

Item #6.2

**KNIGHTS FERRY SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

# KNIGHTS FERRY SCHOOL DISTRICT

## TABLE OF CONTENTS JUNE 30, 2018

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### **FINANCIAL SECTION**

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and	
Changes in Fund Balances to the Statement of Activities	17
Notes to Financial Statements	18

### **REQUIRED SUPPLEMENTARY INFORMATION**

General Fund - Budgetary Comparison Schedule	52
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	53
Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program	54
Schedule of the District's Proportionate Share of the Net Pension Liability	55
Schedule of District Contributions	56
Note to Required Supplementary Information	57

### **SUPPLEMENTARY INFORMATION**

Local Education Agency Organization Structure	60
Schedule of Average Daily Attendance	61
Schedule of Instructional Time	62
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	63
Schedule of Financial Trends and Analysis	64
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	66
Note to Supplementary Information	67

### **INDEPENDENT AUDITOR'S REPORTS**

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</i>	
<i>Auditing Standards</i>	69
Report on State Compliance	71

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditor's Results	75
Financial Statement Findings	76
State Awards Findings and Questioned Costs	77
Summary Schedule of Prior Audit Findings	78

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***FINANCIAL SECTION***

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Knights Ferry School District  
Knights Ferry, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Knights Ferry School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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.

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Knights Ferry School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matter - Change in Accounting Principles*

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, budgetary comparison schedule on page 52, schedule of changes in the District's total OPEB liability and related ratios on page 53, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 54, schedule of the District's proportionate share of the net pension liability on page 55, and the schedule of District contributions on page 56, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Knights Ferry School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Knights Ferry School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Knights Ferry School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Knights Ferry School District's internal control over financial reporting and compliance.

*Varrinck, Trine, Day & Co. LLP*

Fresno, California  
December 17, 2018



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Dr. Janet A. Skulina, Superintendent/Principal  
[www.knightsferry.k12.ca.us](http://www.knightsferry.k12.ca.us)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Knights Ferry School District's comprehensive annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

#### **The Financial Statements**

The financial statements presented herein include all of the activities of the Knights Ferry School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) and deferred outflows, as well as all liabilities (including long-term obligations) and deferred inflows. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for governmental activities.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Knights Ferry School District.

### **REPORTING THE DISTRICT AS A WHOLE**

#### **The Statement of Net Position and the Statement of Activities**

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# KNIGHTS FERRY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District activities as follows:

**Governmental Activities** – All of the school district's programs and services are reported in this category. This includes the education of kindergarten through grade eight students, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental Funds** - All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which 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 general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.



# KNIGHTS FERRY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position is \$782 thousand for the fiscal year ended June 30, 2018, and \$486 thousand for the fiscal year ended June 30, 2017. Of this amount, \$54 thousand was restricted. Restricted net position is reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in thousands)

	Governmental Activities		
	2018	2017, as Restated	Variance
Assets			
Current and other assets	\$ 1,083	\$ 786	\$ 297
Capital assets	797	818	(21)
Total Assets	1,880	1,604	276
Deferred Outflows of Resources	308	221	87
Liabilities			
Current liabilities	38	35	3
Long-term obligations	330	351	(21)
Aggregate net pension liability	840	777	63
Total Liabilities	1,208	1,163	45
Deferred Inflows of Resources	198	176	22
Net Position			
Net investment in capital assets	797	818	(21)
Restricted	54	17	37
Unrestricted	(69)	(349)	280
Total Net Position	\$ 782	\$ 486	\$ 296

The \$782 thousand in total net position of the governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$280 thousand.

#### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

# KNIGHTS FERRY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 2

(Amounts in thousands)	Governmental Activities		
	2018	2017	Variance
Revenues			
Program revenues:			
Charges for services	\$ 1	\$ 1	\$ -
Operating grants and contributions	96	87	9
General revenues:			
Federal and State aid not restricted	1,007	834	173
Property taxes	343	304	39
Other general revenues	103	78	25
Total Revenues	1,550	1,304	246
Expenses			
Instruction related	962	946	16
Pupil services	10	12	(2)
Administration	157	115	42
Plant services	101	92	9
Other	24	18	6
Total Expenses	1,254	1,183	71
Change in Net Position	\$ 296	\$ 121	\$ 175

### Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$1,254 thousand compared to \$1,183 thousand in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$343 thousand because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$96 thousand). We paid for the remaining "public benefit" portion of our governmental activities with \$1,007 thousand in State funds and with \$103 thousand in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions – instruction, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

# KNIGHTS FERRY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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Table 3

(Amounts in thousands)

	Net Cost of Services	
	2018	2017
Instruction	\$ 879	\$ 865
Pupil services	9	11
Administration	154	115
Plant services	101	92
All other services	14	44
Total	<u>\$ 1,157</u>	<u>\$ 1,127</u>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$1,045 thousand, which is an increase of \$293 thousand from last year. The General Fund showed an increase of approximately \$246 thousand due primarily to increased State funding. The remaining District funds showed little change from the prior year.

#### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 28, 2018. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report. The District revises the working budget continuously as the information becomes available from the Federal, State and local government.

The District budgeted a decrease in General Fund balance of approximately \$21 thousand. However, revenues were approximately \$21 thousand more than budgeted, and expenditures and transfers out were approximately \$246 thousand less than budgeted, leaving the fund with an increase of about \$246 thousand.

# KNIGHTS FERRY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$797 thousand in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment (Table 4).

Table 4

(Amounts in thousands)

	Governmental Activities		
	2018	2017	Variance
Land and construction in progress	\$ 148	\$ 143	\$ 5
Buildings and improvements	638	665	(27)
Equipment	11	10	1
Total	<u>\$ 797</u>	<u>\$ 818</u>	<u>\$ (21)</u>

We present more detailed information about our capital assets in Notes to Financial Statements.

#### Long-Term Obligations

At the end of this year, the District had \$330 thousand in obligations versus \$351 thousand last year, a decrease of \$21 thousand. The liabilities consisted of other postemployment benefits obligations.

Table 5

(Amounts in thousands)

	Governmental Activities		
	2018	2017, as Restated	Variance
Net other postemployment benefits (OPEB) liability	<u>\$ 330</u>	<u>\$ 351</u>	<u>\$ (21)</u>

We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

#### Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$308 thousand, Deferred Inflows from pension activities of \$198 thousand, and a Net Pension Liability of \$840 thousand. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

## **KNIGHTS FERRY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

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#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

At the time the financial statements were prepared and audited, the District was unaware of any locally existing circumstances that could significantly affect its financial health in future years. However, the state economy and the somewhat stagnant enrollment, could pose a significant risk to the District's finances. The Board of Trustees has consistently demonstrated in the past that it is prepared to take the steps necessary to ensure the District's solvency and preserve the financial integrity of the District.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, and 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 about this report or need any additional financial information, contact the Director III, District Business Support at the Stanislaus County Office of Education, 1100 H Street, Modesto, California 95354. This individual serves as the business advisor for the Knights Ferry School District.

# KNIGHTS FERRY SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Deposits and investments	\$ 1,054,744
Receivables	26,911
Prepaid expenses	1,751
Nondepreciable capital assets	148,514
Capital assets being depreciated	1,421,573
Accumulated depreciation	<u>(773,047)</u>
<b>Total Assets</b>	<u>1,880,446</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>307,854</u>
 <b>LIABILITIES</b>	
Accounts payable	38,352
Long-term obligations	329,744
Aggregate net pension liability	<u>839,975</u>
<b>Total Liabilities</b>	<u>1,208,071</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>198,031</u>
 <b>NET POSITION</b>	
Net investment in capital assets	797,040
Restricted for:	
Capital projects	40,995
Educational programs	13,075
Unrestricted	<u>(68,912)</u>
<b>Total Net Position</b>	<u>\$ 782,198</u>

The accompanying notes are an integral part of these financial statements.

# KNIGHTS FERRY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Instruction	\$ 757,406	\$ 494	\$ 79,490
Instruction-related activities:			
Supervision of instruction	7,299	-	753
Instructional library, media, and technology	10,790	-	1,640
School site administration	186,491	916	-
Pupil services:			
Food services	94	-	-
All other pupil services	9,791	-	1,302
Administration:			
Data processing	18,701	-	1,113
All other administration	138,090	-	1,250
Plant services	100,891	-	9
Other outgo	24,069	-	10,024
<b>Total Governmental Activities</b>	<b>\$ 1,253,622</b>	<b>\$ 1,410</b>	<b>\$ 95,581</b>
General revenues and subventions:			
Property taxes, levied for general purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Miscellaneous			
<b>Subtotal, General Revenues</b>			
<b>Change in Net Position</b>			
Net Position - Beginning as Restated			
Net Position - Ending			

The accompanying notes are an integral part of these financial statements.

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**Net (Expenses)  
Revenues and  
Changes in  
Net Position**

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**Governmental  
Activities**

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\$ (677,422)

(6,546)

(9,150)  
(185,575)

(94)  
(8,489)

(17,588)  
(136,840)  
(100,882)  
(14,045)

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(1,156,631)

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343,246  
1,006,682  
10,893  
92,171

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1,452,992

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296,361  
485,837

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\$ 782,198

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**KNIGHTS FERRY SCHOOL DISTRICT****GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 918,830	\$ 135,914	\$ 1,054,744
Receivables	26,911	-	26,911
Prepaid expenditures	1,751	-	1,751
<b>Total Assets</b>	<u>\$ 947,492</u>	<u>\$ 135,914</u>	<u>\$ 1,083,406</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 38,352	\$ -	\$ 38,352
<b>FUND BALANCES</b>			
Nonspendable	2,051	-	2,051
Restricted	13,075	40,995	54,070
Committed	-	94,919	94,919
Assigned	441,120	-	441,120
Unassigned	452,894	-	452,894
<b>Total Fund Balances</b>	<u>909,140</u>	<u>135,914</u>	<u>1,045,054</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 947,492</u>	<u>\$ 135,914</u>	<u>\$ 1,083,406</u>

The accompanying notes are an integral part of these financial statements.

## KNIGHTS FERRY SCHOOL DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

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Total Fund Balance - Governmental Funds \$ 1,045,054

**Amounts Reported for Governmental Activities in the Statement  
of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 1,570,087	
Accumulated depreciation is	<u>(773,047)</u>	
Net Capital Assets		797,040

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:

Pension contributions subsequent to measurement date	80,656	
Net change in proportionate share of net pension liability	62,535	
Difference between projected and actual earnings on pension plan investments	7,467	
Differences between expected and actual experience in the measurement of the total pension liability.	10,041	
Changes of assumptions	<u>147,155</u>	
Total Deferred Outflows of Resources Related to Pensions		307,854

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	(167,982)	
Difference between projected and actual earnings on pension plan investments	(16,622)	
Differences between expected and actual experience in the measurement of the total pension liability.	(10,886)	
Changes of assumptions	<u>(2,541)</u>	
Total Deferred Inflows of Resources Related to Pensions		(198,031)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (839,975)

Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The District's

Other Postemployment Benefits (OPEB) liability was:	<u>(329,744)</u>
Total Net Position - Governmental Activities	<u>\$ 782,198</u>

The accompanying notes are an integral part of these financial statements.

# KNIGHTS FERRY SCHOOL DISTRICT

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local Control Funding Formula	\$ 1,251,649	\$ 25,146	\$ 1,276,795
Federal sources	35,715	-	35,715
Other State sources	81,470	27,044	108,514
Other local sources	116,013	5,802	121,815
<b>Total Revenues</b>	<b>1,484,847</b>	<b>57,992</b>	<b>1,542,839</b>
<b>EXPENDITURES</b>			
Current			
Instruction	755,956	-	755,956
Instruction-related activities:			
Supervision of instruction	7,419	-	7,419
Instructional library, media and technology	10,790	-	10,790
School site administration	186,668	-	186,668
Pupil services:			
Food services	94	-	94
All other pupil services	9,791	-	9,791
Administration:			
Data processing	16,913	-	16,913
All other administration	136,887	-	136,887
Plant services	84,809	10,476	95,285
Other outgo	24,069	-	24,069
Facility acquisition and construction	5,760	-	5,760
<b>Total Expenditures</b>	<b>1,239,156</b>	<b>10,476</b>	<b>1,249,632</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>245,691</b>	<b>47,516</b>	<b>293,207</b>
<b>Fund Balance - Beginning</b>	<b>663,449</b>	<b>88,398</b>	<b>751,847</b>
<b>Fund Balance - Ending</b>	<b>\$ 909,140</b>	<b>\$ 135,914</b>	<b>\$ 1,045,054</b>

The accompanying notes are an integral part of these financial statements.

## KNIGHTS FERRY SCHOOL DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

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Total Net Change in Fund Balances - Governmental Funds \$ 293,207  
Amounts Reported for Governmental Activities in the Statement  
of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlay in the period.

Capital outlays	\$ 15,136	
Depreciation expense	<u>(35,765)</u>	
Net Expense Adjustment		(20,629)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.

21,428

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

2,355

Change in Net Position of Governmental Activities	<u>\$ 296,361</u>
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The accompanying notes are an integral part of these financial statements.

# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018**

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial Reporting Entity**

The Knights Ferry School District (the District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates one school.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Knights Ferry School District, this includes general operations and student related activities of the District.

#### **Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into one broad fund category: governmental.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

#### **Major Governmental Fund**

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Outlay Fund, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$448,560.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**Special Reserve Capital Outlay Fund** The Special Reserve Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

### Basis of Accounting - Measurement Focus

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting; which differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function, and exclude fiduciary activity. 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*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**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 fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified 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 on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Allocations of costs, such as depreciation, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### Investments

Investments held at June 30, 2018, 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. Fair values of investments in county pools are determined by the program sponsor.

# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018**

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### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### **Accounts Payable and Long-Term Obligations**

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related item.



# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

**Unassigned** - all other spendable amounts.

# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018**

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### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$54,070 of restricted net position.

### **Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### **Property Tax**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Stanislaus bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### **Change in Accounting Principles**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The District has implemented the provisions of this Statement as of June 30, 2018.

### **New Accounting Pronouncements**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	<u>\$ 1,054,744</u>
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Deposits and investments as of June 30, 2018, consist of the following:

Cash in revolving	\$ 300
Investments	<u>1,054,444</u>
Total Deposits and Investments	<u>\$ 1,054,744</u>

#### Policies and Practices

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.

**Investment in County Treasury** - 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 fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules 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 Corporate 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 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 Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 1,050,802	\$ -	\$ 1,050,802	\$ -	\$ -

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 3 - 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 specified 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 reasonably 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 Stanislaus 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.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund
Federal Government	
Categorical aid	\$ 16,795
State Government	
State grants and entitlements	7,985
Local Sources	2,131
Total	<u>\$ 26,911</u>



# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Balance June 30, 2018
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 81,100	\$ -	\$ 81,100
Construction in process	61,654	5,760	67,414
Total Capital Assets Not Being Depreciated	142,754	5,760	148,514
Capital Assets Being Depreciated			
Land improvements	316,487	-	316,487
Buildings and improvements	1,062,733	-	1,062,733
Furniture and equipment	32,977	9,376	42,353
Total Capital Assets Being Depreciated	1,412,197	9,376	1,421,573
Less Accumulated Depreciation			
Land improvements	123,190	7,776	130,966
Buildings and improvements	590,845	19,601	610,446
Furniture and equipment	23,247	8,388	31,635
Total Accumulated Depreciation	737,282	35,765	773,047
Governmental Activities Capital Assets, Net	\$ 817,669	\$ (20,629)	\$ 797,040

Depreciation expense was charged to functional expenses as follows:

Governmental Activities	
Instruction	\$ 21,817
School site administration	2,861
Data processing	1,788
All other general administration	2,504
Plant services	6,795
Total Depreciation Expenses, Governmental Activities	\$ 35,765

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consists of the following:

	General Fund
Payroll and benefits payable	\$ 31,425
State principal apportionment	6,927
Total	<u>\$ 38,352</u>

### NOTE 7 - PREPAID EXPENDITURES (EXPENSES)

Prepaid expenditures (expenses) at June 30, 2018, consist of the following:

	General Fund
California School Boards Association	<u>\$ 1,751</u>

### NOTE 8 - LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2017, as Restated	Deductions	Balance June 30, 2018
Net other postemployment benefits (OPEB) liability	<u>\$ 351,172</u>	<u>\$ 21,428</u>	<u>\$ 329,744</u>

The net OPEB liability will be paid by the General Fund.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	\$ 324,604	\$ 18,139
Medicare Premium Payment (MPP) Program	5,140	(1,026)
Total	<u>\$ 329,744</u>	<u>\$ 17,113</u>

The details of each plan are as follows:

#### District Plan

##### Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

##### *Plan Membership*

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	5
Active employees	9
Total	<u>14</u>

##### *Benefits Provided*

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

##### *Contributions*

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Knights Ferry Teachers Association (KFTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, KFTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$38,541 in benefits.

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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#### Total OPEB Liability of the District

The District's total OPEB liability of \$324,604 was measured as of June 30, 2018, by an actuarial valuation as of that date.

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.8 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

#### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 345,006
Service cost	5,721
Interest	12,418
Benefit payments	(38,541)
Net change in total OPEB liability	(20,402)
Balance at June 30, 2018	<u>\$ 324,604</u>

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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#### *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.8%)	\$ 342,052
Current discount rate (3.8%)	324,604
1% increase (4.8%)	307,975

#### *Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3%)	\$ 339,516
Current healthcare cost trend rate (4%)	324,604
1% increase (5%)	341,992

#### **OPEB Expense related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$18,139.

#### **Medicare Premium Payment (MPP) Program**

##### **Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$5,140 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0012 percent, and 0.0013 percent, resulting in a net decrease in the proportionate share of 0.0001 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(1,026).

### Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

#### Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

#### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 5,691
Current discount rate (3.58%)	5,140
1% increase (4.58%)	4,605

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates*

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 4,645
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	5,140
1% increase (4.7% Part A and 5.1% Part B)	5,631



# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Fund	Total
Nonspendable			
Revolving cash	\$ 300	\$ -	\$ 300
Prepaid expenditures	1,751	-	1,751
Total Nonspendable	<u>2,051</u>	<u>-</u>	<u>2,051</u>
Restricted			
Educational programs	13,075	-	13,075
Capital projects	-	40,995	40,995
Total Restricted	<u>13,075</u>	<u>40,995</u>	<u>54,070</u>
Committed			
Deferred maintenance program	-	94,919	94,919
Assigned			
Yearbook	7,539	-	7,539
Classroom remodel	40,580	-	40,580
Lottery	5,424	-	5,424
EPA	13,404	-	13,404
Special education reserve	150,000	-	150,000
Textbook reserve	53,565	-	53,565
Equipment reserve	66,139	-	66,139
Reserve for OPEB retiree costs	104,469	-	104,469
Total Assigned	<u>441,120</u>	<u>-</u>	<u>441,120</u>
Unassigned			
Reserve for economic uncertainties	140,480	-	140,480
Remaining unassigned	312,414	-	312,414
Total Unassigned	<u>452,894</u>	<u>-</u>	<u>452,894</u>
Total	<u>\$ 909,140</u>	<u>\$ 135,914</u>	<u>\$ 1,045,054</u>

# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018**

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### **NOTE 10 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with the Central Region Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

For fiscal year 2018, the District participated in the Central Region Schools Insurance Group, an insurance purchasing pool. The intent of the Central Region Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Central Region Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Central Region Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Central Region Schools Insurance Group. Participation in the Central Region Schools Insurance Group is limited to districts that can meet the Central Region Schools Insurance Group selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the insurance group.

#### **Employee Medical Benefits**

The District has contracted with a commercial insurance carrier to provide employee health benefits.

### **NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS**

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

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 624,123	\$ 238,809	\$ 195,490	\$ 36,491
CalPERS	215,852	69,045	2,541	41,810
Total	<u>\$ 839,975</u>	<u>\$ 307,854</u>	<u>\$ 198,031</u>	<u>\$ 78,301</u>

The details of each plan are as follows:

#### California State Teachers' Retirement System (CalSTRS)

##### Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:  
<http://www.calstrs.com/member-publications>.

##### Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

#### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$61,947.

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 624,123
State's proportionate share of the net pension liability associated with the District	369,226
Total	<u>\$ 993,349</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0007 percent.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

For the year ended June 30, 2018, the District recognized pension expense of \$36,491. In addition, the District recognized pension expense and revenue of \$37,166 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 61,947	\$ -
Net change in proportionate share of net pension liability	58,928	167,982
Difference between projected and actual earnings on pension plan investments	-	16,622
Differences between expected and actual experience in the measurement of the total pension liability	2,308	10,886
Changes of assumptions	115,626	
Total	<u>\$ 238,809</u>	<u>\$ 195,490</u>

The deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (13,818)
2020	10,457
2021	1,507
2022	(14,768)
Total	<u>\$ (16,622)</u>

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The deferred inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (9,387)
2020	(9,387)
2021	(9,387)
2022	(9,387)
2023	23,081
Thereafter	12,461
Total	<u>\$ (2,006)</u>

#### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

#### Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 916,411
Current discount rate (7.10%)	624,123
1% increase (8.10%)	386,912

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%



# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$18,709.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$215,852. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0009 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$41,810. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 18,709	\$ -
Net change in proportionate share of net pension liability	3,607	-
Difference between projected and actual earnings on pension plan investments	7,467	-
Differences between expected and actual experience in the measurement of the total pension liability	7,733	-
Changes of assumptions	31,529	2,541
Total	<u>\$ 69,045</u>	<u>\$ 2,541</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

## KNIGHTS FERRY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (202)
2020	8,615
2021	3,143
2022	(4,089)
Total	<u>\$ 7,467</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 15,382
2020	13,954
2021	10,992
Total	<u>\$ 40,328</u>

#### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

### Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 317,587
Current discount rate (7.15%)	215,852
1% increase (8.15%)	131,454

# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **Other Information**

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminated employees.

### **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 contribute Social Security and Medicare. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$30,022 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

## **NOTE 12 - COMMITMENTS AND CONTINGENCIES**

### **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

### **Litigation**

The District is not currently a party to any legal proceedings.

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 13 - PARTICIPATION IN JOINT POWER AUTHORITIES

The Knights Ferry School District is a member of the Central Region Schools Insurance Group (CRSIG) joint powers authority. The District pays an annual premium to CRSIG for its workers' compensation, and property liability coverage. Payments for services are paid to CRSIG. The relationship between the District and CRSIG is such that it is not component unit of the District for financial reporting purposes. CRSIG purchases excess liability and property insurance through the Schools Excess Fund and the Northern California Regional Liability Excess Fund. CRSIG also purchases excess insurance for workers' compensation through the Schools Alliance for Workers' Compensation Excess. The Knights Ferry School District pays a premium commensurate with the level of coverage requested.

CRSIG has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between CRSIG and the District are included in these statements. Audited financial statements are generally available from CRSIG.

The District has appointed one member to the governing board of CRSIG.

During the year ended June 30, 2018, the District made payment of \$9,918 CRSIG for workers' compensation insurance, and property and liability insurance.

### NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

#### Government-Wide Financial Statements

Net Position - Beginning	\$ 739,451
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(253,614)</u>
Net Position - Beginning as Restated	<u>\$ 485,837</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# KNIGHTS FERRY SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>REVENUES</b>				
Local Control Funding Formula	\$ 1,273,971	\$ 1,247,185	\$ 1,251,649	\$ 4,464
Federal sources	34,013	35,501	35,715	214
Other State sources	25,282	43,857	51,448	7,591
Other local sources	71,373	107,762	116,013	8,251
<b>Total Revenues</b> <sup>1</sup>	<u>1,404,639</u>	<u>1,434,305</u>	<u>1,454,825</u>	<u>20,520</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	439,829	429,817	432,705	(2,888)
Classified salaries	138,285	150,302	141,669	8,633
Employee benefits	235,949	230,724	224,341	6,383
Books and supplies	160,641	129,474	61,060	68,414
Services and operating expenditures	413,006	355,805	310,154	45,651
Other outgo	38,373	26,480	24,069	2,411
Capital outlay	-	19,515	15,136	4,379
<b>Total Expenditures</b> <sup>1</sup>	<u>1,426,083</u>	<u>1,342,117</u>	<u>1,209,134</u>	<u>132,983</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<u>(21,444)</u>	<u>92,188</u>	<u>245,691</u>	<u>153,503</u>
<b>Other Financing Uses</b>				
Transfers out	<u>(113,541)</u>	<u>(112,719)</u>	<u>-</u>	<u>112,719</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(134,985)</u>	<u>(20,531)</u>	<u>245,691</u>	<u>266,222</u>
<b>Fund Balance - Beginning</b>	<u>663,449</u>	<u>663,449</u>	<u>663,449</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 528,464</u>	<u>\$ 642,918</u>	<u>\$ 909,140</u>	<u>\$ 266,222</u>

<sup>1</sup> On behalf payments are not included in revenues and expenditures in this schedule. In addition, due to the consolidation of Fund 17, Special Reserve Non-Capital Outlay Fund, and Fund 20, Special Reserve for Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
<b>Total OPEB Liability</b>	
Service cost	\$ 5,721
Interest	12,418
Benefit payments	(38,541)
<b>Net change in total OPEB liability</b>	(20,402)
<b>Total OPEB liability - beginning</b>	345,006
<b>Total OPEB liability - ending</b>	<u>\$ 324,604</u>
 <b>Covered payroll</b>	 <u>N/A <sup>1</sup></u>
 <b>District's total OPEB liability as a percentage of covered payroll</b>	 <u>N/A <sup>1</sup></u>

<sup>1</sup> The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.



## KNIGHTS FERRY SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

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Year ended June 30,	2018
District's proportion of the net OPEB liability	0.0012%
District's proportionate share of the net OPEB liability	\$ 5,140
District's covered-employee payroll	N/A <sup>1</sup>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
<b>CalSTRS</b>		
District's proportion of the net pension liability	0.0007%	0.0007%
District's proportionate share of the net pension liability	\$ 624,123	\$ 599,144
State's proportionate share of the net pension liability associated with the District	369,226	341,082
Total	<u>\$ 993,349</u>	<u>\$ 940,226</u>
District's covered - employee payroll	<u>\$ 359,078</u>	<u>\$ 373,374</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	173.81%	160.47%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
<b>CalPERS</b>		
District's proportion of the net pension liability	0.0009%	0.0009%
District's proportionate share of the net pension liability	<u>\$ 215,852</u>	<u>\$ 178,117</u>
District's covered - employee payroll	<u>\$ 115,387</u>	<u>\$ 113,472</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	187.07%	156.97%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.0006%</u>	<u>0.0009%</u>
\$ 423,598	\$ 542,947
<u>224,037</u>	<u>327,855</u>
<u>\$ 647,635</u>	<u>\$ 870,802</u>
<u>\$ 411,678</u>	<u>\$ 401,733</u>
<u>102.90%</u>	<u>135.15%</u>
<u>74%</u>	<u>77%</u>
<u>0.0009%</u>	<u>0.0008%</u>
\$ 129,161	\$ 94,921
<u>\$ 97,052</u>	<u>\$ 87,729</u>
<u>133.08%</u>	<u>108.20%</u>
<u>79%</u>	<u>83%</u>

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
<b>CalSTRS</b>		
Contractually required contribution	\$ 61,947	\$ 45,172
Contributions in relation to the contractually required contribution	61,947	45,172
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 429,293	\$ 359,078
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
<b>CalPERS</b>		
Contractually required contribution	\$ 18,709	\$ 16,025
Contributions in relation to the contractually required contribution	18,709	16,025
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 120,462	\$ 115,387
Contributions as a percentage of covered - employee payroll	15.531%	13.888%

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 40,063	\$ 36,557
40,063	36,557
<u>\$ -</u>	<u>\$ -</u>
\$ 373,374	\$ 411,678
<u>10.73%</u>	<u>8.88%</u>
\$ 13,443	\$ 11,424
13,443	11,424
<u>\$ -</u>	<u>\$ -</u>
\$ 113,472	\$ 97,052
<u>11.847%</u>	<u>11.771%</u>

# KNIGHTS FERRY SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

#### Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

#### Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* - There were no changes in the benefit terms since the previous valuation.

*Changes of Assumptions* - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

#### Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

*Changes of Assumptions* - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

## **KNIGHTS FERRY SCHOOL DISTRICT**

### **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018**

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#### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

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***SUPPLEMENTARY INFORMATION***

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## **KNIGHTS FERRY SCHOOL DISTRICT**

### **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018**

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#### **ORGANIZATION**

The Knights Ferry School District was established in 1854. Knights Ferry is a small agricultural community among the foothills of the Sierra Nevada along the Stanislaus River. The District operates one school offering instruction in grades K - 8. There were no boundary changes during the year.

#### **GOVERNING BOARD**

MEMBER	OFFICE	TERM EXPIRES
Diane Noon	President	2022
Lisa Frymire	Clerk	2020
Bridgette Hobbs	Member	2020
Michael McKibban	Member	2022
Mary Turner	Member	2022

#### **ADMINISTRATION**

Janet Skulina	Superintendent
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See accompanying note to supplementary information.

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

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	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	77.22	77.13
Fourth through sixth	35.91	35.90
Seventh and eighth	24.68	24.57
Total ADA	137.81	137.60

See accompanying note to supplementary information.

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-1987	2017-2018	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	62,320	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		56,680	180	N/A	Complied
Grade 2		56,680	180	N/A	Complied
Grade 3		56,680	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,680	180	N/A	Complied
Grade 5		56,680	180	N/A	Complied
Grade 6		56,680	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		56,680	180	N/A	Complied
Grade 8		56,680	180	N/A	Complied

See accompanying note to supplementary information.

**KNIGHTS FERRY SCHOOL DISTRICT**

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

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There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

# KNIGHTS FERRY SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 <sup>1,4</sup>	2018 <sup>4</sup>	2017 <sup>4</sup>	2016 <sup>4</sup>
GENERAL FUND				
Revenues and transfer in <sup>3</sup>	\$ 1,476,306	\$ 1,451,194	\$ 1,209,855	\$ 999,773
Expenditures	1,473,882	1,209,134	1,092,209	938,286
Other uses and transfer outs	39,486	112,719	31,446	10,750
Total Expenditures and Other Uses <sup>3</sup>	1,513,368	1,321,853	1,123,655	949,036
INCREASE/(DECREASE) IN FUND BALANCE	\$ (37,062)	\$ 129,341	\$ 86,200	\$ 50,737
ENDING FUND BALANCE	\$ 423,518	\$ 460,580	\$ 331,239	\$ 245,039
AVAILABLE RESERVES <sup>2</sup>	\$ 300,177	\$ 452,894	\$ 396,392	\$ 236,507
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	19.8%	34.3%	35.3%	24.9%
LONG-TERM OBLIGATIONS <sup>5</sup>	Not Available	\$ 329,744	\$ 351,172	\$ 102,510
AVERAGE DAILY ATTENDANCE AT P-2	137	137	115	90

The General Fund balance has increased by \$215,541 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of \$37,062 (8.0 percent). For a district this size, the State recommends available reserves of at least five percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$227,234 over the past two years due to the implementation of GASB Statement No. 75.

Average daily attendance has increased by 47 over the past two years. No change in ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On behalf payments have been excluded from revenues and expenditures in this schedule.

<sup>4</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Outlay Fund and Special Reserve for Postemployment Benefits Fund as required by GASB Statement No. 54.

<sup>5</sup> The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

**KNIGHTS FERRY SCHOOL DISTRICT****NON-MAJOR GOVERNMENTAL FUNDS****COMBINING BALANCE SHEET****JUNE 30, 2018**

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	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	\$ 94,919	\$ 13,196	\$ 27,799	\$ 135,914
FUND BALANCES				
Restricted	\$ -	\$ 13,196	\$ 27,799	\$ 40,995
Committed	94,919	-	-	94,919
Total Fund Balances	\$ 94,919	\$ 13,196	\$ 27,799	\$ 135,914

See accompanying note to supplementary information.

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

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	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund
<b>REVENUES</b>			
Local Control Funding Formula	\$ 25,146	\$ -	\$ -
Other State sources	-	-	27,044
Other local sources	874	4,763	165
<b>Total Revenues</b>	<u>26,020</u>	<u>4,763</u>	<u>27,209</u>
<b>EXPENDITURES</b>			
Current expenditures			
Plant services	<u>10,476</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	15,544	4,763	27,209
Fund Balance - Beginning	79,375	8,433	590
Fund Balance - Ending	<u>\$ 94,919</u>	<u>\$ 13,196</u>	<u>\$ 27,799</u>

See accompanying note to supplementary information.

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**Total  
Non-Major  
Governmental  
Funds**

\$	25,146
	27,044
	5,802
	<u>57,992</u>

	<u>10,476</u>
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	47,516
	88,398
\$	<u><u>135,914</u></u>



# **KNIGHTS FERRY SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018**

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### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) 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.

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District met or exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

#### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

#### **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.

#### **Non-Major Governmental Funds - Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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***INDEPENDENT AUDITOR'S REPORTS***

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

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**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***

Governing Board  
Knights Ferry School District  
Knights Ferry, 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, the major fund, and the aggregate remaining fund information of Knights Ferry School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Knights Ferry School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Knights Ferry School 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 Knights Ferry School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Knights Ferry School 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 District'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 Knights Ferry School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 17, 2018



VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Knights Ferry School District  
Knights Ferry, California

### Report on State Compliance

We have audited Knights Ferry School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Knights Ferry School District's State government programs as noted below for the year ended June 30, 2018.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance of each of the Knights Ferry School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Knights Ferry 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 opinions. Our audit does not provide a legal determination of Knights Ferry School District's compliance with those requirements.

### *Unmodified Opinion*

In our opinion, Knights Ferry School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	No (see below)
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No (see below)
After School	No (see below)
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the program is not offered by the District.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

We did not perform procedures for the After/Before School Education and Safety Program because the District does not offer the program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to Independent Study - Course Based.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

*Vavrinuk, Trine, Day + Co. LLP*

Fresno, California  
December 17, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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# **KNIGHTS FERRY SCHOOL DISTRICT**

## **SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018**

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### **FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

### **FEDERAL AWARDS**

The District was not subject to a Single Audit under Uniform Guidance as their total Federal award expenditures were under the minimum threshold of \$750,000.

### **STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**KNIGHTS FERRY SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**KNIGHTS FERRY SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**KNIGHTS FERRY SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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There were no audit findings reported in the prior year's schedule of financial statement findings.