

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

AUDIT REPORT

JUNE 30, 2018

KENTFIELD SCHOOL DISTRICT

JUNE 30, 2018

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KENTFIELD SCHOOL DISTRICT

JUNE 30, 2018

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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, 2018, 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 unmodified and adverse 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.

Adverse Opinion

In our opinion, because of the significance of the matter discussed 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, 2018, 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, 2018, 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.

Emphasis of Matter

As described in Note 1B to the financial statements, in fiscal year 2017-18, the District adopted new accounting guidance, Governmental Accounting Standard Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 63, schedule of changes in total OPEB liability and related ratios on page 64, schedules of the proportionate share of the net pension liabilities on pages 65 and 66, and schedules of contributions on pages 67 and 68 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 was 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.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kentfield School District's 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 7, 2018

KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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, 2018. 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 24, 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

- During fiscal year 2017-18, the District implemented Governmental Accounting Standard Board Statement No. 75 (GASB 75), which changed the financial reporting for other post employment benefits (OPEB). The new standard requires the District to report the total OPEB liability on the Statement of Net Position.
- The District's overall financial status declined during the course of the year as total net position decreased \$881,063.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$652,673 before the special item. The \$228,390 special item recognized in the current year is the book value of assets demolished as part of the new classroom building project at Bacich Elementary School.
- Capital assets, net of depreciation, increased \$7,117,523 due primarily to the modernization project at Kent Middle School and the new classroom building project at Bacich Elementary School.
- Total long-term liabilities increased \$20,305,999 due primarily to the issuance of \$18,000,000 of general obligation bonds and the increase in the District's proportionate share of net pension liabilities relating to its participation in the CalSTRS and CalPERS pension plans.
- The District's P-2 average daily attendance (ADA) decreased 1.9% in the current year; from 1,210 ADA in fiscal year 2016-17 down to 1,187 ADA in fiscal year 2017-18.
- 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 2017-18, General Fund expenditures and transfers out totaled \$18,105,528. At June 30, 2018, the District had available reserves of \$1,708,384 in the General Fund, which represents a reserve of 9.4%.

KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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.
 - ❖ 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, 2018
(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 all amounts represent governmental activities, since the District does not provide any services that should be categorized as business-type 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.

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, the Building Fund, and the Capital Projects - Special Reserve 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.

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, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The District's overall financial status declined during the course of the year, as total net position decreased \$881,063.

<u>Comparative Statement of Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2018</u>
<u>Assets</u>		
Deposits and Investments	\$ 16,127,466	\$ 28,395,680
Receivables	984,442	640,929
Capital Assets, net	19,391,812	26,509,335
Total Assets	<u>36,503,720</u>	<u>55,545,944</u>
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	3,090,587	5,117,723
Deferred Amount on Refunding	270,622	245,765
Total Deferred Outflows of Resources	<u>3,361,209</u>	<u>5,363,488</u>
<u>Liabilities</u>		
Current	3,242,617	3,907,179
Long-term *	41,607,986	62,467,306
Total Liabilities *	<u>44,850,603</u>	<u>66,374,485</u>
<u>Deferred Inflows of Resources</u>		
OPEB Deferrals		47,060
Pension Deferrals	919,550	1,274,174
Total Deferred Inflows of Resources	<u>919,550</u>	<u>1,321,234</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,742,570	2,205,954
Restricted	2,614,582	3,641,588
Unrestricted (Deficit) *	<u>(12,262,376)</u>	<u>(12,633,829)</u>
Total Net Position (Deficit) *	<u>\$ (5,905,224)</u>	<u>\$ (6,786,287)</u>
<i>Table includes financial data of the combined governmental funds</i>		
<i>* The amounts presented for fiscal year 2016-17 have been adjusted to reflect the restatement discussed in Note 18 of these financial statements.</i>		

The unrestricted deficit balance, presented above, is a result of the District's requirement to record liabilities in the financial statements to reflect the District's total OPEB liability and its 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, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

The District's total expenses exceeded total revenues by \$652,673 before the special item in fiscal year 2017-18. The \$228,390 special item recognized in the current year is the book value of assets demolished as part of the new classroom building project at Bacich Elementary School.

<u>Comparative Statement of Changes in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2018</u>
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,708,920	\$ 1,745,840
<u>General Revenues</u>		
Taxes Levied	15,129,297	15,202,823
Federal & State Aid	1,391,238	1,341,488
Interest & Investment Earnings	66,651	127,632
Miscellaneous	1,536,614	1,562,410
Total Revenues	<u>19,832,720</u>	<u>19,980,193</u>
<u>Expenses</u>		
Instruction	13,361,216	14,044,654
Instruction-Related Services	1,753,425	1,999,122
Pupil Services	565,203	598,243
General Administration	1,229,236	1,350,010
Plant Services	1,413,526	1,137,053
Ancillary Services	20,521	17,844
Community Services	6,936	6,936
Interest on Long-Term Debt	855,966	877,999
Other Outgo	461,624	601,005
Total Expenses	<u>19,667,653</u>	<u>20,632,866</u>
Changes in Net Position Before Special Item	165,067	(652,673)
<u>Special Item</u>		
Gain on Sale of Capital Assets	1,412,245	
Loss on Disposal of Capital Assets		(228,390)
Changes in Net Position	<u>\$ 1,577,312</u>	<u>\$ (881,063)</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, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

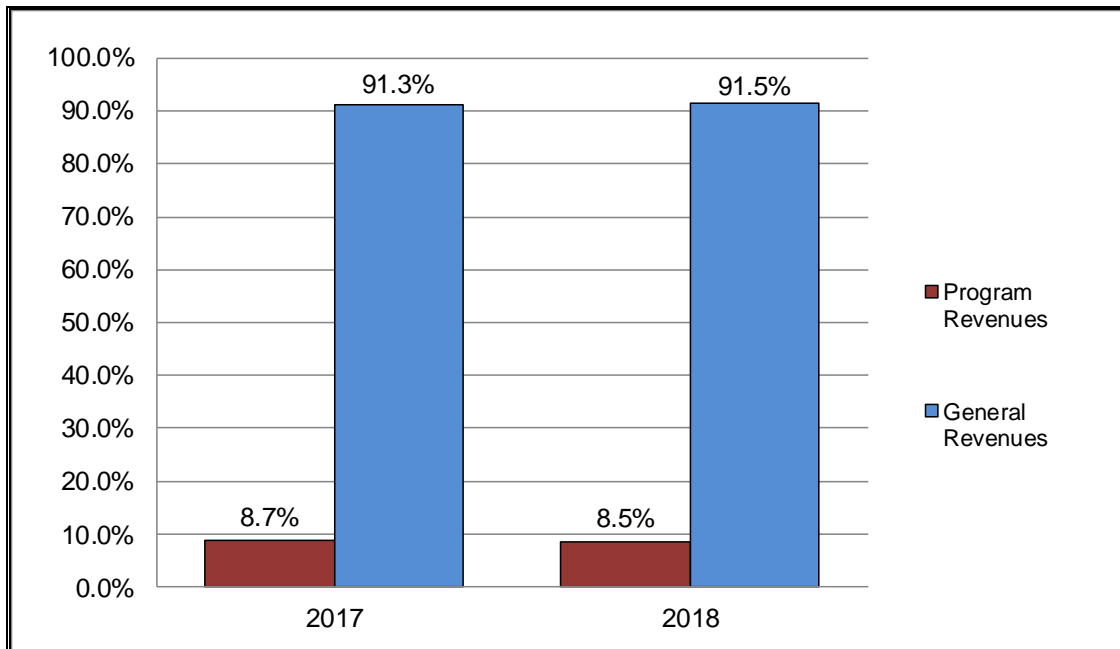
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

The table below 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 \$18,887,026 total net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Instruction	\$ 13,361,216	\$ 14,044,654	\$ 11,887,478
Instruction-Related Services	1,753,425	1,999,122	1,700,119	1,915,752
Pupil Services	565,203	598,243	505,545	539,260
General Administration	1,229,236	1,350,010	1,208,276	1,333,157
Plant Services	1,413,526	1,137,053	1,312,501	1,122,883
Interest on Long-Term Debt	855,966	877,999	855,966	877,999
Other Expenses	489,081	625,785	488,848	420,493
Totals	\$ 19,667,653	\$ 20,632,866	\$ 17,958,733	\$ 18,887,026

Table includes financial data of the combined governmental funds

In fiscal year 2017-18, program revenues financed only 8.5% of the total cost of providing the services listed above, while the general revenues of the District financed the remaining 91.5%.



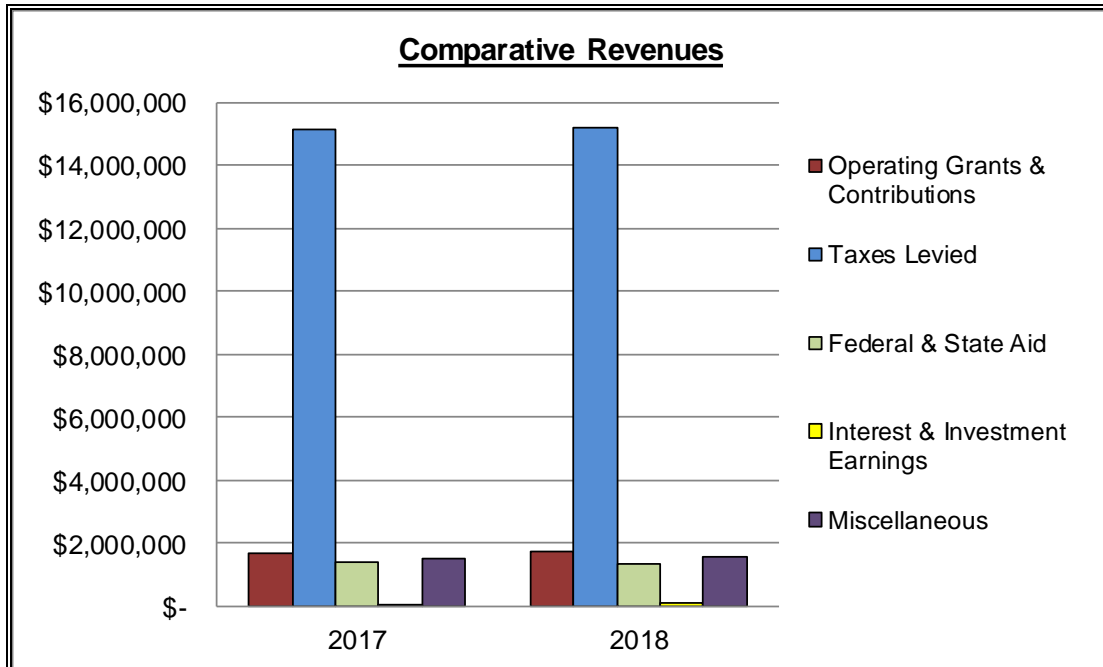
**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

Schedule of Revenues For Governmental Functions

	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,708,920	8.62%	\$ 1,745,840	8.74%
<u>General Revenues</u>				
Taxes Levied	15,129,297	76.28%	15,202,823	76.09%
Federal & State Aid	1,391,238	7.01%	1,341,488	6.71%
Interest & Investment Earnings	66,651	0.34%	127,632	0.64%
Miscellaneous	1,536,614	7.75%	1,562,410	7.82%
Total Revenues	<u>\$ 19,832,720</u>	<u>100.00%</u>	<u>\$ 19,980,193</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds



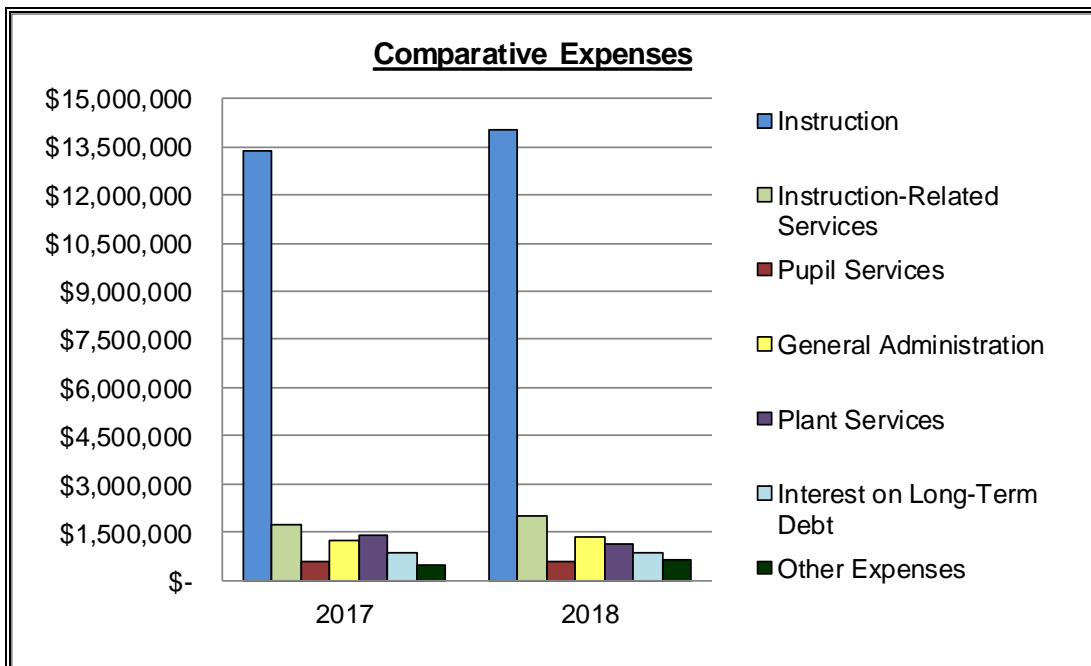
**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 13,361,216	67.93%	\$ 14,044,654	68.07%
Instruction-Related Services	1,753,425	8.92%	1,999,122	9.69%
Pupil Services	565,203	2.87%	598,243	2.90%
General Administration	1,229,236	6.25%	1,350,010	6.54%
Plant Services	1,413,526	7.19%	1,137,053	5.51%
Interest on Long-Term Debt	855,966	4.35%	877,999	4.26%
Other Expenses	489,081	2.49%	625,785	3.03%
Total Expenses	\$ 19,667,653	100.00%	\$ 20,632,866	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, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

<u>Comparative Schedule of Capital Assets</u>		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2018</u>
Land	\$ 1,514,919	\$ 1,514,919
Construction-in-Progress	1,240,868	9,482,995
Sites and Improvements	860,924	782,607
Buildings and Improvements	15,627,964	14,601,234
Furniture and Equipment	147,137	127,580
Capital Assets, net	<u>\$ 19,391,812</u>	<u>\$ 26,509,335</u>

Capital assets, net of depreciation, increased \$7,117,523 due primarily to the modernization project at Kent Middle School and the new classroom building project at Bacich Elementary School.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2018</u>
Compensated Absences	\$ 114,519	\$ 112,803
General Obligation Bonds	23,485,000	39,690,000
Bond Premiums	1,416,207	3,347,295
Capital Leases	1,230,853	1,198,581
Early Retirement Incentives	140,574	172,257
Total OPEB Liability *	1,645,985	1,714,710
Net Pension Liabilities	15,817,705	17,921,196
Totals *	<u>\$ 43,850,843</u>	<u>\$ 64,156,842</u>

** The amounts presented for fiscal year 2016-17 have been adjusted to reflect the restatement discussed in Note 18 of these financial statements.*

Total long-term liabilities increased \$20,305,999 due primarily to the issuance of \$18,000,000 of general obligation bonds and the increase in the District's proportionate share of net pension liabilities relating to its participation in the CalSTRS and CalPERS pension plans.

The general obligation bonds are financed by local taxpayers and represent approximately 62% of the District's total long-term liabilities. The capital leases will be financed by the General Fund and Capital Facilities Fund. The compensated absences, early retirement incentives, total OPEB liability and pension liabilities represent 31% of the District's total long-term liabilities and will be financed by the General Fund.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

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. 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, 2017	Fund Balances June 30, 2018	Increase (Decrease)
General	\$ 2,225,901	\$ 2,239,664	\$ 13,763
Bond Interest & Redemption	2,484,665	3,808,929	1,324,264
Building	10,212,196	19,686,730	9,474,534
Capital Projects - Special Reserve	1,201,054	1,211,904	10,850
Capital Facilities	43,241	5,254	(37,987)
Kent Middle School Gymnasium	109,313	107,079	(2,234)
Totals	<u>\$ 16,276,370</u>	<u>\$ 27,059,560</u>	<u>\$ 10,783,190</u>

The fund balance of the General Fund increased \$13,763. The fund balance of the Bond Interest and Redemption Fund increased \$1,324,264 due to the bond premium received from the issuance of the Series B general obligation bonds in May 2018. The fund balance of the Building Fund increased \$9,474,534 due to Series B bond proceeds received during the year that remain unspent at June 30, 2018.

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 63 includes only new revenues for fiscal year 2017-18.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The Kent Middle School Modernization, Relocation of Administrative Building, and New Music Classroom construction projects continued to progress during 2017-18 and are expected to be completed in the fall of 2018. The Bacich Elementary School Modernization and New Classroom Building construction projects began at the end of the fiscal year and are expected to be completed in the fall of 2019.

**KENTFIELD SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(PREPARED BY DISTRICT MANAGEMENT)**

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

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 ninth year of expansion, lasting four 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.

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, 2018**

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 28,395,680
Receivables (Note 3)	640,929
Capital Assets, Not Depreciated (Note 5)	10,997,914
Capital Assets, Net of Accumulated Depreciation (Note 5)	15,511,421
Total Assets	55,545,944
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 10)	5,117,723
Bond Refunding (Note 11)	245,765
Total Deferred Outflows of Resources	5,363,488
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	1,757,049
Accrued Interest Payable	460,594
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 11)	112,803
General Obligation Bonds	1,130,000
Bond Premiums	230,865
Capital Leases	160,391
Early Retirement Incentives	55,477
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	38,560,000
Bond Premiums (Note 6)	3,116,430
Capital Leases (Note 7)	1,038,190
Early Retirement Incentives (Note 8)	116,780
Total OPEB Liability (Note 9)	1,714,710
Net Pension Liabilities (Note 10)	17,921,196
Total Liabilities	66,374,485
<u>Deferred Inflows of Resources</u>	
OPEB Deferrals (Note 9)	47,060
Pension Deferrals (Note 10)	1,274,174
Total Deferred Inflows of Resources	1,321,234
<u>Net Position</u>	
Net Investment in Capital Assets	2,205,954
Restricted:	
For Capital Projects	5,254
For Debt Service	3,348,335
For Educational Programs	287,299
For Other Purposes	700
Unrestricted (Deficit)	(12,633,829)
Total Net Position (Deficit)	\$ (6,786,287)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities</u>				
Instruction	\$ 14,044,654		\$ 1,367,172	\$ (12,677,482)
Instruction-Related Services:				
Supervision of Instruction	147,795		28,838	(118,957)
Instructional Library and Technology	328,902		8,330	(320,572)
School Site Administration	1,522,425		46,202	(1,476,223)
Pupil Services:				
Other Pupil Services	598,243		58,983	(539,260)
General Administration:				
Data Processing Services	14,993			(14,993)
Other General Administration	1,335,017		16,853	(1,318,164)
Plant Services	1,137,053		14,170	(1,122,883)
Ancillary Services	17,844		330	(17,514)
Community Services	6,936			(6,936)
Interest on Long-Term Debt	877,999			(877,999)
Other Outgo	601,005		204,962	(396,043)
Total Governmental Activities	\$ 20,632,866	\$ 0	\$ 1,745,840	\$ 0
<u>General Revenues</u>				
Taxes Levied for General Purposes				8,949,184
Taxes Levied for Debt Service				1,906,643
Taxes Levied for Specific Purposes				4,346,996
Federal and State Aid - Unrestricted				1,341,488
Interest and Investment Earnings				127,632
Miscellaneous				1,562,410
Total General Revenues				18,234,353
<u>Special Item</u>				
Loss from Disposition of Capital Assets				(228,390)
Change in Net Position				(881,063)
Net Position (Deficit) - July 1, 2017 (As Restated - Note 18)				(5,905,224)
Net Position (Deficit) - June 30, 2018				\$ (6,786,287)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Bond Interest and Redemption
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 2,264,985	\$ 3,808,929
Receivables (Note 3)	420,929	
Total Assets	\$ 2,685,914	\$ 3,808,929
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<i>Liabilities:</i>		
Accounts Payable	\$ 446,250	
Total Liabilities	446,250	
<i>Deferred Inflows of Resources:</i>		
Unavailable Revenue (Note 1I)		
Total Deferred Inflows of Resources		
<i>Fund Balances: (Note 12)</i>		
Nonspendable	700	
Restricted	287,299	\$ 3,808,929
Assigned	243,281	
Unassigned	1,708,384	
Total Fund Balances	2,239,664	3,808,929
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,685,914	\$ 3,808,929

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Building	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
\$ 20,997,529	\$ 1,211,904 220,000	\$ 112,333	\$ 28,395,680 640,929
<u>\$ 20,997,529</u>	<u>\$ 1,431,904</u>	<u>\$ 112,333</u>	<u>\$ 29,036,609</u>
<u>\$ 1,310,799</u>			<u>\$ 1,757,049</u>
1,310,799			1,757,049
	<u>\$ 220,000</u>		<u>220,000</u>
	220,000		220,000
19,686,730	1,211,904	\$ 5,254 107,079	700 23,788,212 1,562,264 1,708,384
<u>19,686,730</u>	<u>1,211,904</u>	<u>112,333</u>	<u>27,059,560</u>
<u>\$ 20,997,529</u>	<u>\$ 1,431,904</u>	<u>\$ 112,333</u>	<u>\$ 29,036,609</u>

KENTFIELD SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ 27,059,560

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	\$ 43,603,906	
Accumulated Depreciation	(17,094,571)	
Net		26,509,335

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized to the extent that it is available. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In government-side statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that are deferred in governmental funds, but are recognized in the government-wide statements are:

220,000

Deferred outflows and inflows of resources related to other post employment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources related to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources related to OPEB are reported:

Deferred inflows of resources related to OPEB		(47,060)
---	--	----------

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		5,117,723
Deferred inflows of resources relating to pensions		(1,274,174)

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:

245,765

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	\$ 112,803	
General Obligation Bonds	39,690,000	
Bond Premiums	3,347,295	
Capital Leases	1,198,581	
Early Retirement Incentives	172,257	
Total OPEB Liability	1,714,710	
Net Pension Liabilities	17,921,196	
Total		(64,156,842)

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 unamatured interest owed at the end of the period was:

(460,594)

Total Net Position (Deficit) - Governmental Activities **\$ (6,786,287)**

**KENTFIELD SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Revenues</u>		
LCFF Sources:		
State Apportionment / Transfers	\$ 921,590	
Local Taxes	8,949,184	
Total LCFF Sources	9,870,774	
Federal Revenue	216,392	
State Revenue	1,327,310	\$ 6,339
Local Revenue	6,515,642	1,913,331
Total Revenues	17,930,118	1,919,670
<u>Expenditures</u>		
Current:		
Instruction	12,290,109	
Supervision of Instruction	147,224	
Instructional Library and Technology	328,530	
School Site Administration	1,466,778	
Other Pupil Services	579,679	
Data Processing Services	14,993	
Other General Administration	1,298,447	
Plant Services	1,062,317	
Facilities Acquisition and Construction	14,788	
Ancillary Services	11,486	
Other Outgo	458,975	
Debt Service:		
Principal Retirement	166,475	1,795,000
Interest and Issuance Costs	32,359	889,186
Total Expenditures	17,872,160	2,684,186
Excess of Revenues Over (Under) Expenditures	57,958	(764,516)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In	23,306	
Operating Transfers Out	(233,368)	
Other Sources	165,867	2,088,780
Total Other Financing Sources (Uses)	(44,195)	2,088,780
Net Change in Fund Balances	13,763	1,324,264
Fund Balances - July 1, 2017	2,225,901	2,484,665
Fund Balances - June 30, 2018	\$ 2,239,664	\$ 3,808,929

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
			\$ 921,590
			8,949,184
			<u>9,870,774</u>
			216,392
			1,333,649
\$ 86,614	\$ 10,850	\$ 32,941	8,559,378
<u>86,614</u>	<u>10,850</u>	<u>32,941</u>	<u>19,980,193</u>
			12,290,109
			147,224
			328,530
			1,466,778
			579,679
			14,993
			1,298,447
		3,245	1,065,562
8,705,448			8,720,236
			11,486
			458,975
		31,664	1,993,139
140,000		14,947	1,076,492
<u>8,845,448</u>	<u>0</u>	<u>49,856</u>	<u>29,451,650</u>
<u>(8,758,834)</u>	<u>10,850</u>	<u>(16,915)</u>	<u>(9,471,457)</u>
233,368			256,674
		(23,306)	(256,674)
18,000,000			<u>20,254,647</u>
<u>18,233,368</u>	<u>0</u>	<u>(23,306)</u>	<u>20,254,647</u>
9,474,534	10,850	(40,221)	10,783,190
10,212,196	1,201,054	152,554	16,276,370
<u>\$ 19,686,730</u>	<u>\$ 1,211,904</u>	<u>\$ 112,333</u>	<u>\$ 27,059,560</u>

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, 2018

Net Change in Fund Balances - Governmental Funds \$ 10,783,190

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	\$ 8,242,127	
Depreciation Expense	(896,214)	
Net		7,345,913

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting gain or loss is: (228,390)

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: 1,993,139

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: (18,165,867)

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: (76,372)

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: (29,967)

Other post employment benefits (OPEB): In governmental funds, OPEB costs are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (115,785)

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: (430,979)

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. Amortization of premiums or discount, or deferred gain or loss from debt refunding, for the period are: (1,955,945)

Change in Net Position of Governmental Activities \$ (881,063)

KENTFIELD SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 34,725	\$ 34,725
<u>Liabilities</u>		
Due to Student Groups	34,725	34,725
<u>Net Position</u>		
Total Net Position	\$ 0	\$ 0

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, 2018

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, 2018

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, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Implementation of New Accounting Pronouncements

In June 2015, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the fiscal year ended June 30, 2018. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The effect on beginning net position that resulted from the implementation of GASB 75 is presented in Note 18.

C. 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

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.

D. 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

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.

E. 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

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 Election of 2014 (Measure D) authorization to finance school improvement and expansion.

The *Capital Projects - Special Reserve Fund* was established to account for revenues and expenditures associated with the acquisition of the new District Office. The proceeds from the sale of District property in fiscal year 2016-17 will be used for future capital improvement projects.

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.

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.

F. 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Concluded)

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 63.

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.

G. 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.

H. 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.

I. 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).

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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Concluded)

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.

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. The deferred inflows of resources reported in the Capital Projects - Special Reserve Fund represents the final payment due from the seller on the prior year installment sale.

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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Other Post Employment Benefits (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms.

6. 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.

7. 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.

8. 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:

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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balances (Concluded)

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.

9. 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.

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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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

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

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, 2018, consist of the following:

	Governmental Activities	Fiduciary Activities
Cash on Hand and in Banks		\$ 34,275
Cash in Revolving Fund	\$ 700	
Cash with Fiscal Agent	379,841	
County Pool Investments	28,015,139	
Totals	\$ 28,395,680	\$ 34,275

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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Summary of Deposits and Investments (Concluded)

Cash with Fiscal Agent

Cash with fiscal agent consists of construction retentions held in escrow accounts maintained at First Republic Bank that will be released to the contractor upon completion of the construction projects at Kent Middle School and Bacich Elementary School.

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). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County investments pool and money market mutual funds.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 28,015,139	\$ 28,045,280	211

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. Investments in the County Treasury are not required to be rated.

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 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, 2018, the District's bank balance was not exposed to custodial credit risk.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specific term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Marin County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Uncategorized
County Pool Investments	\$ 28,045,280	\$ 28,045,280

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2018 consist of the following:

	General Fund	Capital Projects - Special Reserve Fund	Totals
Federal Government	\$ 74,758		\$ 74,758
State Government	61,419		61,419
Local Governments	284,752	\$ 220,000	504,752
Totals	\$ 420,929	\$ 220,000	\$ 640,929

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds where the resources are to be expended. The interfund transfers made in fiscal year 2017-18 were as follows:

General Fund transfer to Building Fund to reimburse Prop 39 project expenditures originally paid for with bond proceeds	\$ 233,368
Capital Facilities Fund transfer to General Fund for lease payment	<u>23,306</u>
Total	<u><u>\$ 256,674</u></u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balances July 1, 2017	Additions	Deletions	Balances June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 1,514,919			\$ 1,514,919
Construction-in-Progress	1,240,868	\$ 8,723,481	\$ 481,354	9,482,995
Total Capital Assets Not Being Depreciated	2,755,787	8,723,481	481,354	10,997,914
Capital Assets Being Depreciated:				
Sites and Improvements	3,411,009			3,411,009
Buildings and Improvements	29,641,168		702,739	28,938,429
Furniture and Equipment	256,554			256,554
Total Capital Assets Being Depreciated	33,308,731	0	702,739	32,605,992
Less Accumulated Depreciation:				
Sites and Improvements	2,550,085	78,317		2,628,402
Buildings and Improvements	14,013,204	798,340	474,349	14,337,195
Furniture and Equipment	109,417	19,557		128,974
Total Accumulated Depreciation	16,672,706	896,214	474,349	17,094,571
Total Capital Assets Being Depreciated, Net	16,636,025	(896,214)	228,390	15,511,421
Capital Assets, Net	<u>\$ 19,391,812</u>	<u>\$ 7,827,267</u>	<u>\$ 709,744</u>	<u>\$ 26,509,335</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 820,848
Instruction-Related Services	17,118
General Administration	24,974
Plant Services	20,183
Ancillary Services	6,155
Community Services	6,936
Total	\$ 896,214

NOTE 6 - GENERAL OBLIGATION BONDS

On May 17, 2018, the Kentfield School District issued \$18,000,000 of Election 2014, Series B bonds with interest rates ranging from 3.00% to 5.00%, with a final maturity on August 1, 2043. The bonds were authorized at an election of registered voters in the Kentfield School District held on November 4, 2014, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds not to exceed the principal amount of \$30,000,000.

The District's outstanding general obligation debt, excluding \$3,347,295 of unamortized bond premiums, as of June 30, 2018 is as follows:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2017	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2018
1/18/12	2.00-3.50	8/1/29	\$ 9,585,000	\$ 7,595,000		\$ 480,000	\$ 7,115,000
5/13/15	3.00-5.00	8/1/44	12,000,000	11,005,000		710,000	10,295,000
5/13/15	2.00-5.00	8/1/23	5,535,000	4,885,000		605,000	4,280,000
5/17/18	3.00-5.00	8/1/43	18,000,000	0	\$ 18,000,000		18,000,000
Totals			\$ 45,120,000	\$ 23,485,000	\$ 18,000,000	\$ 1,795,000	\$ 39,690,000

The annual requirements to amortize the current interest general obligation bonds, as of June 30, 2018, are as follows:

Year Ended June 30	Principal	Interest	Totals
2019	\$ 1,130,000	\$ 1,436,618	\$ 2,566,618
2020	2,000,000	1,630,706	3,630,706
2021	2,095,000	1,551,356	3,646,356
2022	1,610,000	1,475,556	3,085,556
2023	1,500,000	1,413,181	2,913,181
2024-2028	5,680,000	6,330,738	12,010,738
2029-2033	5,155,000	5,268,153	10,423,153
2034-2038	6,515,000	4,122,963	10,637,963
2039-2043	10,315,000	2,252,763	12,567,763
2044-2048	3,690,000	144,250	3,834,250
Totals	\$ 39,690,000	\$ 25,626,284	\$ 65,316,284

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - 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 22, 2016, the District entered into a capital lease agreement to finance the purchase of \$26,719 of computer equipment with one remaining lease payment of \$9,535 due in fiscal year 2018-19. On October 26, 2017, the District entered into a capital lease agreement to finance the purchase of \$165,867 of computer equipment. Future minimum lease payments under this agreement require two annual payments of \$57,998 in fiscal years 2018-19 and 2019-20. These lease agreements provide for title to pass upon expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

Year Ended June 30	Lease Payments
2019	\$ 207,369
2020	197,833
2021	139,835
2022	139,835
2023	139,835
2024-2028	594,278
Total payments	1,418,985
Less amounts representing interest	(220,404)
Present value of net minimum lease payments	\$ 1,198,581

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

NOTE 8 - 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).

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - EARLY RETIREMENT INCENTIVES (CONCLUDED)

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 2017-18 was \$42,772. At June 30, 2018, the liability is estimated to be \$172,257 for eleven retirees with up to four more years of annual payments remaining.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District's defined benefit plan, Kentfield School District's Other Post Employment Benefits Plan (Plan), is a single-employer defined benefit health care plan administered by the District. The District records the liability for this benefit in accordance with Governmental Accounting Standards Board Statement No. 75 (GASB 75).

Plan Descriptions/Benefits Provided

The 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 the 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, 2017. 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 \$647.00/month), plus retiree-only dental and vision premiums (currently \$57.63/month and \$16.15/month, respectively) for a total of \$720.78/month, pro-rated for part-time service, if applicable. Retirees may cover dependents at their own expense. District-paid benefits end at age 65.

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

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Employees covered by benefit terms

The number of employees covered by the benefit terms of the plan as of July 1, 2017 are as follows:

Inactive employees currently receiving benefit payments	8
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	99
Total number of participants	107

Total OPEB Liability

The District's total OPEB liability of \$1,714,710 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to roll forward to the measurement date from the actuarial valuation.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial methods, assumptions, and other inputs, applied to all periods unless otherwise specified:

Measurement Date	July 1, 2017 initial with update to June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation	3.00%
Salary Increases	3.00%
Discount Rate	3.13% for July 1, 2017 3.62% for June 30, 2018
Healthcare cost trend rate	Medical: 6.0% for 2017; 5.0% for 2018 and later Dental & vision: 4.0%

Because the Plan is unfunded, the yield for the 20-year, tax-exempt general obligation municipal bond was used to determine the liability. The discount rate was based on the Fidelity GO AA 20-year, tax-exempt general obligation municipal bond index.

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection. Post-retirement turnover was according to Crocker-Sarason Table T-5 less mortality, without adjustment.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$ 1,645,985
Changes for the year:	
Service cost	160,085
Interest on total OPEB liability	50,158
Changes of assumptions or other inputs	(53,892)
Benefit payments *	(87,626)
Net change	68,725
Balance at June 30, 2018	\$ 1,714,710

* Includes implicit subsidy factor of 1.47436

There were no changes in benefit terms since the July 1, 2017 valuation.

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate

The following table presents the District's total OPEB liability as of the measurement date, calculated using the current discount rate of 3.62%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current rate:

	Discount Rate 1% Decrease 2.62%	Discount Rate Current Rate 3.62%	Discount Rate 1% Increase 4.62%
District's total OPEB liability	\$ 1,826,585	\$ 1,714,710	\$ 1,610,277

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the District's total OPEB liability as of the measurement date, calculated using the current healthcare cost trend rate of 6.00% decreasing to 5.00%, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.00% decreasing to 4.00%) or one percentage point higher (7.00% decreasing to 6.00%) than the current rate:

	Healthcare Cost Trend Rate 1% Decrease	Healthcare Cost Rate Current Rate	Healthcare Cost Trend Rate 1% Increase
District's total OPEB liability	\$ 1,557,127	\$ 1,714,710	\$ 1,894,997

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$203,411. At June 30, 2018, the District reported deferred inflows of resources of \$47,060 related to the change in the discount rate from the initial actuarial valuation at July 1, 2017 to the measurement date of June 30, 2018. This change in the discount rate resulted in a gain of \$53,892, which will be recognized over 7.89 years.

Amounts reported as deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended June 30	
2019	\$ (6,832)
2020	(6,832)
2021	(6,832)
2022	(6,832)
2023	(6,832)
Thereafter	(12,900)

NOTE 10 - 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, deferred inflows of resources, and pension expense in the accompanying government-wide financial statements as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 14,551,637	\$ 4,068,207	\$ 1,113,603	\$ 2,081,030
CalPERS	3,369,559	1,049,516	160,571	538,822
Totals	<u>\$ 17,921,196</u>	<u>\$ 5,117,723</u>	<u>\$ 1,274,174</u>	<u>\$ 2,619,852</u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - 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 terms of the plan may be amended through legislation. CalSTRS issues publicly available reports that include a full description of the pension plan 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 to 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 members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or 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 multiplied by the number of years 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 a maximum of 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, up to the 2.4% maximum.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - 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 with 25 or more years of credited service, or for classroom teachers with fewer 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 most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

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 multiplied by the number of years 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 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

Contributions

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

Members: Pursuant to Chapter 47, Statutes of 2014 (AB 1469), CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2017-18. Under CalSTRS 2% at 62, the member contribution rate was 9.205% of applicable member earnings for fiscal year 2017-18.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469), the employer contribution rate was 14.43% of applicable member earnings for fiscal year 2017-18. The District contributed \$1,225,431 to the plan for the fiscal year ended June 30, 2018.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - RETIREMENT PLANS (CONTINUED)

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

Contributions (Concluded)

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, 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, 2018 was 4.811%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 9.328% for the fiscal year ended June 30, 2018.

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, 2018, 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	\$ 14,551,637
State's proportionate share of the net pension liability associated with the District	8,608,625
Total net pension liability attributed to District	<u>\$ 23,160,262</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers and the State.

The District's proportionate share of the net pension liability as of June 30, 2017 and June 30, 2016 was as follows:

Proportion - June 30, 2017	0.0157%
Proportion - June 30, 2016	0.0160%
Change - Increase (Decrease)	<u>-0.0003%</u>

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$2,081,030, which includes \$700,079 of support provided by the State. At June 30, 2018, 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, 2018

NOTE 10 - 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)

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,225,431	
Differences between expected and actual experience	53,814	\$ 262,363
Changes of assumptions	2,695,794	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	93,168	480,235
Net differences between projected and actual earnings on plan investments		371,005
Totals	\$ 4,068,207	\$ 1,113,603

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, 2019. 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	
2019	\$ 3,259
2020	592,453
2021	372,238
2022	(12,763)
2023	339,383
2024	434,603

Differences between expected and actual experience, changes of assumptions, and changes in employer's proportion and differences between the employer's contributions and the 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, 2017. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - RETIREMENT PLANS (CONTINUED)

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

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, 2016, and rolling forward the total pension liability to June 30, 2017. In determining the total pension liability, the financial reporting actuarial valuation used the following methods and assumptions: ^{1, 2}

Valuation Date	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ³	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ For the purpose of determining the total pension liability, the assumptions used in the June 30, 2016, financial reporting actuarial valuation, were applied to all periods prior to July 1, 2017. The assumptions applied to those periods on and after July 1, 2017 are reflected in the table above.

² The assumptions for investment rate of return, inflation, and wage growth used in the June 30, 2016, financial reporting actuarial valuation were 7.60%, 3.00% and 3.75%, respectively.

³ Net of investment expenses, but gross of administrative expenses.

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases of life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries. The CalSTRS July 1, 2010 - June 30, 2015 Experience Analysis, adopted by the board in February 2017, is available on the CalSTRS website for more information regarding the mortality assumptions.

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. 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. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return / Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	<u>100%</u>	

* 20-year average

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. 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 as previously described. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions and benefit payments 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.

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 as of the measurement date, calculated using the current discount rate of 7.10%, 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 (6.10%) or one percentage point higher (8.10%) than the current rate:

	<u>Discount Rate 1% Decrease 6.10%</u>	<u>Discount Rate Current Rate 7.10%</u>	<u>Discount Rate 1% Increase 8.10%</u>
District's proportionate share of the net pension liability	\$ 21,366,423	\$ 14,551,637	\$ 9,020,976

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - RETIREMENT PLANS (CONTINUED)

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

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.

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 6.5% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 15.531% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2018 was \$263,362.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - 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

As of June 30, 2018, the District reported a liability of \$3,369,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2017 and June 30, 2016 was as follows:

Proportion - June 30, 2017	0.0141%
Proportion - June 30, 2016	0.0147%
Change - Increase (Decrease)	-0.0006%

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$538,822. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 263,362	
Differences between expected and actual experience	128,910	
Changes of assumptions	492,177	\$ 46,407
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	25,019	114,164
Net differences between projected and actual earnings on plan investments	140,048	
Totals	\$ 1,049,516	\$ 160,571

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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - 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)

Year Ended June 30	
2019	\$ 178,441
2020	298,894
2021	212,078
2022	(63,830)

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences between employer's contributions and the 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, 2017. Differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Wage Growth	Varies
Investment Rate of Return	7.15%
Post Retirement Benefit Increase (1)	

(1) 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 projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - RETIREMENT PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. Projections of expected benefit payments and contributions at the statutorily required member and employer rates were performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rates of return on pension plan investments were 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 + 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100%</u>		

(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, 2018

NOTE 10 - 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 7.15%, 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 (6.15%) or one percentage point higher (8.15%) than the current rate:

	Discount Rate 1% Decrease 6.15%	Discount Rate Current Rate 7.15%	Discount Rate 1% Increase 8.15%
District's proportionate share of the net pension liability	\$ 4,957,700	\$ 3,369,559	\$ 2,052,062

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 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2018, is shown below.

	Balances July 1, 2017	Additions	Deductions	Balances June 30, 2018	Due within One Year
Compensated Absences	\$ 114,519	\$ 112,803	\$ 114,519	\$ 112,803	\$ 112,803
General Obligation Bonds	23,485,000	18,000,000	1,795,000	39,690,000	1,130,000
Bond Premiums	1,416,207	2,088,780	157,692	3,347,295	230,865
Capital Leases	1,230,853	165,867	198,139	1,198,581	160,391
Early Retirement Incentives	140,574	74,455	42,772	172,257	55,477
Total OPEB Liability *	1,645,985	156,351	87,626	1,714,710	
Net Pension Liabilities	15,817,705	2,103,491		17,921,196	
Totals *	<u>\$ 43,850,843</u>	<u>\$ 22,701,747</u>	<u>\$ 2,395,748</u>	<u>\$ 64,156,842</u>	<u>\$ 1,689,536</u>

* The July 1, 2017 balances have been adjusted to reflect the restatement discussed in Note 18.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - LONG-TERM LIABILITIES (CONCLUDED)

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 compensated absences, early retirement incentives, total OPEB liability and net pension liabilities are obligations of the General Fund.

NOTE 12 - FUND BALANCES

The District's fund balances at June 30, 2018 consisted of the following:

	General Fund	Bond Interest & Redemption Fund	Building Fund	Capital Projects- Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable:						
Revolving Cash	\$ 700					\$ 700
Total Nonspendable	<u>700</u>					<u>700</u>
Restricted:						
Categorical Programs	287,299					287,299
Capital Projects			\$ 19,686,730		\$ 5,254	19,691,984
Debt Service		\$ 3,808,929				3,808,929
Total Restricted	<u>287,299</u>	<u>3,808,929</u>	<u>19,686,730</u>		<u>5,254</u>	<u>23,788,212</u>
Assigned:						
Other Assignments	243,281			\$ 1,211,904	107,079	1,562,264
Total Assigned	<u>243,281</u>	<u>0</u>	<u>0</u>	<u>1,211,904</u>	<u>107,079</u>	<u>1,562,264</u>
Unassigned:						
Reserve for Economic Uncertainties	892,115					892,115
Remaining Unassigned Balances	816,269					816,269
Total Unassigned	<u>1,708,384</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,708,384</u>
Total Fund Balances	<u>\$ 2,239,664</u>	<u>\$ 3,808,929</u>	<u>\$ 19,686,730</u>	<u>\$ 1,211,904</u>	<u>\$ 112,333</u>	<u>\$ 27,059,560</u>

NOTE 13 - 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 \$700,079.

NOTE 14 - 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 2017-18, 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 15 - 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. 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 16 - ECONOMIC DEPENDENCY

During the year, the District received \$4,346,996 of parcel tax revenue that is subject to voter approval. The District also received \$1,193,815 from the Kentfield Schools Foundation, a non-profit, public benefit corporation that is subject to voluntary public contributions to the organization.

NOTE 17 - 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.

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 17 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

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.

C. Construction Commitments

As of June 30, 2018, 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 Modernization & New Classroom Building	\$ 10,910,244	Fall 2019
Kent Middle School Modernization	2,747,628	Fall 2018

NOTE 18 - RESTATEMENT OF NET POSITION

During fiscal year 2017-18, the District implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), as discussed in Note 1B. As a result, the beginning net position of the District has been restated to reflect the District's total OPEB liability under GASB 75, which superseded guidance under GASB 45. In accordance with GASB 75, the beginning net position restatement does not reflect any other adjustments related to deferred inflows or outflows of resources related to OPEBs, which result from differences between expected and actual experience or changes in assumptions or other inputs, as the information required to determine such amounts was not available during the first year implementation.

The effects of the restatement on the current year financial statements are as follows:

	<u>Statement of Activities</u>
Net Position (Deficit) - July 1, 2017 (as originally stated)	<u>\$ (5,025,465)</u>
Overstatement of OPEB Liability - GASB 45	766,226
Understatement of Total OPEB Liability - GASB 75	<u>(1,645,985)</u>
Net Restatement	<u>(879,759)</u>
Net Position (Deficit) - July 1, 2017 (as restated)	<u><u>\$ (5,905,224)</u></u>

KENTFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 19 - 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 7, 2018, 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, 2018

	<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	\$ 920,688	\$ 921,146	\$ 921,590	\$ 444
Local Sources	8,897,755	8,916,840	8,949,184	32,344
Total LCFF Sources	9,818,443	9,837,986	9,870,774	32,788
Federal Revenue	202,919	214,680	216,392	1,712
Other State Revenue	1,180,787	1,380,232	1,327,310	(52,922)
Other Local Revenue	6,399,212	6,533,211	6,515,642	(17,569)
Total Revenues	17,601,361	17,966,109	17,930,118	(35,991)
<u>Expenditures</u>				
Current:				
Certificated Salaries	8,346,672	8,566,924	8,577,979	(11,055)
Classified Salaries	2,270,983	2,237,756	2,222,815	14,941
Employee Benefits	4,271,736	4,309,823	4,176,691	133,132
Books and Supplies	604,745	850,611	715,871	134,740
Services and Other				
Operating Expenditures	1,487,250	1,706,994	1,510,195	196,799
Capital Outlay	10,800	10,800	10,800	
Debt Service:				
Principal Retirement	58,265	38,470	166,475	(128,005)
Interest and Fiscal Charges		7,003	32,359	(25,356)
Other Expenditures	553,731	443,326	458,975	(15,649)
Total Expenditures	17,604,182	18,171,707	17,872,160	299,547
Excess of Revenues Over (Under) Expenditures	(2,821)	(205,598)	57,958	263,556
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In			23,306	23,306
Operating Transfers Out		(2,039)	(233,368)	(231,329)
Other Sources		165,867	165,867	
Total Other Financing Sources (Uses)	0	163,828	(44,195)	(208,023)
Net Change in Fund Balances	(2,821)	(41,770)	13,763	\$ 55,533
Fund Balances - July 1, 2017	2,225,901	2,225,901	2,225,901	
Fund Balances - June 30, 2018	\$ 2,223,080	\$ 2,184,131	\$ 2,239,664	

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service Cost	\$ 160,085
Interest on Total OPEB Liability	50,158
Changes of Assumptions or Other Inputs	(53,892)
Benefit Payments	(87,626)
Net Change in Total OPEB Liability	68,725
Total OPEB Liability - Beginning	1,645,985
Total OPEB Liability - Ending	\$ 1,714,710
Covered-employee Payroll	\$ 7,549,317
District's Total OPEB Liability as Percentage of Covered-employee Payroll	22.71%

* 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.

KENTFIELD SCHOOL DISTRICT

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

JUNE 30, 2018

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 Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2018	0.0157%	\$14,551,637	\$ 8,608,625	\$ 23,160,262	\$8,339,396	174.49%	69.46%
2017	0.0160%	12,911,214	9,109,184	22,020,398	7,955,620	162.29%	70.04%
2016	0.0166%	11,180,790	7,398,590	18,579,380	7,708,288	145.05%	74.02%
2015	0.0164%	9,583,668	6,536,727	16,120,395	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.

KENTFIELD SCHOOL DISTRICT

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

JUNE 30, 2018

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2018	0.0141%	\$ 3,369,559	\$ 1,799,906	187.21%	71.87%
2017	0.0147%	2,906,491	1,765,527	164.62%	73.90%
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.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2018	\$ 1,225,431	\$ 1,225,431	\$ -	\$ 8,492,245	14.43%
2017	1,057,934	1,057,934	-	8,409,650	12.58%
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.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2018	\$ 263,362	\$ 263,362	\$ -	\$ 1,695,718	15.531%
2017	250,318	250,318	-	1,802,405	13.888%
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.

KENTFIELD SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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. The basis of budgeting is the same as Generally Accepted Accounting Principles (GAAP).

Excess of expenditures over appropriations at June 30, 2018 are as follows:

General Fund	Excess Expenditures
Certificated Salaries	\$ 11,055
Debt Service: Principal Retirement	128,005
Debt Services: Interest and Fiscal Charges	25,356
Other Expenditures	15,649

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

B. Schedule of Changes in Total OPEB Liability and Related Ratios

In accordance with Governmental Accounting Standards Board Statement No. 75, the District is required to present a 10-year schedule including certain information for each OPEB plan. The information required to be presented includes certain components that make up the changes in the total OPEB liability, the total OPEB liability, the covered-employee payroll, and the total OPEB liability as a percentage of the District's covered-employee 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 payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered 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, 2018

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 payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered payroll.

NOTE 2 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. Trust Assets

The District has no assets accumulated in a trust that meet the criteria of GASB 75 to pay related benefits.

B. Benefit Terms

There were no changes in benefit terms since the July 1, 2017 valuation.

C. Changes in Assumptions or Other Inputs

The discount rate changed from 3.13% at July 1, 2017 to 3.62% at June 30, 2018.

NOTE 3 - SUMMARY OF CHANGES FOR CALSTRS AND CALPERS

Benefit Terms

There were no changes to benefit terms since the previous valuation for either the State Teachers' Retirement Plan (CalSTRS) or the Public Employer's Retirement Fund B (CalPERS).

Changes in Assumptions

During fiscal year 2016-17, CalSTRS completed an experience study for the period starting July 1, 2010, and ending on June 30, 2015. CalSTRS changed its mortality assumptions based on this experience study, which was adopted by the board in February 2017. As a result of the study, CalSTRS also changed the following assumptions used in determining the NPL as follows:

<u>Assumption</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Consumer Price Inflation	2.75%	3.00%
Investment Rate of Return	7.10%	7.60%
Wage Growth	3.50%	3.75%

During fiscal year 2016-17, CalPERS changed the financial reporting discount rate from 7.65% to 7.15%.

SUPPLEMENTARY INFORMATION SECTION

KENTFIELD SCHOOL DISTRICT
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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>
July Kauffman	President	December 2019
Quoc Tran	Clerk	December 2019
Ashley Paff	Member	December 2018
Cynthia Roenisch	Member	December 2018
Heather McPhail Sridharan	Member	December 2018

ADMINISTRATION

Elizabeth Schott
Superintendent

Barbara Johnson
Business Manager

KENTFIELD SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018

	<u>Capital Facilities</u>	<u>Kent Middle School Gymnasium</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>			
Deposits and Investments	\$ 5,254	\$ 107,079	\$ 112,333
Total Assets	<u>\$ 5,254</u>	<u>\$ 107,079</u>	<u>\$ 112,333</u>
<u>Fund Balances</u>			
Restricted	\$ 5,254		\$ 5,254
Assigned		\$ 107,079	107,079
Total Fund Balances	<u>\$ 5,254</u>	<u>\$ 107,079</u>	<u>\$ 112,333</u>

**KENTFIELD SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Capital Facilities	Kent Middle School Gymnasium	Total Non-Major Governmental Funds
<u>Revenues</u>			
Local Revenue	\$ 31,930	\$ 1,011	\$ 32,941
<u>Expenditures</u>			
Current:			
Plant Services		3,245	3,245
Debt Service:			
Principal Retirement	31,664		31,664
Interest and Issuance Costs	14,947		14,947
Total Expenditures	46,611	3,245	49,856
Excess of Revenues (Under) Expenditures	(14,681)	(2,234)	(16,915)
<u>Other Financing (Uses)</u>			
Operating Transfers Out	(23,306)		(23,306)
Net Change in Fund Balances	(37,987)	(2,234)	(40,221)
Fund Balances - July 1, 2017	43,241	109,313	152,554
Fund Balances - June 30, 2018	\$ 5,254	\$ 107,079	\$ 112,333

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	P-2 Report			Totals
	TK / K - 3	4 - 6	7 - 8	
Regular ADA	497.13	390.82	295.81	1,183.76
Special Education - Nonpublic		0.92	1.85	2.77
Extended Year - Nonpublic		0.17	0.36	0.53
Totals	497.13	391.91	298.02	1,187.06

	Annual Report			Totals
	TK / K - 3	4 - 6	7 - 8	
Regular ADA	499.26	392.08	296.12	1,187.46
Special Education - Nonpublic		1.89	1.13	3.02
Extended Year - Nonpublic		0.17	0.36	0.53
Totals	499.26	394.14	297.61	1,191.01

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	39,070	180	N/A	In Compliance
Grade 1	50,400	50,450	180	N/A	In Compliance
Grade 2	50,400	50,450	180	N/A	In Compliance
Grade 3	50,400	55,568	180	N/A	In Compliance
Grade 4	54,000	55,568	180	N/A	In Compliance
Grade 5	54,000	61,129	180	N/A	In Compliance
Grade 6	54,000	61,489	180	N/A	In Compliance
Grade 7	54,000	61,489	180	N/A	In Compliance
Grade 8	54,000	61,489	180	N/A	In Compliance

**KENTFIELD SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	General Fund	Deferred Maintenance Fund	Special Revenue - Special Reserve Fund	Building Fund
June 30, 2018 Annual Financial and Budget Report Fund Balances	\$ 1,621,080	\$ 10,607	\$ 607,977	\$ 20,486,135
Adjustments (Decreasing) Fund Balance:				
Understatement of Capital Outlay Expenditures				(799,405)
Reclassifications Increasing (Decreasing) Fund Balances:				
Reclassification of Fund Balances	<u>618,584</u>	<u>(10,607)</u>	<u>(607,977)</u>	<u> </u>
June 30, 2018 Audited Financial Statements Fund Balances	<u>\$ 2,239,664</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,686,730</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, 2018.

KENTFIELD SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	GENERAL FUND			
	(Budget) 2018-19 ⁽¹⁾	2017-18	2016-17	2015-16
Revenues and Other Financial Sources	\$ 17,661,969	\$ 18,119,291	\$ 17,036,185	\$ 16,977,995
Expenditures	17,917,186	17,872,160	17,095,152	16,694,285
Other Uses and Transfers Out	0	233,368	1,020	0
Total Outgo	17,917,186	18,105,528	17,096,172	16,694,285
Change in Fund Balance	(255,217)	13,763	(59,987)	283,710
Ending Fund Balance	\$ 1,984,447	\$ 2,239,664	\$ 2,225,901	\$ 2,285,888
Available Reserves	\$ 1,143,292	\$ 1,708,384	\$ 1,523,185	\$ 1,498,186
Reserve for Economic Uncertainties ⁽²⁾	\$ 895,610	\$ 892,115	\$ 862,289	\$ 828,798
Available Reserves as a Percentage of Total Outgo	6.4%	9.4%	8.9%	9.0%
Average Daily Attendance at P-2	1,163	1,187	1,210	1,181
Total Long-Term Liabilities ⁽³⁾	\$ 62,467,306	\$ 64,156,842	\$ 43,850,843	\$ 42,659,857

⁽¹⁾ Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

⁽²⁾ Reported balances are a component of available reserves.

⁽³⁾ The amount presented for 2016-17 has been adjusted to reflect the restatement discussed in Note 18 related to the implementation of Governmental Accounting Standards Board Statement No. 75 (GASB 75).

The fund balance of the General Fund decreased \$46,224 (2.0%) over the past two years. The fiscal year 2018-19 budget projects a decrease of \$255,217 (11.4%). 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 \$13,763, and \$283,710 during fiscal years 2017-18 and 2015-16, respectively, and incurred an operating deficit of \$59,987 during fiscal year 2016-17.

Average daily attendance (ADA) increased 6 ADA or less than 1% over the past two years. The District anticipates a decrease of 24 ADA (2.0%) during fiscal year 2018-19.

Total long-term liabilities increased \$21,496,985 over the past two years, due primarily to the \$18,000,000 issuance of general obligation bonds during fiscal year 2017-18 and the increase in the District's proportionate share of the net pension liabilities related to their participation in the CalSTRS and CalPERS pension plans.

KENTFIELD SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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 *2017-18 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, 2018.

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 *2017-18 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
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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, 2018.

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 *2017-18 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 7, 2018

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, 2018, 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 7, 2018 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.

Internal Control Over Financial Reporting (Concluded)

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a material weakness, as noted in **Finding 2018-001**.

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*.

District's Response to Finding

The District's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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 7, 2018

FINDINGS AND QUESTIONED COSTS SECTION

KENTFIELD SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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? X Yes 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 *2017-18 Guide for Annual Audits of K-12 Local
Educational Agencies and State Compliance Reporting*? Yes X 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, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 / 30000

MATERIAL WEAKNESS

EXPENDITURE RECOGNITION

Criteria: Under the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, regardless of when the related invoices or progress billings are actually received. Accordingly, districts should have effective procedures in place to ensure that all material expenditures are recorded in the appropriate financial reporting period.

Condition: The District did not have appropriate procedures in place to ensure that all material expenditures were recorded in the appropriate financial reporting period. As a result, the District's 2017-18 "Unaudited Actuals" financial report did not include \$799,405 of capital outlay expenditures.

Questioned Costs: None.

Context: Capital outlay expenditures were understated by \$452,701 and \$346,704 for the Bacich Elementary School Modernization & New Classroom Building and Kent Middle School modernization projects, respectively. The District properly setup the earned retention amounts through June 30, 2018 as liabilities for the same two contracts.

Effect: The liabilities and expenditures reported in the Building Fund were materially understated. The adjustment that was made to ensure that the financial statements are fairly stated is presented on page 76.

Cause: District personnel inadvertently neglected to setup the June 2018 invoices from a contractor as liabilities when they were processed for payment.

Recommendation: The District should establish appropriate procedures to ensure that all material expenditures, especially those related to capital projects, are recorded in the appropriate financial reporting period.

District Response: For the Measure D Bond construction projects, the District established two purchase orders in 2017-18 to track the Gross Maximum Price (GMP) Lease Back payments for Lathrop Construction Associates, Inc. for the Kent Middle School and for Bacich Elementary School construction projects. The 2017-18 purchase order numbers were rolled to the new fiscal year (2018-19) to maintain consistency in tracking of the GMP.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

EXPENDITURE RECOGNITION (CONCLUDED)

District Response
(Concluded):

Two (2) purchase orders for the GMP's were set up as follows:

Purchase Order #180035 for Kent Middle School GMP \$9,299,542

- Kent Middle School Modernization and New Music Classroom

Purchase Order #180262 for Bacich Elementary School GMP \$10,855,668

- Bacich Elementary School Modernization and New Classroom Building

The GMP purchase orders were set up to track the construction application and retention payments for each of the project payments to Lathrop Construction Associates, Inc.

The June 2018 GMP application payment #12 for \$346,703.98 (Kent) and the June 2018 GMP application payment #1 for \$452,701.04 (Bacich) were paid in fiscal year 2018-19 with PO180035 (Kent) and PO180262 (Bacich). The District inadvertently neglected to charge these June payments as a liability to fiscal year 2017-18, even though the purchase orders were set up to track the GMP's. The retention payments for the same applications made to First Republic Bank were correctly processed.

The District is now aware of the processing requirements using purchase orders that roll to the new fiscal year.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2018.

KENTFIELD SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

There were no matters reported in the prior year audit report.

