Totals	491.44	425.38	265.67	1,182.49

SEE NOTES TO SUPPLEMENTARY INFORMATION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	42,240	180	N/A	In Compliance
Grade 1	50,400	50,610	180	N/A	In Compliance
Grade 2	50,400	50,610	180	N/A	In Compliance
Grade 3	50,400	55,764	180	N/A	In Compliance
Grade 4	54,000	55,764	180	N/A	In Compliance
Grade 5	54,000	61,679	180	N/A	In Compliance
Grade 6	54,000	61,679	180	N/A	In Compliance
Grade 7	54,000	61,679	180	N/A	In Compliance
Grade 8	54,000	61,679	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

**KENTFIELD SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Special Revenue - Special Reserve Fund</u>
June 30, 2016 Annual Financial and Budget Report Fund Balances	\$ 1,967,675	\$ 17,672	\$ 300,541
Reclassifications Increasing/(Decreasing) Fund Balances:			
Reclassification of Fund Balances	<u>318,213</u>	<u>(17,672)</u>	<u>(300,541)</u>
June 30, 2016 Audited Financial Statements Fund Balances	<u>\$ 2,285,888</u>	<u>\$ 0</u>	<u>\$ 0</u>

Auditor's Comments

The fund balances of the General Fund, Deferred Maintenance Fund, and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB 54.

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2016.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	GENERAL FUND			
	(Budget) ⁽¹⁾ 2016-17 ⁽²⁾	2015-16	2014-15	2013-14
Revenues and Other Financial Sources	\$ 16,779,523	\$ 16,977,995	\$ 15,285,096	\$ 14,392,236
Expenditures	16,883,767	16,694,285	15,433,124	14,362,854
Other Uses and Transfers Out	0	0	0	0
Total Outgo	16,883,767	16,694,285	15,433,124	14,362,854
Change in Fund Balance	(104,244)	283,710	(148,028)	29,382
Ending Fund Balance	\$ 2,181,644	\$ 2,285,888	\$ 2,002,178	\$ 2,150,206
Available Reserves	\$ 1,492,151	\$ 1,498,186	\$ 1,346,258	\$ 1,521,667
Reserve for Economic Uncertainties ⁽³⁾	\$ 843,938	\$ 828,798	\$ 769,005	\$ 708,513
Available Reserves as a Percentage of Total Outgo	8.8%	9.0%	8.7%	10.6%
Average Daily Attendance at P-2	1,195	1,181	1,179	1,198
Total Long-Term Liabilities	\$ 40,290,083	\$ 42,659,857	\$ 41,709,700	\$ 32,950,788

⁽¹⁾ Amounts reported for the budget are presented for analytical purposes only and have not been audited.

⁽²⁾ Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

⁽³⁾ Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$135,682 (6.3%) over the past two years. The fiscal year 2016-17 budget projects a decrease of \$104,244 (4.6%). For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses of \$283,710 and \$29,382 during fiscal years 2015-16 and 2013-14, respectively, and incurred an operating deficit of \$148,028 during fiscal year 2014-15.

Average daily attendance (ADA) decreased 17 ADA (1.4%) over the past two years. The District anticipates an increase of 14 ADA (1.2%) during fiscal year 2016-17.

Total long-term liabilities increased \$9,709,069 over the past two years due to the issuance of \$12,000,000 of general obligation bonds in fiscal year 2014-15.

KENTFIELD SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

B. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

C. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year, but the District did not meet or exceed its LCFF target funding. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds, as reported in the Annual Financial and Budget Report to the audited financial statements.

E. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Kentfield School District
Kentfield, California

Report on State Compliance

We have audited Kentfield School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the District's state programs occurred. An audit includes examining, on a test basis, evidence about Kentfield School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kentfield School District's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine Kentfield School District's compliance with state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Opinion on State Compliance

In our opinion, Kentfield School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2016-001**. Our opinion on state compliance on the programs previously identified is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2016

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**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
Kentfield School District
Kentfield, 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 the Kentfield School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2016 that included an unmodified opinion on the governmental activities, each major fund and the aggregate remaining fund information and an adverse opinion on the discretely presented component unit. The report on the financial statements included an adverse opinion on the discretely presented component unit because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2016

FINDINGS AND QUESTIONED COSTS SECTION

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified with Adverse Opinion on
Discretely Presented Component Unit

Internal control over financial reporting:

Material weaknesses identified?

_____ Yes X No

Significant deficiencies identified not considered
to be material weaknesses?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

State Awards

Any audit findings required to be reported in accordance
with the *2015-16 Guide for Annual Audits of K-12 Local
Educational Agencies and State Compliance Reporting?*

 X Yes _____ No

Type of auditor's report issued on compliance for
state programs:

Unmodified

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2016.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2016 - 001 / 71000

TEACHER MISASSIGNMENT

Criteria: Teachers should be assigned to teach in positions that are either (a) consistent with the authorization of their certification document, (b) authorized by Governing Board to teach classes pursuant to Education Code Sections 44256, 44258.2, 44258.3, 44263, or (c) approved by a committee on assignments pursuant to Education Code Section 44258.7.

Condition: One teacher with a single subject teaching credential in English, was assigned to teach physical education classes at Kent Middle School.

Questioned Costs: None. The teacher held a valid certification document.

Context: The teacher had only 4-units of upper division coursework in physical education, but had previously substituted at other school districts in California in physical education classes and passed the first of three CSET subtests on August 20, 2015. The teacher received a single subject teaching credential in physical education on April 5, 2016.

Effect: The teacher was assigned to teach classes that were not consistent with the authorization on her certification document and there was no authorized assignment pursuant to Education Code Sections 44256, 44258.2, 44258.3, 44263.

Cause: The teacher began on September 14, 2015 as a long-term substitute teacher and later transitioned into a permanent position on October 13, 2015.

Recommendation: The District should report this as a teacher misassignment in the school's School Accountability Report Card. In the future, the District should implement procedures to ensure that all teachers are assigned to teach in classes that are (a) consistent with the authorization of certification document, (b) assigned by Governing Board action to teach classes in accordance with Education Code Sections 44256, 44258.2, 44258.3, 44263, or (c) approved by a committee on assignments pursuant to Education Code Section 44258.7.

District Response: The District hired a long-term substitute teacher to teach physical education classes at Kent Middle School while an existing PE teacher requested a leave of absence to attend to care for a dependent son for the 2015-16 school year. The LTS teacher had a Single Subject Clear Credential (with CLAD Certification) in English and was in the process of completing the K-12 Physical Education Single Subject PE Credential through the UCLA Extension.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

TEACHER MISASSIGNMENT (CONCLUDED)

District Response
(Concluded):

The LTS teacher's CSET Single Subjects passing subtest results were as follows:

Physical Education I	Passed 8/20/2015
Physical Education II	Passed 12/12/2015
Physical Education III	Passed 1/28/2016

The teacher received a single subject Physical Education Single Subject teaching credential on 4/20/2016. The teacher was paid a substitute teacher salary from 9/14/2015 until 10/13/2015, at which time she was placed on the 2015-16 salary schedule at Step 1/Column 1.

SARC - The District will place all future teacher misassignment positions on the School Accountability Report Card. In addition, the District will implement procedures to make sure all teachers are assigned to teach in classes that are consistent with their teaching credential in accordance with Education Code Sections 44256, 44258.2, 44258.3, 44263, or approved by a committee on assignments according to Education Code Section 44258.7

The Kent Physical Education teacher has returned from his leave of absence for the 2016-17 school year.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
15 - 001 / 30000		
<u>CLEARING ACCOUNTS RECONCILIATION</u>		
The District should establish appropriate procedures to ensure that clearing accounts that are used to facilitate the payment of health and welfare benefits are reconciled on a monthly basis and the reconciliation should be retained for audit purposes.	Implemented	

