

KENTFIELD SCHOOL DISTRICT

MEASURE D - BUILDING FUND

**MARIN COUNTY
KENTFIELD, CALIFORNIA**

FINANCIAL AUDIT

JUNE 30, 2016

**KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
FINANCIAL AUDIT
JUNE 30, 2016**

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education and
Citizens' Oversight Committee
Kentfield School District
Kentfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure D - Building Fund of the Kentfield School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure D - Building Fund of the Kentfield School District, as of June 30, 2016, and the 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 discussed in Note 1, the financial statements present only the Measure D - Building Fund and do not purport to, and do not, present fairly the financial position of the Kentfield School District, as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016 on our consideration of the District's internal control over the Measure D - Building Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the Measure D - Building Fund financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over the Measure D - Building Fund financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2016

KENTFIELD SCHOOL DISTRICT

MEASURE D - BUILDING FUND

BALANCE SHEET

JUNE 30, 2016

Assets

Deposits and Investments (Note 2)	\$ 11,525,453
Total Assets	<u>\$ 11,525,453</u>

Liabilities and Fund Balance

Liabilities:	
Accounts Payable	\$ 53,262
Fund Balance:	
Restricted:	
Restricted for Measure D Projects	<u>11,472,191</u>
Total Liabilities and Fund Balance	<u>\$ 11,525,453</u>

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>		
Interest Revenue	\$ 8,000	\$ 25,027
Total Revenues	<u>8,000</u>	<u>25,027</u>
<u>Expenditures</u>		
Professional and Consulting Services	157,000	68,066
Building and Improvements	220,865	242,779
Total Expenditures	<u>377,865</u>	<u>310,845</u>
Net Changes in Fund Balance	(369,865)	(285,818)
Fund Balances - July 1, 2015	<u>11,758,009</u>	<u>11,758,009</u>
Fund Balances - June 30, 2016	<u>\$ 11,388,144</u>	<u>\$ 11,472,191</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 4, 2014, the Measure D, General Obligation Bonds, Election of 2014, were authorized at a general election of the registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$30,000,000 to finance the renovation, construction, and improvement of school facilities. Subsequently, an advisory committee to the District's Governing Board and Superintendent, the Measure D Citizens' Oversight Committee was established. The Committee's oversight goals include: informing the public concerning the expenditures of bond proceeds, ensuring that the bond proceeds are expended only for the purposes described in the Measure D ballot language, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenditures.

The bond proceeds are accounted for in the Building Fund of the District, where they are expended for approved projects. These financial statements are presented solely for the Measure D - Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

Kentfield School 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).

C. Basis of Accounting

The Measure D - Building Fund of the District is a governmental fund reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) of current financial resources. Under the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and become available and expenditures are generally recognized in the accounting period in which the related fund liability is incurred.

D. Budgets and Budgetary Accounting

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

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

D. Budgets and Budgetary Accounting (Concluded)

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.

E. 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

F. 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 then liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

G. Deposits and Investments

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

County Pool Investments	<u>\$ 11,525,453</u>
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KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

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

General Authorization

Limitations 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

Interest Rate Risk

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

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 11,525,453	\$ 11,541,202	\$ 9,637,530	\$ 1,887,923

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 11,525,453	\$ 11,541,202			\$ 11,525,453

Concentration of Credit Risk

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

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2016, the District does not have any investments of this type.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

**KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits (Concluded)

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.

Derivative Investments

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

NOTE 3 - GENERAL OBLIGATION BONDS

On November 4, 2014, the Measure D, General Obligation Bonds, Election of 2014, were authorized at a general election of the registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$30,000,000 to finance the renovation, construction, and improvement of school facilities.

On May 13, 2015, the District issued general obligation bonds in the amount of \$12,000,000 (Series A). After the issuance of the Series A bonds, \$18,000,000 of general obligation bonds remain under the 2014 Authorization.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

A. Construction Commitments

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

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

* Represent ongoing contracts for architectural services only

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - 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 Measure D - Building Fund of the District.

NOTE 5 - SUBSEQUENT EVENTS

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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 and
Citizens' Oversight Committee
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 Measure D - Building Fund of Kentfield School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2016.

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 opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure D - Building Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, except as described in the accompanying Schedule of Findings and Recommendations at **Finding 2016 - 001**.

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 Recommendations. 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 the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2016

FINDINGS AND RECOMMENDATIONS SECTION

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

2016 - 001

CITIZENS' OVERSIGHT COMMITTEE

<u>Criteria:</u>	In accordance with Education Code Section 15282(a), the citizens' oversight committee shall consist of at least seven members and while consisting of a minimum of at least seven members, the citizens' oversight committee shall be comprised as follows: <ul style="list-style-type: none">➤ One member shall be active in a business organization representing the business community located within the school district.➤ One member shall be active in a senior citizens' organization.➤ One member shall be active in a bona fide taxpayers' organization.➤ One member shall be the parent or guardian of a child enrolled in the school district.➤ One member shall be both a parent or guardian of a child enrolled in the school district and active in a parent-teacher organization, such as the Parent Teacher Association or schoolsite council.
<u>Condition:</u>	During fiscal year 2015-16, the citizens' oversight committee did not have a member active in a bona fide taxpayers' organization.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The citizens' oversight committee members comprised all other constituent groups required by Education Code Section 15282(a).
<u>Effect:</u>	The District did not comply with Education Code Section 15282(a).
<u>Cause:</u>	The District has had a difficult time recruiting an applicant that is active in a bona fide taxpayers' organization to fill the vacant position.
<u>Recommendation:</u>	The District should continue its efforts to recruit an applicant to fill the vacant position.
<u>District Response:</u>	In 2015-16, the Measure D Bond Oversight Committee consisted of 7 members: <ol style="list-style-type: none">1. One Business Owner2. One Senior Citizen3. One Parent4. One Parent/PTA5. One Community-at-large6. One Community-at-large7. One Community-at-large

**KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

CITIZENS' OVERSIGHT COMMITTEE (CONCLUDED)

District Response
(Concluded):

Even though the Bond Oversight Committee consisted of 7 members, the District has had a difficult time filling the vacant position of a committee member from a bona fide taxpayer's organization.

The District will make every effort, as in the past, to recruit an applicant that is active in a bona fide taxpayers' organization to comply with Education Code Section 15282(a).

**KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

There were no matters reported in the prior fiscal year.