

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

**AUDIT REPORT**

**JUNE 30, 2014**



KENTFIELD SCHOOL DISTRICT

JUNE 30, 2014

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TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Statement of Net Position - Fiduciary Funds	22
Notes to the Basic Financial Statements	23
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	45
Combining Statements:	
Combining Balance Sheet - Non-Major Governmental Funds	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	47
Schedule of Funding Progress	48

**KENTFIELD SCHOOL DISTRICT**

**JUNE 30, 2014**

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TABLE OF CONTENTS (CONCLUDED)

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION (CONCLUDED)</u>	
Organization/Board of Education/Administration	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Schedule of Expenditures of Federal Awards	52
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	53
Schedule of Financial Trends and Analysis	54
Notes to Supplementary Information	55
<u>OTHER INDEPENDENT AUDITOR'S REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	57
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	61
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	63
Section II - Financial Statement Findings	64
Section III - State Award Findings and Questioned Costs	65
Schedule of Prior Year Recommendations	67

## 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, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on Discretely Presented Component Unit

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

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the District, as of June 30, 2014, or the changes in financial position thereof for the year then ended.

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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 45, and the schedule of funding progress on page 48 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 the Kentfield School District's basic financial statements. The combining fund financial statements, statistical section, and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014 on our consideration of the Kentfield School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentfield School District's internal control over financial reporting and compliance.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 2, 2014

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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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, 2014. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

**USING THIS ANNUAL REPORT**

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

**FINANCIAL HIGHLIGHTS**

- The District's overall financial status improved during fiscal year 2013-14, as the District's total net position increased 4%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$222,523.
- Capital assets, net of depreciation, decreased \$783,188 due to accumulated depreciation growing at a faster rate than acquisitions and construction.
- Total long-term liabilities decreased \$1,046,116, due primarily to current year payments on the outstanding general obligation bonds liability.
- The District's P-2 ADA increased from 1,166 ADA in fiscal year 2012-13, up to 1,198 ADA in fiscal year 2013-14, an increase of 2.7%.
- Fiscal year 2013-14 represents the first year of implementation for the new Local Control Funding Formula (LCFF). However, due to the current level of allocated property tax revenues, the District continues to be funded under the Basic Aid Provision.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures and other uses exceeded total current year revenues and other sources by \$13,232.
- The General Fund produced an operating surplus of \$29,382 due to the \$57,383 transfer from the Kent Middle School Gymnasium Fund.
- 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 2013-14, General Fund expenditures totaled \$14,362,854. At June 30, 2014, the District has available reserves of \$1,727,560 in the General Fund, which represents a reserve of 12%.

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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**THE FINANCIAL REPORT**

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

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

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

**Reporting the District as a Whole**

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

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

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

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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**THE FINANCIAL REPORT (CONCLUDED)**

**Reporting the District as a Whole (Concluded)**

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

*Governmental Activities:*

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

*Business-type Activities:*

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

**Reporting the District's Most Significant Funds**

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

*Governmental Funds:*

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

*Proprietary Funds:*

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

*Fiduciary Funds:*

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

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

GOVERNMENTAL ACTIVITIES

The District's total net position increased from \$5,567,628 at June 30, 2013, up to \$5,790,151 at June 30, 2014, an increase of 4%.

<b><u>Comparative Statement of Net Position</u></b>		
	Governmental Activities	
	2013	2014
<u>Assets</u>		
Deposits and Investments	\$ 3,879,309	\$ 4,053,276
Receivables	548,856	340,242
Capital Assets, net	21,289,187	20,505,999
Total Assets *	<u>25,717,352</u>	<u>24,899,517</u>
<u>Deferred Outflows of Resources</u>		
Deferred Amount on Refunding *	<u>483,934</u>	<u>446,774</u>
<u>Liabilities</u>		
Current	1,906,533	1,845,131
Long-term	<u>18,727,125</u>	<u>17,711,009</u>
Total Liabilities	<u>20,633,658</u>	<u>19,556,140</u>
<u>Net Position</u>		
Net Investment in Capital Assets *	2,416,398	2,719,546
Restricted	1,316,101	1,545,081
Unrestricted	<u>1,835,129</u>	<u>1,525,524</u>
Total Net Position *	<u>\$ 5,567,628</u>	<u>\$ 5,790,151</u>
<i>Table includes financial data of the combined governmental funds</i>		
<i>* The prior year balances have been adjusted to reflect the restatement described in Note 19 and the reclassifications prescribed by GASB 65.</i>		

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$222,523.

	Governmental Activities	
	2013	2014
<b><u>Comparative Statement of Changes in Net Position</u></b>		
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,085,486	\$ 1,151,033
<u>General Revenues</u>		
Taxes Levied	11,450,794	11,967,031
Federal & State Aid	988,791	1,083,363
Interest & Investment Earnings	2,986	3,527
Miscellaneous	1,824,329	1,669,484
Total Revenues	<u>15,352,386</u>	<u>15,874,438</u>
<u>Expenses</u>		
Instruction	9,906,732	10,688,428
Instruction-Related Services	1,683,262	1,551,845
Pupil Services	427,361	460,329
General Administration	1,078,779	1,145,037
Plant Services	773,264	884,552
Ancillary Services	12,994	16,082
Community Services	0	3,066
Interest on Long-Term Debt	702,044	678,895
Other Expenses	364,873	223,681
Total Expenses	<u>14,949,309</u>	<u>15,651,915</u>
Change in Net Position	<u>\$ 403,077</u>	<u>\$ 222,523</u>
<i>Table includes financial data of the combined governmental funds</i>		

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

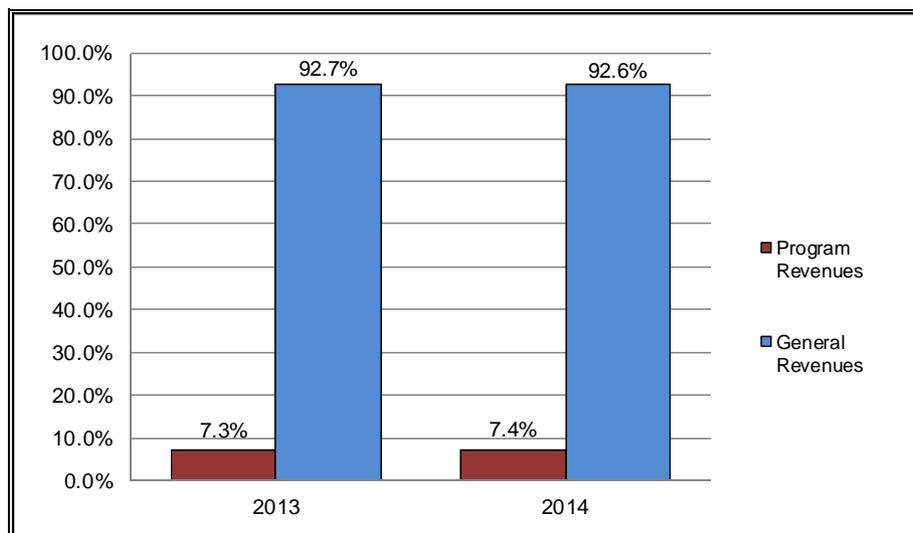
**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2013	2014	2013	2014
Instruction	\$ 9,906,732	\$ 10,688,428	\$ 8,869,156	\$ 9,773,320
Instruction-Related Services	1,683,262	1,551,845	1,669,750	1,338,209
Pupil Services	427,361	460,329	392,963	444,421
General Administration	1,078,779	1,145,037	1,078,779	1,145,037
Plant Services	773,264	884,552	773,264	884,552
Ancillary Services	12,994	16,082	12,994	16,082
Community Services	0	3,066	0	3,066
Interest on Long-Term Debt	702,044	678,895	702,044	678,895
Other Outgo	364,873	223,681	364,873	217,300
<b>Totals</b>	<b>\$ 14,949,309</b>	<b>\$ 15,651,915</b>	<b>\$ 13,863,823</b>	<b>\$ 14,500,882</b>

*Table includes financial data of the combined governmental funds*

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$14,500,882 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In fiscal year 2013-14, program revenues financed 7.4% of the total cost of providing the services listed above, while the remaining 92.6% was financed by the general revenues of the District.

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

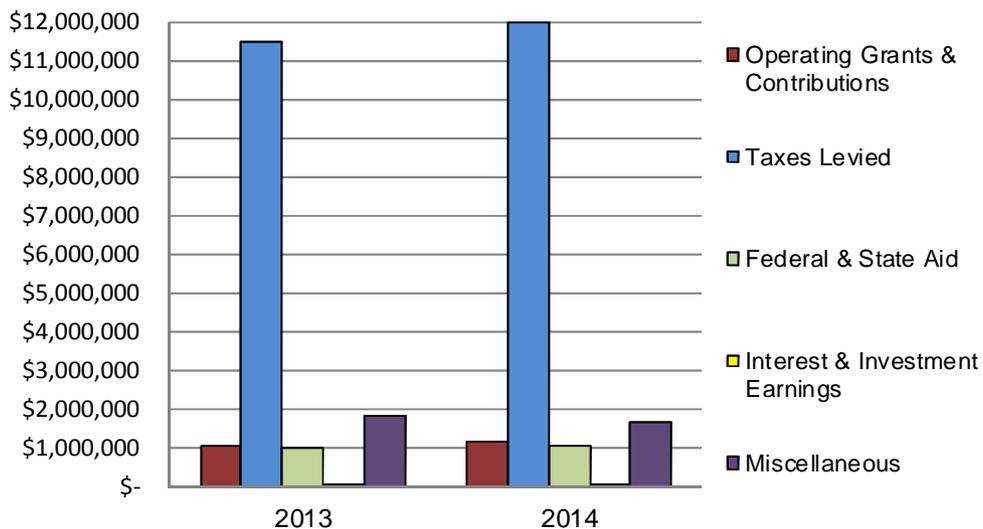
GOVERNMENTAL ACTIVITIES (CONTINUED)

**Summary of Revenues For Governmental Functions**

	FYE 2013 Amount	Percent of Total	FYE 2014 Amount	Percent of Total
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,085,486	7.07%	\$ 1,151,033	7.25%
<u>General Revenues</u>				
Taxes Levied	11,450,794	74.59%	11,967,031	75.39%
Federal & State Aid	988,791	6.44%	1,083,363	6.82%
Interest & Investment Earnings	2,986	0.02%	3,527	0.02%
Miscellaneous	1,824,329	11.88%	1,669,484	10.52%
<b>Total Revenues</b>	<b>\$ 15,352,386</b>	<b>100.00%</b>	<b>\$ 15,874,438</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*

**Comparative Revenues**



**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

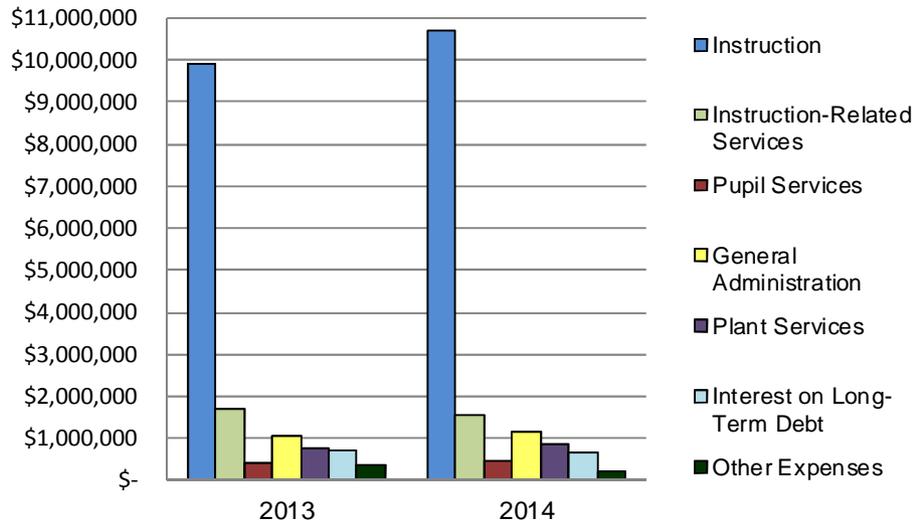
GOVERNMENTAL ACTIVITIES (CONTINUED)

**Summary of Expenses For Governmental Functions**

<u>Expenses</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 9,906,732	66.27%	\$ 10,688,428	68.29%
Instruction-Related Services	1,683,262	11.26%	1,551,845	9.91%
Pupil Services	427,361	2.86%	460,329	2.94%
General Administration	1,078,779	7.22%	1,145,037	7.32%
Plant Services	773,264	5.17%	884,552	5.65%
Interest on Long-Term Debt	702,044	4.70%	678,895	4.34%
Other Expenses	377,867	2.53%	242,829	1.55%
<b>Total Expenses</b>	<b>\$ 14,949,309</b>	<b>100.00%</b>	<b>\$ 15,651,915</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*

**Comparative Expenses**



**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<b><u>Comparative Schedule of Capital Assets</u></b>		
	Governmental Activities	
	2013	2014
Land	\$ 1,522,674	\$ 1,522,674
Sites and Improvements	3,231,475	3,277,612
Buildings and Improvements	29,771,820	29,734,854
Furniture and Equipment	71,929	149,607
Subtotals	34,597,898	34,684,747
Less: Accumulated Depreciation	(13,308,711)	(14,178,748)
Capital Assets, net	<u>\$ 21,289,187</u>	<u>\$ 20,505,999</u>

Capital assets, net of depreciation, decreased \$783,188 due to accumulated depreciation growing at a faster rate than acquisitions and construction.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	Governmental Activities	
	2013	2014
Compensated Absences	\$ 109,738	\$ 80,576
General Obligation Bonds:		
Current Interest	17,395,000	16,380,000
Bond Premiums	440,352	412,972
Capital Leases	1,571,270	1,553,201
Early Retirement Incentives	79,905	70,300
Other Post Employment Benefits	429,661	482,761
Totals	<u>\$ 20,025,926</u>	<u>\$ 18,979,810</u>

Total long-term liabilities decreased \$1,046,116, due primarily to current year payments on the outstanding general obligation bonds liability.

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

**GOVERNMENTAL ACTIVITIES (CONCLUDED)**

The general obligation bonds are financed by local taxpayers and represent 86.3% of the District's total long-term liabilities. The District has satisfied all of its debt service requirements for its bonded debt and continues to maintain an excellent credit rating on its current debt issues.

The District's obligations for compensated absences, capital leases, early retirement incentives, and other post employment benefits are financed by the General Fund and Capital Facilities Fund, as appropriate, and represent 11.5% of the District's total long-term liabilities.

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**

<b><u>Comparative Schedule of Fund Balances</u></b>			
	Fund Balances June 30, 2013	Fund Balances June 30, 2014	Increase (Decrease)
General	\$ 2,326,717	\$ 2,356,099	\$ 29,382
Bond Interest & Redemption	1,454,000	1,475,044	21,044
Capital Facilities	32,419	31,991	(428)
Kent Middle School Gymnasium	183,910	123,128	(60,782)
Capital Projects - Special Reserve	90,516	88,068	(2,448)
Totals	\$ 4,087,562	\$ 4,074,330	\$ (13,232)

The fund balance of the General Fund increased \$29,382 while the combined fund balances of all other District governmental funds decreased \$42,614. The increase in the General Fund was due to the \$57,383 transfer from the Kent Middle School Gymnasium Fund

**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 45 includes only new revenues for fiscal year 2013-14.

**KENTFIELD SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

On November 4, 2014, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account. Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established with Proposition 58, passed in 2004. Proposition 2 is set to create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves in future years. At this time, the fiscal impact of Proposition 2 is not immediately clear, since the ultimate impact will largely depend on how it is implemented at the state and local levels moving forward.

Fiscal year 2014-15 will be the second year of the projected eight year phase-in period for the new Local Control Funding Formula (LCFF). Fiscal year 2014-15 will be the first year the District will transition from Basic Aid (Excess Tax) funding to the new Local Control Funding Formula. Although more information regarding the new funding and accountability standards was released during the past year, it is very likely that there will be additional modifications in the future. As a result, school district budgets 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, 2014**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Deposits and Investments (Note 2)	\$ 4,053,276
Receivables (Note 4)	340,242
Capital Assets: (Note 6)	
Land	1,522,674
Sites and Improvements	3,277,612
Buildings and Improvements	29,734,854
Furniture and Equipment	149,607
Less: Accumulated Depreciation	(14,178,748)
Total Assets	24,899,517
<b><u>Deferred Outflows of Resources</u></b>	
Deferred Amount on Refunding	446,774
<b><u>Liabilities</u></b>	
Accounts Payable and Other Current Liabilities	319,188
Accrued Interest Payable	257,142
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	8,596
General Obligation Bonds	
Current Interest	1,055,000
Bond Premiums	27,379
Capital Leases	147,902
Early Retirement Incentives	29,924
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 11)	71,980
General Obligation Bonds (Note 7)	
Current Interest	15,325,000
Bond Premiums	385,593
Capital Leases (Note 8)	1,405,299
Early Retirement Incentives (Note 9)	40,376
Other Post Employment Benefits (Note 10)	482,761
Total Liabilities	19,556,140
<b><u>Net Position</u></b>	
Net Investment in Capital Assets	2,719,546
Restricted:	
For Capital Projects	31,991
For Debt Service	1,217,902
For Educational Programs	294,488
For Other Purposes	700
Unrestricted	1,525,524
Total Net Position	\$ 5,790,151

**KENTFIELD SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
<b><u>Governmental Activities</u></b>					
Instruction	\$ 10,688,428		\$ 915,108		\$ (9,773,320)
Instruction-Related Services:					
Supervision of Instruction	84,854		213,636		128,782
Instructional Library and Technology	309,840				(309,840)
School Site Administration	1,157,151				(1,157,151)
Pupil Services:					
Other Pupil Services	460,329		15,908		(444,421)
General Administration:					
Data Processing Services	21,481				(21,481)
Other General Administration	1,123,556				(1,123,556)
Plant Services	884,552				(884,552)
Ancillary Services	16,082				(16,082)
Community Services	3,066				(3,066)
Interest on Long-Term Debt	678,895				(678,895)
Other Outgo	223,681		6,381		(217,300)
<b>Total Governmental Activities</b>	<b>\$ 15,651,915</b>	<b>\$ 0</b>	<b>\$ 1,151,033</b>	<b>\$ 0</b>	<b>(14,500,882)</b>
<b><u>General Revenues</u></b>					
Taxes Levied for General Purposes					6,707,643
Taxes Levied for Debt Service					1,651,442
Taxes Levied for Specific Purposes					3,607,946
Federal and State Aid - Unrestricted					1,083,363
Interest and Investment Earnings					3,527
Miscellaneous					1,669,484
<b>Total General Revenues</b>					<b>14,723,405</b>
Change in Net Position					222,523
Net Position - July 1, 2013 (As Restated - Note 19)					5,567,628
Net Position - June 30, 2014					<b>\$ 5,790,151</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Deposits and Investments (Note 2)	\$ 2,335,045	\$ 1,475,044	\$ 243,187	\$ 4,053,276
Receivables (Note 4)	340,242			340,242
Total Assets	<u>\$ 2,675,287</u>	<u>\$ 1,475,044</u>	<u>\$ 243,187</u>	<u>\$ 4,393,518</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 319,188			\$ 319,188
Fund Balances: (Note 12)				
Nonspendable	700			700
Restricted	294,488	\$ 1,475,044	\$ 31,991	1,801,523
Assigned	333,351		211,196	544,547
Unassigned	1,727,560			1,727,560
Total Fund Balances	<u>2,356,099</u>	<u>1,475,044</u>	<u>243,187</u>	<u>4,074,330</u>
Total Liabilities and Fund Balances	<u>\$ 2,675,287</u>	<u>\$ 1,475,044</u>	<u>\$ 243,187</u>	<u>\$ 4,393,518</u>

**KENTFIELD SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**Total Fund Balances - Governmental Funds** \$ 4,074,330

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 and accumulated depreciation are:

Capital Assets	\$ 34,684,747	
Accumulated Depreciation	(14,178,748)	
Net		20,505,999

Unamortized costs: In governmental funds, any gain or loss that results from debt refunding activities is recognized in the current year. 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 a deferred outflow of resources, was:

446,774

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 reported at the end of the period are:

Compensated Absences	\$ 80,576	
General Obligation Bonds:		
Current Interest	16,380,000	
Bond Premiums	412,972	
Capital Leases	1,553,201	
Early Retirement Incentives	70,300	
Other Post Employment Benefits	482,761	
Total		(18,979,810)

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 statements 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:

(257,142)

**Total Net Position - Governmental Activities** \$ 5,790,151

**KENTFIELD SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 881,156			\$ 881,156
Local Taxes	6,707,643			6,707,643
Total LCFF Sources	7,588,799			7,588,799
Federal Revenue	172,045			172,045
State Revenue	528,471	\$ 7,634		536,105
Local Revenue	5,896,684	1,646,028	\$ 34,777	7,577,489
Total Revenues	14,185,999	1,653,662	34,777	15,874,438
<b><u>Expenditures</u></b>				
Instruction	9,799,012			9,799,012
Supervision of Instruction	84,854			84,854
Instructional Library and Technology	314,695			314,695
School Site Administration	1,140,583			1,140,583
Other Pupil Services	460,329			460,329
Data Processing Services	20,148			20,148
Other General Administration	1,203,672			1,203,672
Plant Services	788,669			788,669
Facilities Acquisition and Construction	123,836		6,093	129,929
Ancillary Services	9,927			9,927
Debt Service:				
Principal Retirement	146,342	1,015,000	20,581	1,181,923
Interest and Issuance Costs	47,106	617,618	14,378	679,102
Other Outgo	223,681			223,681
Total Expenditures	14,362,854	1,632,618	41,052	16,036,524
Excess of Revenues Over (Under) Expenditures	(176,855)	21,044	(6,275)	(162,086)
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers In	57,383			57,383
Operating Transfers Out			(57,383)	(57,383)
Other Sources	148,854			148,854
Total Other Financing Sources (Uses)	206,237	0	(57,383)	148,854
Net Change in Fund Balances	29,382	21,044	(63,658)	(13,232)
Fund Balances - July 1, 2013	2,326,717	1,454,000	306,845	4,087,562
Fund Balances - June 30, 2014	<u>\$ 2,356,099</u>	<u>\$ 1,475,044</u>	<u>\$ 243,187</u>	<u>\$ 4,074,330</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Net Change in Fund Balances - Governmental Funds** \$ (13,232)

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

Capital Outlay Expenditures	\$ 131,815	
Depreciation Expense	(915,003)	
Net		(783,188)

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, were: (148,854)

Amortization of gain or loss from debt refunding: In governmental funds, any gain or loss resulting from debt refunding activities is recognized in the current year. 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. Current year amortization of deferred amounts from refunding were: (37,160)

Bond premiums: In governmental funds, bond premiums are recognized as Other Financing Sources in the period they are received. In the government-wide statements, bond premiums are amortized over the life of the debt. The premiums amortized for the period are: 27,380

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:

General Obligation Bonds	\$ 1,015,000	
Capital Leases	166,923	
Total		1,181,923

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 29,162

Early Retirement Incentives: In governmental funds, early retirement incentives are measured by the amounts paid during the period. In the statement of activities, early retirement incentives are measured by the amounts earned. The difference between early retirement incentives paid and early retirement incentives earned was: 9,605

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (53,100)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized as an expenditure in the period that it becomes due. In the government-wide statements, 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 a prior period, was: 9,987

**Change in Net Position of Governmental Activities** \$ 222,523

**KENTFIELD SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

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	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<b><u>Assets</u></b>		
Deposits and Investments (Note 2)	\$ 38,812	\$ 38,812
<b><u>Liabilities</u></b>		
Due to Student Groups	38,812	38,812
<b><u>Net Position</u></b>		
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**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, 2014**

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**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) meets the criteria set forth in GASB 39 and should be included in the financial reporting entity in these financial statements; however audited financial statements of the Foundation were not available for inclusion in the District's financial statements.

**B. Implementation of New Accounting Pronouncements**

In March 2012, the Governmental Accounting Standard Board issued Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, with required implementation for the District during the year ended June 30, 2014. The objective of GASB 65 is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The effect of implementing GASB 65 resulted in a restatement of the beginning net position balance to write-off unamortized debt issuance costs. The effect of the restatement on these financial statements is presented in Note 19.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and business type columns has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

*Fund Financial Statements:*

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

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

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Expenses/Expenditures (Concluded):

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.

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 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.

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.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-Major Governmental Funds (Concluded):

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

Fiduciary Funds:

*Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains two agency funds 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.

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 45.

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 (See Note 3).

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.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

I. Assets, Liabilities and 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.

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	6-10

3. Deferred Outflows of Resources

Deferred outflows of resources represent deferred amounts from the refunding of debt, which are amortized over the life of the old or new debt, whichever period is shorter. Reported amounts are equally offset as a component of the District's net investment in capital assets.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

4. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualifying expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualifying expenditures.

5. 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.

6. Long-term Liabilities

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

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

7. Fund Balance

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 allowable classifications used in the governmental fund financial statements are as follows:

*Nonspendable Fund Balance* consists of funds that are not in spendable form (such as inventory) or are required to be maintained intact (for example; principal of an endowment fund).

*Restricted Fund Balance* consists of funds that are mandated for a specific purpose by external parties (e.g. creditors, grantors, and contributors), constitutional provisions or enabling legislation.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

7. Fund Balance (Concluded)

*Committed Fund Balance* consists of funds that are set aside for a specific purpose by the District's highest level of decision making authority, the Governing Board. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it used to previously commit the amounts. Any funds set aside as committed require the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to June 30<sup>th</sup> of the applicable fiscal year.

*Assigned Fund Balance* consists of funds that are set aside with the intent to be used for a specific purpose by the Governing Board or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance. The Governing Board has delegated the authority to assign amounts to be used for a specific purpose to the Chief Business Official for the purposes of reporting these amounts in the annual financial statements.

*Unassigned Fund Balance* consists of the excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. Included in this category is the Reserve for Economic Uncertainty, which the District has specified to be in an amount at least 3% of total General Fund operating expenditures, including other financing. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

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

As part of the 2013-14 State Budget Act, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (LCFF). The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. 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, 2014**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

I. Assets, Liabilities and Equity (Concluded)

8. 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 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 transition 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, 2014, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 38,812
Cash in Revolving Fund	\$ 700	
County Pool Investments	<u>4,052,576</u>	
Total Deposits and Investments	<u>\$ 4,053,276</u>	<u>\$ 38,812</u>

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, 2014**

**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

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

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**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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	\$ 4,052,576	\$ 4,053,350	\$ 3,091,396	\$ 961,180

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	\$ 4,052,576	\$ 4,053,350			\$ 4,052,576

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

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

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District has no bank balance that is exposed to custodial credit risk.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)**

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, 2014, the District does not have any investments that are held by counterparties.

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 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations in the General Fund at June 30, 2014 are as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Certificated Salaries	\$ 27,228
Services and Other Operating Expenditures	12,367
Capital Outlay	15,827
Debt Service: Interest and Fiscal Charges	23,334

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

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2014 consist of the following:

	<u>General Fund</u>
Federal Government	\$ 43,621
State Government	195,973
Local Governments	79,966
Miscellaneous	<u>20,682</u>
Total	<u>\$ 340,242</u>

**NOTE 5 - INTERFUND ACTIVITIES**

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

The District transferred \$57,383 of local revenue collected from fiscal year 2006-07 through 2011-12 from the Kent Middle School Gymnasium Fund to the General Fund to assist in the purchase of VoIP telephone system.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balances</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2014</u>
Land	\$ 1,522,674			\$ 1,522,674
Sites and Improvements	3,231,475	\$ 46,137		3,277,612
Buildings and Improvements	29,771,820		\$ 36,966	29,734,854
Furniture and Equipment	71,929	85,678	8,000	149,607
Totals at Historical Cost	<u>34,597,898</u>	<u>131,815</u>	<u>44,966</u>	<u>34,684,747</u>
Less Accumulated Depreciation for:				
Sites and Improvements	2,230,629	85,453		2,316,082
Buildings and Improvements	11,025,120	818,699	36,966	11,806,853
Furniture and Equipment	52,962	10,851	8,000	55,813
Total Accumulated Depreciation	<u>13,308,711</u>	<u>915,003</u>	<u>44,966</u>	<u>14,178,748</u>
Governmental Activities				
Capital Assets, net	<u>\$ 21,289,187</u>	<u>\$ (783,188)</u>	<u>\$ 0</u>	<u>\$ 20,505,999</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 845,921
School Site Administration	12,969
Data Processing Services	1,333
Other General Administration	22,046
Plant Services	23,513
Ancillary Services	6,155
Community Services	<u>3,066</u>
Total Depreciation Expense	<u>\$ 915,003</u>

**NOTE 7 - GENERAL OBLIGATION BONDS**

The outstanding general obligation debt of the District as of June 30, 2014 is as follows:

<u>Date</u> <u>of</u> <u>Issue</u>	<u>Interest</u> <u>Rate %</u>	<u>Maturity</u> <u>Date</u>	<u>Amount of</u> <u>Original</u> <u>Issue</u>	<u>Outstanding</u> <u>July 1, 2013</u>	<u>Issued</u> <u>Current</u> <u>Year</u>	<u>Redeemed</u> <u>Current</u> <u>Year</u>	<u>Outstanding</u> <u>June 30, 2014</u>
8/18/05	3.00-4.25	8/1/23	\$ 11,805,000	\$ 8,050,000		\$ 600,000	\$ 7,450,000
1/18/12	2.00-3.50	8/1/29	<u>9,585,000</u>	<u>9,345,000</u>		<u>415,000</u>	<u>8,930,000</u>
Totals			<u>\$ 21,390,000</u>	<u>\$ 17,395,000</u>	<u>\$ 0</u>	<u>\$ 1,015,000</u>	<u>\$ 16,380,000</u>

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)**

The annual requirements to amortize the current interest general obligation bonds, as of June 30, 2014, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 1,055,000	\$ 579,913	\$ 1,634,913
2016	1,090,000	539,230	1,629,230
2017	1,135,000	496,541	1,631,541
2018	1,175,000	451,185	1,626,185
2019	1,225,000	405,685	1,630,685
2020-2024	6,820,000	1,314,321	8,134,321
2025-2029	3,180,000	398,981	3,578,981
2030-2034	700,000	12,250	712,250
Totals	<u>\$ 16,380,000</u>	<u>\$ 4,198,106</u>	<u>\$ 20,578,106</u>

**NOTE 8 - 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.

The District also leases computer equipment valued at \$129,903 under lease agreements, which provide for title to pass upon expiration of the lease periods. In July 2013, the District entered into two additional lease agreements to finance the purchase of technology equipment valued at \$148,854. The new lease agreements require three annual payments of \$53,114, beginning in fiscal year 2013-14 and provide for title to pass upon expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

Year Ended <u>June 30</u>	<u>Lease Payments</u>
2015	\$ 211,015
2016	192,950
2017	139,835
2018	139,835
2019	139,835
2020-2024	699,177
2025-2029	<u>454,443</u>
Total payments	1,977,090
Less amounts representing interest	<u>(423,889)</u>
Present value of net minimum lease payments	<u>\$ 1,553,201</u>

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

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 9 - 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, whereby retiring employees receive a lump sum benefit based on years of service at retirement. In general, this benefit is payable to at least 50% FTE employees with 10 or more years of service with the District who retire under the California State Teachers' Retirement System (CalSTRS). The table below outlines the prorated lump sum benefit amount offered:

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

The liability reported is the present value of future expected cash flows, discounted using a 5% discount rate. The cost for this benefit in fiscal year 2013-14 was \$32,875. At June 30, 2014, the liability is estimated to be \$70,300 for the nine (9) retirees with up to four more years of annual payments remaining.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS**

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: The District OPEB Plan provides medical, prescription drug, dental and vision coverage. Active employees and retirees are offered a choice of six fully insured medical/prescription drug options from Kaiser and HealthNet. 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 in the District 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 \$548.31/month), plus retiree-only dental and vision premiums (currently \$80.79/month and \$19.54/month, respectively) for a total of \$648.64/month, pro-rated for part-time service, if applicable. Retirees may cover dependents at their own expense. District-paid benefits end at age 65.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

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

The District had eighty-nine (89) active employees and three (3) retired employees covered by the OPEB plan as of July 1, 2012, the effective date of the triennial OPEB valuation. For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

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

*Annual OPEB Cost and Net OPEB Obligation:* The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2014, the amount contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$482,761 for the year ended June 30, 2014.

Normal service cost at year-end	\$ 70,434
Amortization of UAAL	<u>38,102</u>
Annual required contribution (ARC)	108,536
Interest on Net OPEB Obligation	17,186
Adjustment to ARC	<u>(24,847)</u>
Annual OPEB cost (expense)	100,875
Contributions for the fiscal year	<u>(47,775)</u>
Increase in Net OPEB Obligation	53,100
Net OPEB Obligation - June 30, 2013	<u>429,661</u>
Net OPEB Obligation - June 30, 2014	<u>\$ 482,761</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 100,875	47.4%	\$ 482,761
June 30, 2013	102,425	15.1%	429,661
June 30, 2012	217,900	20.9%	342,738

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)**

*Actuarial Methods and Assumptions (Concluded):*

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability is being amortized on the level dollar basis over an open 30 year amortization period. The actuarial assumptions utilized a 4% discount rate, the expected long-term rate of return on District assets. The valuation assumes an initial medical and prescription cost rate of 8%, which grades down to an ultimate rate of 5% by the 4<sup>th</sup> year, and constant 4% cost rate for dental and vision.

**NOTE 11 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2014, is shown below.

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014	Due within One Year
Compensated Absences	\$ 109,738	\$ 80,576	\$ 109,738	\$ 80,576	\$ 8,596
General Obligation Bonds:					
Current Interest	17,395,000		1,015,000	16,380,000	1,055,000
Bond Premiums	440,352		27,380	412,972	27,379
Capital Leases	1,571,270	148,854	166,923	1,553,201	147,902
Early Retirement Incentives	79,905	23,270	32,875	70,300	29,924
Other Post Employment Benefits	429,661	100,875	47,775	482,761	
Totals	<u>\$ 20,025,926</u>	<u>\$ 353,575</u>	<u>\$ 1,399,691</u>	<u>\$ 18,979,810</u>	<u>\$ 1,268,801</u>

Compensated absences, early retirement incentives and other post employment benefits are obligations of the General Fund. General obligation bonds are an obligation of the Bond Interest and Redemption Fund, which is funded by property taxes collections. The capital leases are obligations of the General Fund and Capital Facilities Fund.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 12 - FUND BALANCES**

The District's fund balances at June 30, 2014 consisted of the following:

	<u>General</u> <u>Fund</u>	<u>Bond Interest</u> <u>Redemption</u> <u>Fund</u>	<u>Non-Major</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Nonspendable	\$ 700			\$ 700
Restricted	294,488	\$ 1,475,044	\$ 31,991	1,801,523
Assigned	333,351		211,196	544,547
Unassigned:				
Economic Uncertainties	708,513			708,513
Other	1,019,047			1,019,047
Total Fund Balances	<u>\$ 2,356,099</u>	<u>\$ 1,475,044</u>	<u>\$ 243,187</u>	<u>\$ 4,074,330</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 \$354,634 (5.204002% of salaries subject to CalSTRS).

**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

**A. State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The District contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$607,554, \$574,658, and \$562,208, respectively, and equal 100% of the required contributions for each year.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)**

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

Plan Description

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 CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$175,180, \$176,862, and \$169,040, respectively, and equal 100% of the required contributions for each year.

**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. The District and participating employees were required to contribute 6.2% of employee gross earnings, up to the annual limit.

**NOTE 15 - 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 2013-14, the District participated in one joint power authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

**NOTE 16 - 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.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 16 - JOINT VENTURES (CONCLUDED)**

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

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 17 - ECONOMIC DEPENDENCY**

During the year, the District received \$3,606,554 of parcel tax revenue that is subject to voter approval. The District also received \$1,088,663 from the Kentfield Schools Foundation and \$199,953 from the Kentfield Schools PTA, non-profit charitable organizations, that are subject to voluntary public contributions to the organizations.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

**A. State and Federal Allowances, Awards and Grants**

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

**B. Litigation**

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

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 19 - RESTATEMENT OF NET POSITION**

In accordance with the provisions of GASB 65, the beginning net position balance has been restated to reflect the write-off of unamortized debt issuance costs. The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2013 (as originally stated)	\$ 5,915,806
Overstatement of Unamortized Debt Issuance Costs	<u>(348,178)</u>
Net Position - July 1, 2013 (as restated)	<u>\$ 5,567,628</u>

**NOTE 20 - 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 2, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, except as noted below, that require disclosure in or adjustment to the current year financial statements.

**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 up to \$30,000,000 in aggregate principal amount to provide financing for specific school facilities projects.

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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 197,792	\$ 844,249	\$ 881,156	\$ 36,907
Local Sources	6,609,312	6,658,605	6,707,643	49,038
Total LCFF Sources	6,807,104	7,502,854	7,588,799	85,945
Federal Revenue	183,594	181,596	172,045	(9,551)
Other State Revenue	907,743	371,545	528,471	156,926
Other Local Revenue	5,826,951	5,944,154	5,896,684	(47,470)
Total Revenues	13,725,392	14,000,149	14,185,999	185,850
<b><u>Expenditures</u></b>				
Certificated Salaries	7,562,385	7,565,021	7,592,249	(27,228)
Classified Salaries	1,618,950	1,702,889	1,675,827	27,062
Employee Benefits	2,583,107	2,648,926	2,550,963	97,963
Books and Supplies	499,441	739,159	530,610	208,549
Services and Other				
Operating Expenditures	1,194,283	1,468,482	1,480,849	(12,367)
Capital Outlay	40,900	99,400	115,227	(15,827)
Debt Service:				
Principal Retirement	146,342	146,342	146,342	
Interest and Fiscal Charges	23,772	23,772	47,106	(23,334)
Other Expenditures	383,386	286,550	223,681	62,869
Total Expenditures	14,052,566	14,680,541	14,362,854	317,687
Excess of Revenues Over (Under) Expenditures	(327,174)	(680,392)	(176,855)	503,537
<b><u>Other Financing Sources</u></b>				
Operating Transfers In	57,383	57,383	57,383	
Other Sources		148,854	148,854	
Total Other Financing Sources	57,383	206,237	206,237	0
Net Change in Fund Balances	(269,791)	(474,155)	29,382	\$ 503,537
Fund Balances - July 1, 2013	2,326,717	2,326,717	2,326,717	
Fund Balances - June 30, 2014	\$ 2,056,926	\$ 1,852,562	\$ 2,356,099	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**KENTFIELD SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014**

	<u>Capital Facilities</u>	<u>Kent Middle School Gymnasium</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Assets</u></b>				
Deposits and Investments	\$ 31,991	\$ 123,128	\$ 88,068	\$ 243,187
Total Assets	<u>\$ 31,991</u>	<u>\$ 123,128</u>	<u>\$ 88,068</u>	<u>\$ 243,187</u>
<b><u>Fund Balances</u></b>				
Restricted	\$ 31,991			\$ 31,991
Assigned		\$ 123,128	\$ 88,068	211,196
Total Fund Balances	<u>\$ 31,991</u>	<u>\$ 123,128</u>	<u>\$ 88,068</u>	<u>\$ 243,187</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, 2014**

	<u>Capital Facilities</u>	<u>Kent Middle School Gymnasium</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>				
Local Revenue	\$ 34,531	\$ 147	\$ 99	\$ 34,777
Total Revenues	<u>34,531</u>	<u>147</u>	<u>99</u>	<u>34,777</u>
<b><u>Expenditures</u></b>				
Facilities Acquisition and Construction		3,546	2,547	6,093
Debt Service:				
Principal Retirement	20,581			20,581
Interest and Issuance Costs	14,378			14,378
Total Expenditures	<u>34,959</u>	<u>3,546</u>	<u>2,547</u>	<u>41,052</u>
Excess of Revenues (Under) Expenditures	(428)	(3,399)	(2,448)	(6,275)
<b><u>Other Financing (Uses)</u></b>				
Operating Transfers Out		(57,383)		(57,383)
Net Change in Fund Balances	(428)	(60,782)	(2,448)	(63,658)
Fund Balances - July 1, 2013	<u>32,419</u>	<u>183,910</u>	<u>90,516</u>	<u>306,845</u>
Fund Balances - June 30, 2014	<u>\$ 31,991</u>	<u>\$ 123,128</u>	<u>\$ 88,068</u>	<u>\$ 243,187</u>

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
7/1/12	\$ 0	\$ 658,863	\$ 658,863	0%	\$ 6,446,099	10.2%
7/1/09	0	1,432,000	1,432,000	0%	7,212,321	19.9%

SEE NOTES TO SUPPLEMENTARY INFORMATION

**KENTFIELD SCHOOL DISTRICT**  
**ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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ORGANIZATION

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

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Juli Kauffman	President	December 2015
Ashley Paff	Clerk	December 2017
Cynthia Roenisch	Member	December 2017
Ross McKenna	Member	December 2015
Heather McPhail Sridharan	Member	December 2017

ADMINISTRATION

Elizabeth Schott  
Superintendent

Barbara Johnson  
Business Manager

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	<b>P-2 Report</b>			
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>Total</b>
Regular ADA	539.44	396.45	257.88	1,193.77
Extended Year - Special Education	0.10	0.21	0.15	0.46
Special Education - Nonpublic	0.95	2.00	0.99	3.94
Totals	540.49	398.66	259.02	1,198.17

	<b>Annual Report</b>			
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>Total</b>
Regular ADA	539.78	395.54	258.10	1,193.42
Extended Year - Special Education	0.10	0.21	0.15	0.46
Special Education - Nonpublic	0.96	2.00	0.98	3.94
Totals	540.84	397.75	259.23	1,197.82

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	42,240	180	N/A	In Compliance
Grade 1	50,400	49,000	50,450	180	N/A	In Compliance
Grade 2	50,400	49,000	50,450	180	N/A	In Compliance
Grade 3	50,400	49,000	55,568	180	N/A	In Compliance
Grade 4	54,000	52,500	55,568	180	N/A	In Compliance
Grade 5	54,000	52,500	61,489	180	N/A	In Compliance
Grade 6	54,000	52,500	61,489	180	N/A	In Compliance
Grade 7	54,000	52,500	61,489	180	N/A	In Compliance
Grade 8	54,000	52,500	61,489	180	N/A	In Compliance

KENTFIELD SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Education:			
Passed through California Department of Education:			
NCLB: Title I, Part A Basic Grant Low-Income & Neglected	84.010	14329	\$ 38,195
NCLB: Title II Improving Teacher Quality	84.367	14341	16,376
NCLB: Title III Immigrant Education Program	84.365	15146	2,800
NCLB: Title III Limited English Proficient	84.365	14346	4,106
Passed through Marin County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	106,874
IDEA Part B Mental Health Allocation Plan	84.027A	14468	<u>3,694</u>
Total			<u>\$ 172,045</u>

**KENTFIELD SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 2,333,300	\$ 22,799
Reclassifications Increasing (Decreasing) Fund Balances:		
Overstatement of Fund Balance		(22,799)
Understatement of Fund Balance	<u>22,799</u>	<u>          </u>
June 30, 2014 Audited Financial Statements Fund Balances	<u>\$ 2,356,099</u>	<u>\$ 0</u>

Auditor's Comments

The fund balances of the General Fund and Deferred Maintenance 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, 2014.

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	GENERAL FUND			
	(Budget) * 2014-15 **	2013-14	2012-13	2011-12
Revenues and Other Financial Sources	\$ 14,487,698	\$ 14,392,236	\$ 13,660,941	\$ 12,703,090
Expenditures	15,359,892	14,362,854	13,300,352	12,761,468
Other Uses and Transfers Out	0	0	0	0
Total Outgo	15,359,892	14,362,854	13,300,352	12,761,468
Change in Fund Balance	(872,194)	29,382	360,589	(58,378)
Ending Fund Balance	\$ 1,483,905	\$ 2,356,099	\$ 2,326,717	\$ 1,966,128
Available Reserves	\$ 1,168,219	\$ 1,727,560	\$ 1,359,246	\$ 1,022,435
Reserve for Economic Uncertainties ***	\$ 767,875	\$ 708,513	\$ 664,075	\$ 632,705
Available Reserves as a Percentage of Total Outgo	7.6%	12.0%	10.2%	8.0%
Average Daily Attendance at P-2	1,199	1,198	1,166	1,136
Total Long-Term Liabilities	\$ 17,711,009	\$ 18,979,810	\$ 20,025,926	\$ 21,232,955

\* Amounts reported for the 2014-15 budget are presented for analytical purposes only and have not been audited.

\*\* Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

\*\*\* Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$389,971 (19.8%) over the past two years. The fiscal year 2014-15 budget projects a decrease of \$872,194 (37%). 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 \$29,382 and \$360,589 during fiscal years 2013-14 and 2012-13, respectively, and incurred an operating deficit of \$58,378 in fiscal year 2011-12.

Average daily attendance (ADA) increased 62 ADA (5.5%) over the past two years. The District anticipates an increase of 1 ADA during fiscal year 2014-15.

Total long-term liabilities decreased \$2,253,145 over the past two years, due primarily to payments on the outstanding general obligation bonds.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**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.

**B. 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.

**C. Schedule of Funding Progress**

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

**D. 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.

**E. 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.

**F. Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**KENTFIELD SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

G. 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.

H. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* for the year ended June 30, 2014.

**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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, 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 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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance For Charter Schools	8	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable
Charter School Facility Grant Program	1	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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 14-1**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

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

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 2, 2014



**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, 2014, 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 2, 2014 that included an unmodified opinion on the governmental activities, each major fund and the aggregate remaining fund information and an adverse opinion on the discretely presented component unit. The report on the financial statements included an adverse opinion on the discretely presented component unit because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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*.

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 2, 2014

FINDINGS AND QUESTIONED COSTS SECTION



KENTFIELD SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified with Adverse Opinion on Discretely Presented Component Unit

Internal control over financial reporting:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

**State Awards**

Internal control over state programs:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified not considered to be material weaknesses?   X   Yes        None reported

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, 2014**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

There are no matters to report for the fiscal year ended June 30, 2014.

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**14 - 1 / 40000**

**SIGNIFICANT DEFICIENCY**

**UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS**

Criteria: Education Code Section 60900 requires local educational agencies to report certain pupil information to the Superintendent of Public Instruction on an annual basis using the California Longitudinal Pupil Achievement Data System (CALPADS). Some of the information required to be reported includes pupil classifications related to free and reduced-price meal eligibility (FRPM) and English learner (EL) status, both of which are used in determining the amount of supplemental grant and concentration grant funding earned by local educational agencies under the Local Control Funding Formula (LCFF). Accordingly, all information reported on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, as of the Census Day (October 2), should agree to the relevant supporting documentation maintained by the local education agency.

Condition: The documents maintained by the District did not support the free or reduced price meal eligibility status assigned to nineteen (19) students on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, who had a "No" under the "Direct Certification" column, and who did not possess any other status designation that allowed the pupils to be reported as part of the unduplicated pupil count.

Questioned Costs: We tested 100% of the population where the error was discovered. A summary of certified enrollment, unduplicated pupil counts, pupil count adjustments, and audited unduplicated pupil counts is presented for the District's schools, as follows:

	Total Enrollment	Total Unduplicated Eligible Free/Reduced Meal Counts	EL Funding Eligible	Unduplicated FRPM/EL Eligible Count
Adaline E. Kent Middle	546	23	7	28
Anthony G. Bacich Elemnetary	700	25	58	72
NPS School Group	4	0	0	0
Certified Pupil Counts	1,250	48	65	100
Audit Adjustments	0	(19)	0	(19)
Audited Pupil Counts	1,250	29	65	81

The District received funding under the Basic Aid provision and did not receive either supplemental or concentration grant funding in fiscal year 2013-14, therefore there is no fiscal impact.

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (CONCLUDED)

- Context: The District did not participate in the national school lunch program and used an alternative household income data form for LCFF accountability purposes. We reviewed supporting forms for all nineteen (19) students, who were not directly certified and who were reported as eligible for free and reduced priced meals on the CALPADS “1.18 - FRPM/English Learner/Foster Youth - Student List” report.
- Effect: The District overstated the unduplicated pupil counts reported to the California Department of Education for fiscal year 2013-14.
- Cause: The District’s alternative household income data form was not configured to acquire some of the minimum information required to be considered valid supporting documentation for the student’s classification as eligible for free and reduced priced meals. The District’s alternative form was missing a certification that the information was true, a confidentiality statement, and was not configured to have the parent or guardian sign and date the form.
- Recommendation: The District should establish procedures to ensure that counts reported on the CALPADS “1.18 - FRPM/English Learner/Foster Youth - Student List” report are supported by appropriate documentation.
- District Response: The District has established a procedure to implement the California Department of Education Free & Reduced form to collect the required minimum information necessary to determine eligibility for free and reduced priced meals. The form includes the certification signature, confidentiality statement, and notification to the parent or guardian with a signature and date. The District is now able to directly identify and track “Direct Certification” for households eligible for either CalFresh or CalWorks programs through the State of California.
- The District has established a procedure to ensure that the CALPADS “1.18 - FRPM/English Learner/Foster Youth - Student List” reports are accurate and are supported by appropriate documentation.

**KENTFIELD SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

