

KENTFIELD SCHOOL DISTRICT

MEASURE D - BUILDING FUND

**MARIN COUNTY
KENTFIELD, CALIFORNIA**

FINANCIAL AUDIT

JUNE 30, 2018

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
FINANCIAL AUDIT
JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Basic Financial Statements:	
Balance Sheet	3
Statement of Revenues, Expenditures, and Change in Fund Balance	4
Notes to Financial Statements	5
<u>OTHER INDEPENDENT AUDITOR'S REPORTS SECTION</u>	
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 <i>Government Auditing Standards</i>	10
<u>FINDINGS AND RECOMMENDATIONS SECTION</u>	
Schedule of Findings and Recommendations	12
Schedule of Prior Audit Recommendations	14

FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure D - Building Fund of the Kentfield School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Education and
Citizens' Oversight Committee
Kentfield School District
Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure D - Building Fund of the Kentfield School District, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure D - Building Fund and do not purport to, and do not, present fairly the financial position of the Kentfield School District, as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of the District's internal control over the Measure D - Building Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over the Measure D - Building Fund financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over the Measure D - Building Fund financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2018

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
BALANCE SHEET
JUNE 30, 2018

Assets

Deposits and Investments (Note 2)	\$ 20,997,529
Total Assets	<u>\$ 20,997,529</u>

Liabilities and Fund Balance

Liabilities:

Accounts Payable	\$ 1,310,799
Fund Balance:	
Restricted:	

 Restricted for Measure D Projects

	<u>19,686,730</u>
--	-------------------

Total Liabilities and Fund Balance

	<u>\$ 20,997,529</u>
--	----------------------

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Revenues

Bond Proceeds	\$ 18,000,000
Interest Revenue	86,614
Transfers In - General Fund	233,368
Total Revenues	<u>18,319,982</u>

Expenditures

Furniture and Equipment	427,497
Professional and Consulting Services	244,354
Building and Improvements	8,173,597
Total Expenditures	<u>8,845,448</u>
Change in Fund Balance	9,474,534
Fund Balance - July 1, 2017	<u>10,212,196</u>
Fund Balance - June 30, 2018	<u>\$ 19,686,730</u>

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Accounting Policies

Kentfield School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

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

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

E. Encumbrances

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

F. Deposits and Investments

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, consist of the following:

Cash with Fiscal Agent	\$ 379,841
County Pool Investments	<u>20,617,688</u>
Total Deposits and Investments	<u>\$ 20,997,529</u>

Cash with Fiscal Agent

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

County Pool Investments

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

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Interest Rate Risk

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

Weighted Average Maturity

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

Investment Type	Carrying Value	Fair Value	Weighted Average Days to Maturity
County Pool Investments	\$ 20,617,688	\$ 20,639,870	211

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments in the County Treasury are not required to be rated.

Fair Value Measurements

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

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

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

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	\$ 20,639,870	\$ 20,639,870

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

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - GENERAL OBLIGATION BONDS

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

On May 13, 2015, the District issued general obligation bonds in the amount of \$12,000,000 (Series A). On May 17, 2018, the District issued general obligation bonds in the amount of \$18,000,000 (Series B).

NOTE 4 - COMMITMENTS AND CONTINGENCIES

A. Construction Commitments

The District has the following commitments with respect to unfinished capital projects as of June 30, 2018:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Bacich Elementary School Modernization & New Classroom Building	\$ 10,910,244	Fall 2019
Kent Middle School Modernization	2,747,628	Fall 2018

B. Litigation

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

NOTE 5 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 7, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure D - Building Fund of Kentfield School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a material weakness, as noted in **Finding 2018 - 001**.

Board of Education and
Citizens' Oversight Committee
Kentfield School District
Page Two

Compliance and Other Matters

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

District's Response to Finding

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

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2018

FINDINGS AND RECOMMENDATIONS SECTION

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2018 - 001

EXPENDITURE RECOGNITION

- Criteria:** Under the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, regardless of when the related invoices or progress billings are actually received. Accordingly, districts should have effective procedures in place to ensure that all material expenditures are recorded in the appropriate financial reporting period.
- Condition:** The District did not have appropriate procedures in place to ensure that all material expenditures were recorded in the appropriate financial reporting period. As a result, the District's 2017-18 "Unaudited Actuals" financial report did not include \$799,405 of capital outlay expenditures.
- Questioned Costs:** None.
- Context:** Capital outlay expenditures were understated by \$452,701 and \$346,704 for the Bacich Elementary School Modernization & New Classroom Building and Kent Middle School modernization projects, respectively. The District properly setup the earned retention amounts through June 30, 2018 as liabilities for the same two contracts.
- Effect:** The liabilities and expenditures reported in the Measure D - Building Fund were materially understated. An adjustment was recorded to ensure that the financial statements for the Measure D - Building Fund are fairly stated.
- Cause:** District personnel inadvertently neglected to setup the June 2018 invoices from a contractor as liabilities when they were processed for payment.
- Recommendation:** The District should establish appropriate procedures to ensure that all material expenditures, especially those related to capital projects, are recorded in the appropriate financial reporting period.
- District Response:** For the Measure D Bond construction projects, the District established two purchase orders in 2017-18 to track the Gross Maximum Price (GMP) Lease Back payments for Lathrop Construction Associates, Inc. for the Kent Middle School and for Bacich Elementary School construction projects. The 2017-18 purchase order numbers were rolled to the new fiscal year (2018-19) to maintain consistency in tracking of the GMP.

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

EXPENDITURE RECOGNITION (CONCLUDED)

District Response
(Concluded):

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

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

- Kent Middle School Modernization and New Music Classroom

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

- Bacich Elementary School Modernization and New Classroom Building

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

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

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

KENTFIELD SCHOOL DISTRICT
MEASURE D - BUILDING FUND
SCHEDULE OF PRIOR AUDIT RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
2017 - 001		
<u>CITIZENS' OVERSIGHT COMMITTEE</u> The District should continue its efforts to recruit an applicant to fill the vacant position.	Implemented	