

MILLBRAE SCHOOL DISTRICT
COUNTY OF SAN MATEO
MILLBRAE, CALIFORNIA

AUDIT REPORT

June 30, 2016



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

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Millbrae School District
San Mateo County

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Millbrae School District
Millbrae, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Millbrae School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Millbrae School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Millbrae School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

New Accounting Pronouncements

As discussed in Note 1 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of CalPERS pension contributions, schedule of CalPERS proportionate share of net pension liability, schedule of STRS pension contributions, schedule of STRS proportionate share of net pension liability and schedule of funding progress for the retiree healthcare plan, as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards*, and the other information listed in the supplementary section of the table of contents, as required by the *2015-16 Guide for Annual Audits of*



K-12 Local Education Agencies and State Compliance Reporting, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are the responsibility of management and were 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 combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of Millbrae School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Millbrae School District's internal control over financial reporting and compliance.

C & A LLP

November 17, 2016
San Jose, California

Management's Discussion and Analysis

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

This discussion and analysis of Millbrae School District's (the District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2015-16 are as follows:

- Total net position increased by \$1,577,213 (28%), which included a increase in unrestricted net position of \$1,371,640 (48%), from June 30, 2015 to June 30, 2016, mainly due to the changes in pension plan earnings and proportionate shares related to GASB 68 which required the district to record a net pension liability of \$16,362,554 for STRS and PERS pension plans.
- The District recorded deferred outflows of resources of \$2,337,197 and deferred inflows of resources of \$2,369,319 in order to record the different components required by GASB 68 for pension accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 1 in the notes to financial statements for a definition.
- The District had \$27,211,774 in expenses for governmental activities, which is 93% of total revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$3,842,601, or 13%, of the total revenues of \$29,251,850.
- General revenue of \$25,409,249 was comprised of \$15,982,118 in property taxes, \$8,564,807 in grants and entitlements, and \$862,324 in other revenue.
- The fund balances of all governmental funds increased by \$2,530,741, which is an 11% increase from 2014-15. Of this net amount, \$1,995,137 was from an increase in the fund balance of the General Fund which includes the fund balance of the postemployment benefits fund totaling \$1,944,225 as required by GASB 54.
- Total governmental fund revenues and expenditures totaled \$29,179,159 and \$26,648,418, respectively.

Using the Annual Report

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand Millbrae School District as a financial whole, an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the District-wide financial statements and provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

District's most significant funds with all other non-major funds presented in total in one column. In the case of Millbrae School District, the General Fund is by far the most significant fund.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overview of the Financial Statements

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management Discussion and Analysis. These three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, District-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

District-Wide Financial Statements - Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2015-16?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the District's net position and changes in those assets. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, and required educational programs.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not engage in business activities.

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, Building Fund, Special Reserve Fund for Other Than Capital Projects and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. 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 future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The District as a Whole

Recall that the Statement of Net Position provides a perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2016 compared to June 30, 2015:

Table 1 - Summary of Net Position				
	2016	2015	Increase (Decrease)	Percent
Assets				
Current and Other Assets	\$ 26,741,285	\$ 24,548,302	\$ 2,192,983	8.9%
Capital Assets	60,029,346	61,868,701	(1,839,355)	-3.0%
Total Assets	\$ 86,770,631	\$ 86,417,003	\$ 353,628	0.4%
Deferred Outflows	\$ 2,337,197	\$ 1,830,670	\$ 506,527	27.7%
Liabilities				
Current Liabilities	\$ 2,574,995	\$ 2,902,016	\$ (327,021)	-11.3%
Long-Term Liabilities	76,975,599	75,843,171	1,132,428	1.5%
Total Liabilities	\$ 79,550,594	\$ 78,745,187	\$ 805,407	1.0%
Deferred Inflows	\$ 2,369,319	\$ 3,891,784	\$ (1,522,465)	-39.1%
Net Position				
Net Investment in Capital Assets	\$ 1,212,287	\$ 1,741,943	\$ (529,656)	-30.4%
Restricted	7,463,568	6,728,339	735,229	10.9%
Unrestricted	(1,487,940)	(2,859,580)	1,371,640	-48.0%
Total Net Position	\$ 7,187,915	\$ 5,610,702	\$ 1,577,213	28.1%

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

Total liabilities of governmental activities increased by 1% and net position increased by 28% because of the changes related to GASB 68 which requires all local governments to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. The unrestricted net position of the District, which is the portion of net position that may be used to finance day-to-day activities without constraints from grants and legal requirements, increased by 48%. Long-term liabilities increased by 1.5%.

Table 2 shows the changes in net position for the fiscal year 2015-16:

Table 2 - Change in Net Position				
	2016	2015	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	\$ 487,100	\$ 450,003	\$ 37,097	8.2%
Operating Grants and Contributions	3,355,501	3,259,831	95,670	2.9%
General Revenues:				
Property Taxes	15,982,118	11,289,228	4,692,890	41.6%
Grants and Entitlements - Unrestricted	8,564,807	10,148,394	(1,583,587)	-15.6%
Other	862,324	858,712	3,612	0.4%
Total Revenues	29,251,850	26,006,168	3,245,682	12.5%
Program Expenses				
Instruction	15,668,840	13,850,255	1,818,585	13.1%
Instruction-Related Services	1,921,013	1,707,217	213,796	12.5%
Pupil Services	2,588,931	2,476,123	112,808	4.6%
General Administration	1,793,942	1,600,485	193,457	12.1%
Plant Services	2,072,307	1,801,508	270,799	15.0%
Other	3,166,741	3,640,800	(474,059)	-13.0%
Total Expenses	27,211,774	25,076,388	2,135,386	8.5%
Change in Net Position	2,040,076	929,780	1,110,296	119.4%
Beginning Net Position	5,610,702	22,101,130	(16,490,428)	-74.6%
Prior Period Adjustment - GASB 68	(462,863)	(17,420,208)	16,957,345	-100.0%
Beginning Net Assets - as Adjusted	5,147,839	4,680,922	466,917	10.0%
Ending Net Position	\$ 7,187,915	\$ 5,610,702	\$ 1,577,213	28.1%

Governmental Activities

Property taxes made up 55% of revenues from governmental activities for the District during the fiscal year 2015-16 and increased by 42% from 2014-15, due to taxes levied for debt service on general obligation bonds, and community redevelopment funds.

Grants and entitlements – unrestricted decreased by 42% due to an increase in property taxes, and resulting in a decrease in State Aide.

Direct instruction, Instruction-Related Services, and Pupil Services represent 74% of total expenses.

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Table 3 shows the total cost of services and the net cost of services, and identifies the cost of these services supported by revenues.

Table 3 - Net Cost of Services				
Function	2016	2015	Increase (Decrease)	Percent
Instruction	\$ 13,805,048	\$ 12,489,573	\$ 1,315,475	10.53%
Instruction-Related Services	1,764,499	1,589,428	175,071	11.01%
Pupil Services	1,803,220	1,702,251	100,969	5.93%
General Administration	1,730,933	1,538,891	192,042	12.48%
Plant Services	2,061,713	1,799,398	262,315	14.58%
Other	2,247,013	2,247,013	-	0.00%
Total Net Cost of Services	\$ 23,412,426	\$ 21,366,554	\$ 2,045,872	9.58%

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupil Services and Instruction-Related Services expenses include the activities involved with assisting staff with the content and process of teaching to pupils.

General Administration expenses include the costs for the Board of Trustees, administration, fiscal and business services and other expenses associated with administrative and financial supervision of the District.

Plant Services expenses include the operation and maintenance of plant activities which involve keeping the school grounds, buildings, and equipment in an effective working condition.

Other expense includes community service, interest and fiscal charges. Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the District.

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

The District's Funds

The District's governmental funds report a combined fund balance of \$24,812,103, which is a decrease of 11% from the prior year's total of \$2,530,741.

Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Change in Fund Balances				
Funds	2016	2015	Increase (Decrease)	
General Fund	\$ 6,320,474	\$ 4,325,337	\$	1,995,137
Cafeteria Fund	119,092	147,889		(28,797)
Foundation Fund	50,405	50,584		(179)
Building Fund	-	-		-
Capital Facilities Fund	305,684	78,858		226,826
Special Reserve Fund for Capital Projects	13,289,703	13,343,643		(53,940)
Bond Interest & Redemption Fund	4,726,745	4,335,051		391,694
Total Governmental Fund Balances	\$ 24,812,103	\$ 22,281,362	\$	2,530,741

Capital Assets

At the end of the fiscal year 2015-16, the District had \$72,247,256 invested in land, buildings, furniture and equipment, and vehicles. Table 5 shows June 30, 2016 balances compared to June 30, 2015:

Table 5 - Summary of Capital Assets Net of Depreciation				
Capital Asset	2016	2015	Change	Percentage Change
	Net Capital Asset	Net Capital Asset		
Land	\$ 358,270	\$ 358,270	\$ -	0.0%
Buildings	59,082,022	60,886,825	(1,804,803)	-3.0%
Property and Equipment	558,176	623,606	(65,430)	-10.5%
Work-in-Progress	30,878	-	30,878	100.0%
Totals	\$ 60,029,346	\$ 61,868,701	\$ (1,839,355)	-3.0%

Net capital assets decreased by \$1,839,355 during the fiscal year 2015-16, mainly due to depreciation expense.

Millbrae School District
Management's Discussion and Analysis
June 30, 2016

Long Term Debt

Table 6 reports the balance and changes of long-term liabilities during the fiscal year 2015-16.

Table 6 - Long-term Debt				
Type of Debt	2016	2015	Change	Percentage Change
Capital lease obligations	\$ 72,246	\$ 118,241	\$ (45,995)	-38.90%
General obligation bonds	58,665,693	59,888,385	(1,222,692)	-2.04%
School loan	755,307	828,419	(73,112)	-8.83%
Net OPEB obligation	970,437	814,853	155,584	19.09%
Net Pension Obligation	16,362,554	14,044,767	2,317,787	16.50%
Compensated absences	149,362	148,506	856	0.58%
Total Debt	\$ 76,975,599	\$ 75,843,171	\$ 1,132,428	1.49%

Factors Bearing on the District's Future

The District has been successful in weathering challenges faced over the last several years resulting from trying economic times and implementation of the new Local Control Funding Formula (LCFF). Under LCFF there are no state statutes that specify an annual appropriation to support the LCFF. Therefore, the annual LCFF entitlement will be determined by "any available appropriations" (Ed Code 42238.03 b 3). Adequate reserves will be crucial to guard against fiscal volatility. Continued cooperative efforts and sound decision making by the Board, the superintendent, and the entire staff will be key to the District's long-term financial health.

As the District enters into the next fiscal year, a number of factors affecting the budget will be considered. Recent enrollment projections indicate a slight decrease in enrollment in the current and following years, but ultimately an upward trend thereafter. As the District reaches classroom capacity, accommodating long-term growth becomes a concern in terms of available facilities. No new state funding for facilities appears to be projected, therefore the District will need to plan for financing this expansion through its own measures.

Additionally, under the California State Pension Reform, signed by the Governor in June 2014, contribution rates from all parties—members, employers and the state—to the Defined Benefit Program will be increasing gradually over the next several years. No new state revenues will be afforded to cover this expense to the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, Richard Champion, Chief Business Official, Millbrae School District, 555 Richmond Drive, Millbrae, CA 94030 or via email at mhenson@mesd.k12.ca.us.

Basic Financial Statements

Millbrae School District

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and investments	\$ 24,922,467
Accounts receivable	1,130,713
Prepaid and other assets	11,918
Prepaid debt issuance costs	676,187
Capital assets - net	60,029,346
Total Assets	<u><u>\$ 86,770,631</u></u>
Deferred Outflows of Resources	
Pension plan contributions	\$ 2,337,197
Total Deferred Outflows of Resources	<u><u>\$ 2,337,197</u></u>
Liabilities	
Accounts payable	\$ 854,053
Deferred revenue	398,942
Accrued interest	1,322,000
Long-term liabilities:	
Due within one year	
Capital leases payable	47,719
School loan	77,250
General obligation bonds	1,062,690
Total due within one year	<u>1,187,659</u>
Due after one year	
Capital leases payable	24,527
School loan	678,057
General obligation bonds	57,603,003
Net OPEB obligation	970,437
Net pension liabilities	16,362,554
Compensated absences payable	149,362
Total due after one year	<u>75,787,940</u>
Total long-term liabilities	<u>76,975,599</u>
Total Liabilities	<u><u>\$ 79,550,594</u></u>
Deferred Inflows of Resources	
Net difference between projected and actual earnings from pension plans	\$ 2,369,319
Total Deferred Inflows of Resources	<u><u>\$ 2,369,319</u></u>
Net Position	
Net investment in capital assets	\$ 1,212,287
Restricted for:	
Debt service	4,726,745
Miscellaneous	792,598
Other postemployment benefits	1,944,225
Unrestricted	<u>(1,487,940)</u>
Total Net Position	<u><u>\$ 7,187,915</u></u>

The notes to basic financial statements are an integral part of this statement

Millbrae School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

		Program Revenues		Net (Expense)
			Operating	Revenue and
	Expenses	Charges for	Grants and	Changes in
		Services	Contributions	Net Position
Governmental activities				
Instruction	\$ 15,668,840	\$ 24,624	\$ 1,839,168	\$ (13,805,048)
Instruction-related services:				
Supervision of instruction	551,024	3,255	96,844	(450,925)
Instruction library, media and technology	9,579	-	-	(9,579)
School site administration	1,360,410	20	56,395	(1,303,995)
Pupil services:				
Home-to-school transportation	182,948	2,922	1,773	(178,253)
Food services	961,035	418,470	298,972	(243,593)
All other pupil services	1,444,948	9,842	53,732	(1,381,374)
General administration:				
Data processing	238,417	-	1,775	(236,642)
All other general administration	1,555,525	22,119	39,115	(1,494,291)
Plant services	2,072,307	5	10,589	(2,061,713)
Community services	53,311	-	-	(53,311)
Other outgo	368,709	5,843	957,138	594,272
Interest on long-term debt	2,744,721	-	-	(2,744,721)
Total governmental activities	<u>\$ 27,211,774</u>	<u>\$ 487,100</u>	<u>\$ 3,355,501</u>	<u>(23,369,173)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				11,981,647
Taxes levied for debt service				3,755,975
Taxes levied for other specific purposes				244,496
Federal and state aid not restricted to specific purposes				8,564,807
Interest and investment earnings				244,491
Miscellaneous				617,833
Total general revenues				<u>25,409,249</u>
Change in net position				2,040,076
Net position beginning				5,610,702
Prior period adjustment - GASB 68				(462,863)
Net position beginning as adjusted				<u>5,147,839</u>
Net position ending				<u>\$ 7,187,915</u>

The notes to basic financial statements are an integral part of this statement

Millbrae School District

Governmental Funds

Balance Sheet

June 30, 2016

	General Fund	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 6,231,009	\$ 13,482,320	\$ 4,717,345	\$ 491,793	\$ 24,922,467
Accounts receivable	1,065,437	36,218	9,400	19,658	1,130,713
Due from other funds	94,424	13,500	-	54,900	162,824
Prepaid and other current assets	-	-	-	11,918	11,918
Total Assets	\$ 7,390,870	\$ 13,532,038	\$ 4,726,745	\$ 578,269	\$ 26,227,922
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 749,986	\$ 84,506	\$ -	\$ 19,561	\$ 854,053
Due to other funds	63,500	59,082	-	40,242	162,824
Unearned revenue	256,910	98,747	-	43,285	398,942
Total Liabilities	1,070,396	242,335	-	103,088	1,415,819
Fund balances:					
Nonspendable:					
Revolving fund	2,500	-	-	850	3,350
Inventories	-	-	-	11,918	11,918
Restricted for:					
Educational programs	635,869	-	-	50,405	686,274
Cafeteria programs	-	-	-	106,324	106,324
Debt service	-	-	4,726,745	-	4,726,745
Other postemployment benefits	1,944,225	-	-	-	1,944,225
Assigned for:					
Educational programs	1,060,937	-	-	-	1,060,937
Capital projects	-	13,289,703	-	305,684	13,595,387
Unassigned:					
Reserve for economic uncertainties	652,185	-	-	-	652,185
Unappropriated	2,024,758	-	-	-	2,024,758
Total Fund Balances	6,320,474	13,289,703	4,726,745	475,181	24,812,103
Total Liabilities and Fund Balances	\$ 7,390,870	\$ 13,532,038	\$ 4,726,745	\$ 578,269	\$ 26,227,922

The notes to basic financial statements are an integral part of this statement

Millbrae School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2016

Total fund balances - governmental funds		\$ 24,812,103
Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$72,247,256 and the accumulated depreciation is \$12,217,910.		60,029,346
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The accrued interest at the end of the period was:		(1,322,000)
In the governmental funds, prepaid debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, prepaid debt issuance costs are amortized over the life of the debt. Prepaid debt issuance costs of \$872,630 were reported net accumulated amortization of \$196,443.		676,187
Contributions made to pension plans will not be included in the calculation of the District's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		2,337,197
The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position.		(2,369,319)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Capital leases payable	\$ 72,246	
School loan	755,307	
General obligation bonds	58,665,693	
Net OPEB obligations	970,437	
Net pension liabilities	16,362,554	
Compensated absences	<u>149,362</u>	<u>(76,975,599)</u>
Total net position - governmental activities		<u>\$ 7,187,915</u>

The notes to basic financial statements are an integral part of this statement

Millbrae School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2016

	General Fund	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF Sources	\$ 18,842,806	\$ -	\$ -	\$ -	\$ 18,842,806
Federal	685,895	-	-	282,671	968,566
Other state	2,957,856	-	14,658	20,079	2,992,593
Other local	1,193,893	285,679	4,152,501	743,121	6,375,194
Total revenues	23,680,450	285,679	4,167,159	1,045,871	29,179,159
Expenditures:					
Instruction	14,259,337	-	-	584	14,259,921
Instruction-related services:					
Supervision of instruction	555,390	-	-	-	555,390
Instruction library, media and technology	9,655	-	-	-	9,655
School site administration	1,371,187	-	-	-	1,371,187
Pupil services:					
Home-to-school transportation	184,397	-	-	-	184,397
Food services	-	-	-	792,426	792,426
All other pupil services	1,456,395	-	-	-	1,456,395
General administration:					
Data processing	240,306	-	-	-	240,306
All other general administration	1,246,036	-	-	72,729	1,318,765
Plant services	1,870,649	87,763	-	6	1,958,418
Facility acquisition and construction	24,543	19,628	-	32,276	76,447
Community services	53,311	-	-	-	53,311
Other outgo	368,709	-	-	-	368,709
Debt service:					
Principal	45,995	73,112	1,150,000	-	1,269,107
Interest and fees	3,585	104,934	2,625,465	-	2,733,984
Total expenditures	21,689,495	285,437	3,775,465	898,021	26,648,418
Excess (deficiency) of revenues over (under) expenditures	1,990,955	242	391,694	147,850	2,530,741
Other financing sources (uses):					
Transfers in	54,182	-	-	50,000	104,182
Transfers out	(50,000)	(54,182)	-	-	(104,182)
Total other financing sources (uses)	4,182	(54,182)	-	50,000	-
Changes in fund balances	1,995,137	(53,940)	391,694	197,850	2,530,741
Fund balances beginning	4,325,337	13,343,643	4,335,051	277,331	22,281,362
Fund balances ending	\$ 6,320,474	\$ 13,289,703	\$ 4,726,745	\$ 475,181	\$ 24,812,103

The notes to basic financial statements are an integral part of this statement

Millbrae School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Total net change in fund balances - governmental funds \$ 2,530,741

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital assets additions of \$93,466 was less than depreciation expense of \$1,932,821 in the period. (1,839,355)

The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of prepaid issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Capital leases principal	\$	45,995	
School loan principal		73,112	
Bond principal		1,150,000	
Amortization of debt issuance costs		(32,100)	
Amortization of bond premiums		72,690	1,309,697

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 21,363

In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded vacation used by \$856. (856)

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 174,070

In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net OPEB obligation was not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of: (155,584)

Change in net position of governmental activities \$ 2,040,076

The notes to basic financial statements are an integral part of this statement

Millbrae School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Student Body Agency Fund
Assets:	
Cash on hand and in banks	\$ 93,438
Total Assets	<u>\$ 93,438</u>
Liabilities:	
Due to student groups	\$ 93,438
Total Liabilities	<u>\$ 93,438</u>

The notes to basic financial statements are an integral part of this statement

Notes to the Basic Financial Statements

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB.

The Millbrae School District Financing Corporation (the "Corporation") is a nonprofit entity organized under the laws of State of California and is a blended component unit of the District. This is a nonprofit public benefit corporation created on February 6, 1996, to assist the District authorizing lease financing of improvement projects and approving related documents of and actions. The Corporation is governed by the same board that governs the District.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of Net Position and the statement of Activities) report information on all of the non-fiduciary activities of the District. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflow of Resources and Deferred Inflow of Resources:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. For example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, than unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund and includes transactions accounted for in the Special Reserve Fund for Other Than Capital Outlay and the Special Reserve Fund for Postemployment Benefits.

The *Special Reserve Fund for Capital Outlay Projects* exists primarily to account for resources from rentals and proceeds from the sale of real property accumulated for capital outlay.

The *Bond Interest and Redemption Fund* is used to account for the interest and redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund. The District maintains two nonmajor special revenue funds:

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

- The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service programs.
- The *Foundation Special Reserve Fund* exists primarily to account for money received from gifts and bequests.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains one nonmajor capital projects fund:

- The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act ("CEQA").

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

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

H. 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 District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System plans (CalSTRS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and CalSTRS. For this purpose, benefit

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

c) Stores Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets. The District’s central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expense in the Statement of Net Position.

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset’s lives are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

e) Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred and timing requirements have been met. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Unearned revenue in the funds is recorded for grant and entitlement receivables that are not available within ninety days of year end and for cash receipts from grants

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

and entitlements for which the District has not met the eligibility requirements for recognizing revenue.

f) Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. Credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

g) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

h) Fund Balance Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 3 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.

- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and Chief Business Official.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

i) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net 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. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Educational Program restrictions reflect the amounts to be expended for federal and state funded educational programs.

Other Postemployment Benefits restrictions reflect the District's one-time use money for other postemployment benefits, such as medical, dental and vision for retirees.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

j) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

k) Risk management

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. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

l) Accounting Estimates

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

m) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure, other than the issuance of \$8,720,000 in general obligation bonds to refund a portion of the District's 2009 General Obligation Bonds.

J. Implemented New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

- a. donated capital assets;
- b. donated works of art, historical treasures, and other similar assets; and
- c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

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GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external

Millbrae School District
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For the Fiscal Year Ended June 30, 2016

investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Management anticipates that this statement will not have a direct impact on the District's financial statements.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. 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 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.

Millbrae School District
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The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 77 – Tax Abatement Disclosures. Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Management anticipates that this statement will not have a material impact on the District's financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance

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of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The District does not anticipate a material impact on its financial statements from the implementation of this standard.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2016 is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
<i>Government-Wide Statements:</i>			
Cash in county treasury investment pool	\$ 24,894,678	\$ 24,970,856	AA
Cash in revolving fund	3,350	3,350	n/a
Cash in banks	24,439	24,440	n/a
Total Government-Wide Cash and Investments	<u>24,922,467</u>	<u>24,998,646</u>	
<i>Fiduciary Funds:</i>			
Cash in banks	93,438	93,438	n/a
Total Cash and Investments	<u>\$ 25,015,905</u>	<u>\$ 25,092,084</u>	

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2016, the District's bank balance of 127,327 was fully insured by FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with 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.

Millbrae School District
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For the Fiscal Year Ended June 30, 2016

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The District has the following recurring fair value measurements as of June 30, 2016:

- The cash in the County investment pool of \$24,970,856 are valued using Level 2 inputs.

Policies and Practices

The District is authorized under California Government Code Section 53635 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.

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the San Mateo County Investment Pool. The pool has a fair value of approximately \$1.373 billion and an amortized book value of \$1.368 billion.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is governed by the County's general investment policy. The investment with the San Mateo County Investment Pool is rated at least Aa1 by Moody's Investor Service.

Custodial Credit Risk – Deposits

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

Millbrae School District
Notes to Basic Financial Statements
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a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2016:

Receivables	General Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Nonmajor Funds	Total
Federal government	\$ 441,023	\$ -	\$ -	\$ 17,785	\$ 458,808
State Government	569,959	-	-	-	569,959
Other resources	54,455	36,218	9,400	1,873	101,946
Total Receivables	<u>\$ 1,065,437</u>	<u>\$ 36,218</u>	<u>\$ 9,400</u>	<u>\$ 19,658</u>	<u>\$ 1,130,713</u>

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2016 were as follows:

Capital Assets	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Land - not depreciable	\$ 358,270	\$ -	\$ -	\$ 358,270
Work-in-progress - not depreciable	-	30,878	-	30,878
Buildings	70,692,966	45,569	-	70,738,535
Equipment	1,102,554	17,019	-	1,119,573
Total capital assets	<u>72,153,790</u>	<u>93,466</u>	<u>-</u>	<u>72,247,256</u>
Less accumulated depreciation for:				
Buildings	9,806,141	1,850,372	-	11,656,513
Equipment	478,948	82,449	-	561,397
Total accumulated depreciation	<u>10,285,089</u>	<u>1,932,821</u>	<u>-</u>	<u>12,217,910</u>
Total capital assets - net depreciation	<u>\$ 61,868,701</u>	<u>\$ (1,839,355)</u>	<u>\$ -</u>	<u>\$ 60,029,346</u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Capital asset activities for the year ended June 30, 2016 were as follows:

Instruction	\$ 1,381,577
Food services	174,837
All other general administration	247,125
Plant services	129,282
Total depreciation expense	<u>\$ 1,932,821</u>

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

Interfund receivables and payables consisted of the following as of June 30, 2016:

Due To (Payable-in)	Due From (Receivable-in)			
	General Fund	Special Reserve for Capital Projects Fund	Nonmajor Funds	Total Due To
General Fund	\$ -	\$ 13,500	\$ 50,000	\$ 63,500
Special Reserve for Capital Projects Fund	54,182	-	4,900	59,082
Nonmajor Funds	40,242	-	-	40,242
Total Due From	<u>\$ 94,424</u>	<u>\$ 13,500</u>	<u>\$ 54,900</u>	<u>\$ 162,824</u>

Interfund Transfers

Interfund transfers consisted of the following for the fiscal year ended June 30, 2016:

Fund Receiving Transfers	Fund Making Transfers	Amount
General Fund	Special Res. Fund for Capital Outlay	\$ 54,182 ¹
Cafeteria Fund	General Fund	50,000 ²
		<u>\$ 104,182</u>

¹ Transfer of interest revenue to the General Fund

² Transfer from the General Fund to support the Cafeteria program

The Special Reserve Fund for Other Than Capital Projects has been combined with the General Fund for reporting purposes as required by GASB 54.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

6. LONG-TERM DEBT

Schedule of Changes in Long-term Debt

A schedule of changes in long-term debt for the fiscal year ended June 30, 2016, is shown below:

Long Term Debt	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
General obligation bonds:					
Bond principal	\$ 57,959,527	\$ -	\$ 1,150,000	\$ 56,809,527	\$ 990,000
Bond premium	1,928,858	-	72,692	1,856,166	72,690
Total general obligation bonds	59,888,385	-	1,222,692	58,665,693	1,062,690
Capital leases	118,241	-	45,995	72,246	47,719
School loan	828,419	-	73,112	755,307	77,250
Net OPEB obligation	814,853	396,797	241,213	970,437	-
Net pension liabilities	14,044,767	7,153,836	4,836,049	16,362,554	-
Compensated absences	148,506	856	-	149,362	-
Total Long-Term Debt	<u>\$ 75,843,171</u>	<u>\$ 7,551,489</u>	<u>\$ 6,419,061</u>	<u>\$ 76,975,599</u>	<u>\$ 1,187,659</u>

Payments on the general obligation bonds are made from the Bond Interest and Redemption Fund using local revenues. Compensated absences are paid by the fund for which the employee worked. Net pension liabilities, other post-employment benefits and capital leases are paid from the General Fund. The school loan is paid from the Special Reserve for Capital Projects Fund.

General Obligation Bonds Payable

On April 17, 2009, the District issued the 2009 General Obligation Bonds, Series A in the amount of \$12,000,000, maturing on July 1, 2033. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On April 19, 2011, the District issued the 2011 General Obligation Bonds, Series B in the amount of \$17,999,527, maturing on July 1, 2041. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On April 19, 2012, the District issued the 2012 General Obligation Bonds in the amount of \$20,000,000, maturing on July 1, 2042. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On December 11, 2013, the District issued the 2013 General Obligation Bonds in the amount of \$10,000,000, maturing on July 1, 2042. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

Millbrae School District
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The following summarizes the bonds outstanding as of June 30, 2016:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2015	Issued	Redeemed	Bonds Outstanding June 30, 2016
2009	4/17/09	7/1/33	4.125-5.0%	\$ 12,000,000	\$ 10,400,000	\$ -	\$ 305,000	\$ 10,095,000
2011	4/19/11	7/1/41	2.0-6.157%	17,999,527	17,999,527	-	60,000	17,939,527
2012	4/19/12	7/1/42	2.0-4.0%	20,000,000	19,560,000	-	785,000	18,775,000
2013	12/11/13	7/1/42	4.0-5.5%	10,000,000	10,000,000	-	-	10,000,000
Total General Obligation Bonds				<u>\$ 59,999,527</u>	<u>\$ 57,959,527</u>	<u>\$ -</u>	<u>\$ 1,150,000</u>	<u>\$ 56,809,527</u>

The annual debt service requirements of the bonds are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	990,000	2,582,952	3,572,952
2018	1,065,000	2,538,315	3,603,315
2019	1,120,000	2,488,440	3,608,440
2020	1,165,000	2,433,715	3,598,715
2021	5,070,000	2,274,717	7,344,717
2022-2026	10,485,000	9,886,734	20,371,734
2027-2031	11,821,862	8,029,495	19,851,357
2032-2036	10,882,636	9,536,293	20,418,929
2037-2041	10,230,103	10,545,947	20,776,050
2042-2046	3,979,926	1,991,329	5,971,255
Total	<u>\$ 56,809,527</u>	<u>\$ 52,307,937</u>	<u>\$ 109,117,464</u>

The annual tax credit subsidies to be received from the U.S. Treasury for QSCB's outstanding as of June 30, 2016, are as follows:

Fiscal Year	Total
2017	413,640
2018	413,640
2019	413,640
2020	413,640
2021	413,640
2022-2026	1,034,100
Total	<u>\$ 3,102,300</u>

Capital Leases

The District had a capital lease agreement for office equipment. The minimum lease payments for the capital leases consisted of the following as of June 30, 2016:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 47,719	\$ 1,861	\$ 49,580
2018	24,527	264	24,791
Total	<u>\$ 72,246</u>	<u>\$ 2,125</u>	<u>\$ 74,371</u>

Millbrae School District
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School Loan

In November 1, 2009, the District entered into a Lease Agreement with the Millbrae School District Financing Corporation (the "Corporation") to finance \$1,208,893. The proceeds are used by the District to substantially rehabilitate and to construct improvements on the athletic fields at the district schools.

Pursuant to the Agreement, the District leased the real property constituting the Lomita Park School (the "Leased Property") to the Corporation for an up-front rental payment which is sufficient to enable the District to finance the projects, and Corporation has leased the Leased Property back to the District. The District is obliged under the Lease Agreement to pay certain Lease Payments which have been assigned by the Corporation to Zions First National bank under an Assignment of Lease Agreement dated November 1, 2009.

Under the lease agreement, the principal and interest are paid semi-annually every August 1 and February 1, maturing on August 1, 2023. Interest rate is assumed to be 5.66% for the term of the lease.

Scheduled lease payments as of June 30, 2016 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 77,250	\$ 40,564	\$ 117,814
2018	81,622	36,068	117,690
2019	86,242	31,318	117,560
2020	91,123	26,298	117,421
2021	96,281	20,995	117,276
2022-2024	322,789	28,075	350,864
Total	<u>\$ 755,307</u>	<u>\$ 183,318</u>	<u>\$ 938,625</u>

7. JOINT POWERS AGREEMENTS

The District participates in a joint powers agreement ("JPA") with the San Mateo County Schools Insurance Group ("SMCSIG"). A board consisting of a representative from each member district governs the JPA. The governing board controls the operation of the JPA independent of any influence by the District beyond the District's representation on the governing board. The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation. The relationship between the District and the JPA is such that the JPA not a component unit of the District for financial reporting purposes. The following is a summary of the SMCSIG JPA's most recent financial statement information:

	SMCSIG June 30, 2015
Total Assets and Deferred Outflows	\$ 19,703,399
Total Liabilities and Deferred Inflows	9,451,640
Total Equity	10,251,759
Total Revenues	38,557,922
Total Expenditures	36,282,954

The District also participates in the School Project for Utility Rate Reduction (SPURR) JPA. Utility services from SPURR totaled \$16,534 for the fiscal year ended June 30, 2016. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting

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purposes. There is no financial information available for SPURR.

8. COMMITMENTS AND CONTINGENCIES

Litigation

The District may be exposed various claims and litigation. Management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Award, and Grants

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

9. EMPLOYEE RETIREMENT SYSTEMS

A. California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.00%
Required employer contribution rates	11.85%	11.85%

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Employees Covered - At June 30, 2016, the District had 95 employees covered by the benefit terms under the Plan.

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. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	\$ 475,600
Contributions - employee	191,401
Total contributions	<u>\$ 667,001</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	<u>\$ 3,197,285</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0223%
Proportion - June 30, 2015	0.0217%
Change in Net Pension Liability	<u>-0.0006%</u>

For the year ended June 30, 2016, the District recognized pension expense of \$409,424 for the Plan.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

At June 30, 2016, 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	\$ 389,506	\$ -
Changes in assumptions	-	(220,078)
Differences between expected and actual experiences	204,708	-
Net differences between projected and actual earnings on plan investments	588,280	(710,925)
Total	<u>\$ 1,182,494</u>	<u>\$ (931,003)</u>

The District reported \$389,506 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Measurement Periods Ended June 30:	Deferred Outflows/(inflow s) of Resources
2016	\$ 294,302
2017	(95,205)
2018	(94,675)
2019	147,070
Total	<u>\$ 251,491</u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. 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.

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 5,203,848
Current Discount Rate	7.65%
Net Pension Liability	\$ 3,197,285
1% Increase	8.65%
Net Pension Liability	\$ 1,528,694

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

B. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS 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 credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law. The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	55
Monthly benefits as a % of eligible compensation	2%	2%
Required employee contribution rates	9.20%	8.56%
Required employer contribution rates	10.73%	10.73%

Employees Covered - At June 30, 2016, the District had 173 employees covered by the benefit terms under the Plan.

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	\$ 1,650,802
Contributions - employee	552,200
Total contributions	<u>\$ 2,203,002</u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	\$ 13,165,268

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0210%
Proportion - June 30, 2015	0.0196%
Change in Net Pension Liability	-0.0014%

For the year ended June 30, 2016, the District recognized pension expense of \$960,716 for the Plan. At June 30, 2016, 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	\$ 1,154,704	\$ -
Changes in assumptions	-	-
Differences between expected and actual experiences	-	(230,912)
Net differences between projected and actual earnings on plan investments	-	(1,207,404)
Total	\$ 1,154,704	\$ (1,438,316)

The District reported \$1,154,704 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Measurement Periods Ended June 30:	Deferred Outflows/(inflows) of Resources
2016	\$ 597,268
2017	(557,436)
2018	(557,436)
2019	233,992
Total Outflows/(Inflows) - Net	<u>\$ (283,612)</u>

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	0.5% - 5.6% (1)
Investment Rate of Return	7.60% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using STRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ^(a)
Global Equity	47.00%	4.50%
Fixed Income	20.00%	0.20%
Inflation Sensitive	5.00%	3.20%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Liquidity	1.00%	0.00%
Total	<u>100.00%</u>	

(a) 10-year geometric average.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.60%
Net Pension Liability	\$ 19,878,530
Current Discount Rate	7.60%
Net Pension Liability	\$ 13,165,268
1% Increase	8.60%
Net Pension Liability	\$ 7,586,006

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

C. Postemployment Healthcare Plan

Plan Description

The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the following groups of employees.

	Certificated	Classified
Benefit types provided	Medical, Dental and Vision	Medical, Dental and Vision
Duration of benefits	Option 1 - 5 years at current cap Option 2 - 10 years subject to cap below	Option 1 - 5 years at current cost Option 2 - 10 years subject to cap below
Required service	10 Years	10 Years
Minimum age	55	50
Dependent coverage	Yes	Yes
District contribution %	100% to cap	100% to cap
District cap	\$347 per month	\$347 per month

Funding Policy

The required contribution to the PHP is based on projected pay-as-you-go financing requirements. Any transfers to the special reserve fund for postemployment benefits do not qualify as a contribution to the plan since the District retains control over the money in this fund. For the fiscal year ended June 30, 2016, the District contributed \$241,213 to the plan from payment of current premiums and current retiree benefits.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 396,797
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>396,797</u>
Contributions made	<u>(241,213)</u>
Increase in net OPEB obligation	155,584
Net OPEB obligation - beginning of year	<u>814,853</u>
Net OPEB obligation - end of year	<u><u>\$ 970,437</u></u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 377,885	60.45%	\$ 659,842
6/30/2015	396,797	60.93%	814,853
6/30/2016	396,797	60.79%	970,437

Actuarial Methods and Assumptions

In the Entry Age Normal method, the cost of each individual's OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a "normal cost" is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability. The remaining amortization period at June 30, 2016, was 25 years.

The actuarial assumptions included a discount rate of 4.5% per year and an annual healthcare cost trend rate of 4%. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflect the expected investment return on the District's investments.

Required Supplementary Information (OPEB Schedule of Funding Progress)

The following schedule summarizes the funding progress of the District's retiree health benefit plan as stated in each actuarial valuation by the date each study was completed:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
10/1/2010	\$ -	\$4,056,331	\$4,056,331	0.00%	\$10,986,528	36.92%
4/29/2013	-	4,467,659	4,467,659	0.00%	10,462,850	42.70%
5/7/2015	-	4,510,938	4,510,938	0.00%	12,065,885	37.39%

REQUIRED
SUPPLEMENTARY
INFORMATION

Millbrae School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF sources	\$ 18,915,285	\$ 18,849,307	\$ 18,842,806	\$ (6,501)
Federal	687,828	731,686	685,895	(45,791)
Other state	2,009,940	2,962,395	2,957,856	(4,539)
Other local	997,489	1,374,111	1,193,893	(180,218)
Total revenues	22,610,542	23,917,499	23,680,450	(237,049)
Expenditures:				
Certificated salaries	11,029,165	10,987,912	10,871,184	116,728
Classified salaries	2,734,157	2,966,119	2,933,139	32,980
Employee benefits	4,089,525	4,509,949	4,474,835	35,114
Books and supplies	821,087	997,645	644,524	353,121
Services and other operating expenditures	2,404,909	2,786,471	2,369,502	416,969
Capital outlay	-	18,262	18,262	-
Other outgo	547,680	443,681	418,291	25,390
Transfers of indirect/direct support costs	(37,323)	(40,685)	(40,242)	(443)
Total expenditures	21,589,200	22,669,354	21,689,495	979,859
Excess (deficiency) of revenues over (under) expenditures	1,021,342	1,248,145	1,990,955	742,810
Other financing sources (uses):				
Transfers in	35,000	62,272	54,182	(8,090)
Transfers out	(360,000)	(58,090)	(50,000)	8,090
Total other financing sources (uses)	(325,000)	4,182	4,182	-
Changes in fund balance	\$ 696,342	\$ 1,252,327	1,995,137	\$ 742,810
Fund balance beginning			4,325,337	
Fund balance ending			\$ 6,320,474	

Millbrae School District
Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions (Actuarially Determined)	\$ 383,975	\$ 267,721
Contributions in Relation to Actuarially Determined Contributions	<u>383,975</u>	<u>267,721</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>	<u><u>-</u></u>
 Covered Employee Payroll	 \$ 3,241,118	 \$ 2,324,520
 Contributions as a Percentage of Covered Payroll	 11.85%	 11.52%

Notes to Schedule:

Valuation Date: June 30, 2014
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.9 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

Millbrae School District
Schedule of CalPERS Proportionate Share
Of Net Pension Liability
For the Fiscal Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of Net Pension Liability	0.02169%	0.02230%
District's Proportionate Share of Net Pension Liability	\$ 3,197,285	\$ 2,531,593
District's Covered Employee Payroll	\$ 3,241,118	\$ 2,324,520
District's Proportionate Share of NPL as a % of Covered Employee Payroll	98.65%	108.91%
Plan's Fiduciary Net Position as a % of the TPL	80.07%	83.38%

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

Millbrae School District
Schedule of CalSTRS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions (Actuarially Determined)	\$ 1,154,704	\$ 892,206
Contributions in Relation to Actuarially Determined Contributions	<u>1,154,704</u>	<u>892,206</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>	<u><u>-</u></u>
 Covered Employee Payroll	 \$ 10,761,280	 \$ 10,047,879
 Contributions as a Percentage of Covered Payroll	 10.73%	 8.88%

Notes to Schedule:

Valuation Date: June 30, 2014

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
30 Years Remaining Amortization Period
Inflation Assumed at 3.0%
Investment Rate of Returns set at 7.6%
STRS mortality table using membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

Millbrae School District
Schedule of CalSTRS Proportionate Share
Of Net Pension Liability
For the Fiscal Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of Net Pension Liability	0.01956%	0.02100%
District's Proportionate Share of Net Pension Liability	\$13,165,268	\$ 11,513,174
District's Covered Employee Payroll	\$10,761,280	\$ 10,047,879
District's Proportionate Share of NPL as a % of Covered Employee Payroll	122.34%	114.58%
Plan's Fiduciary Net Position as a % of the TPL	75.85%	76.52%

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SUPPLEMENTARY
INFORMATION

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***Nonmajor Governmental Funds
Combining Schedules***

Millbrae School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds		Capital Projects Funds	
	Cafeteria Fund	Foundation Fund	Capital Facilities Fund	Totals
Assets				
Cash and investments	\$ 142,477	\$ 50,294	\$ 299,022	\$ 491,793
Accounts receivable	17,785	111	1,762	19,658
Due from other funds	50,000	-	4,900	54,900
Prepaid and other current assets	11,918	-	-	11,918
Total Assets	\$ 222,180	\$ 50,405	\$ 305,684	\$ 578,269
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 19,561	\$ -	\$ -	\$ 19,561
Due to other funds	40,242	-	-	40,242
Unearned Revenue	43,285	-	-	43,285
Total Liabilities	103,088	-	-	103,088
Fund balances:				
Nonspendable:				
Revolving fund	850	-	-	850
Inventories	11,918	-	-	11,918
Restricted for:				
Educational programs	-	50,405	-	50,405
Cafeteria programs	106,324	-	-	106,324
Assigned for:				
Capital projects	-	-	305,684	305,684
Total Fund Balances	119,092	50,405	305,684	475,181
Total Liabilities and Fund Balances	\$ 222,180	\$ 50,405	\$ 305,684	\$ 578,269

Millbrae School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds		Capital Projects Funds	
	Cafeteria Fund	Foundation Fund	Capital Facilities Fund	Totals
Revenues:				
LCFF Sources	\$ -	\$ -	\$ -	\$ -
Federal	282,671	-	-	282,671
Other state	20,079	-	-	20,079
Other local	451,127	405	291,589	743,121
Total revenues	753,877	405	291,589	1,045,871
Expenditures:				
Instruction	-	584	-	584
Pupil services:				
Food services	792,426	-	-	792,426
General administration:				
All other general administration	40,242	-	32,487	72,729
Plant services	6	-	-	6
Facilities acquisition and construction	-	-	32,276	32,276
Total expenditures	832,674	584	64,763	898,021
Excess (deficiency) of revenues over (under) expenditures	(78,797)	(179)	226,826	147,850
Other financing sources (uses):				
Transfers in	50,000	-	-	50,000
Transfers out	-	-	-	-
Total other financing sources (uses)	50,000	-	-	50,000
Changes in fund balances	(28,797)	(179)	226,826	197,850
Fund balances beginning	147,889	50,584	78,858	277,331
Fund balances ending	\$ 119,092	\$ 50,405	\$ 305,684	\$ 475,181

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STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

Millbrae School District

Organization

June 30, 2016

The Millbrae School District was established in 1870 in San Mateo County. There were no changes in boundaries during the current year. The District is comprised of four elementary and one middle school.

The Board of Education for the fiscal year ended June 30, 2016, was comprised of the following members:

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
D. Don Revelo	President	2017
Frank Barbaro	Vice President	2019
Denis Fama	Trustee	2017
Lynne Ferrario	Trustee	2017
Maggie Musa	Trustee	2019

Administration

Vahn A. Phayprasert
Superintendent

Millbrae School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2016

	Second Period Report	Annual Report
Elementary:		
Grades TK/K through three	1,014	1,012
Grades four through six	785	787
Grades seven and eight	560	558
Special education	12	12
ADA Totals	2,371	2,369

Millbrae School District
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2016

Grade Level	1986/87 Minutes Requirements	2016 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	41,400	180	0	In Compliance
Grade 1	50,400	51,585	180	0	In Compliance
Grade 2	50,400	51,585	180	0	In Compliance
Grade 3	50,400	51,585	180	0	In Compliance
Grade 4	54,000	54,195	180	0	In Compliance
Grade 5	54,000	54,195	180	0	In Compliance
Grade 6	54,000	54,703	180	0	In Compliance
Grade 7	54,000	54,703	180	0	In Compliance
Grade 8	54,000	54,703	180	0	In Compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has not met or exceeded its target funding.

Millbrae School District
Schedule of Charter Schools
June 30, 2016

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Millbrae School District.

Millbrae School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2016

	(Budget) ⁽¹⁾			
	2017	2016	2015	2014
<u>General Fund</u>				
Revenues and other financial sources	\$ 23,222,216	\$ 23,734,632	\$ 20,876,089	\$ 19,455,966
Expenditures	23,967,545	21,689,495	20,738,510	18,741,448
Other uses and transfers (out)	50,000	50,000	378,674	189,860
Total outgo	24,017,545	21,739,495	21,117,184	18,931,308
Change in fund balance	\$ (795,329)	\$ 1,995,137	\$ (241,095)	\$ 524,658
Ending fund balance	\$ 5,525,145	\$ 6,320,474	\$ 4,325,337	\$ 4,566,432
Available reserves ⁽²⁾	\$ 2,349,572	\$ 2,676,943	\$ 1,610,242	\$ 1,542,975
Designated for economic uncertainty	\$ 720,526	\$ 652,185	\$ 627,135	\$ 567,940
Unassigned fund balance	\$ 1,629,046	\$ 2,024,758	\$ 983,107	\$ 975,035
Available reserves as a percentage of total outgo	9.78%	12.31%	7.63%	8.15%
Total long-term debt	\$ 75,787,940	\$ 76,975,599	\$ 75,843,171	\$ 62,437,836
Average daily attendance at P-2	2,352	2,371	2,390	2,381

Average daily attendance has decreased by 10 over the past three years. The district anticipates a decrease of 19 ADA for 2017.

The general fund balance has increased by \$1,754,042 over the past three years, and had an operating deficit in two out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$14,537,763 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2016/17

⁽²⁾ Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Millbrae School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Program Name	Federal Catalog Number		Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through California Department of Education				
<i>Special Education Cluster</i>				
IDEA Basic Local Assistance	84.027	(1)	13379	\$ 401,339
IDEA Private School ISP's	84.027	(1)	10115	3,106
IDEA Preschool Local Entitlement	84.027	(1)	13682	21,309
IDEA Preschool Grants	84.173	(1)	13430	10,542
IDEA Preschool Staff Development	84.173	(1)	13431	124
<i>Total Special Education Cluster</i>				<u>436,420</u>
<i>Title I, Part A Cluster</i>				
Title I: Block Grant	84.010		14329	<u>130,381</u>
<i>Total Title I, Part A Cluster</i>				<u>130,381</u>
<i>Title II Cluster</i>				
Title II: Improving Teacher Quality	84.367		14341	<u>50,013</u>
<i>Total Title II Cluster</i>				<u>50,013</u>
<i>Title III Cluster</i>				
Title III, Limited English Proficient Student Program	84.365		13346	59,753
Title III, Immigrant Education Program	84.365		15146	9,327
<i>Total Title III Cluster</i>				<u>69,080</u>
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>685,894</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through California Department of Education				
Team Nutrition	10.574		15332	462
National school lunch program	10.555		13391	282,209
<i>Total Nutrition Program Cluster</i>				<u>282,671</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>282,671</u>
TOTAL FEDERAL PROGRAMS				<u>\$ 968,565</u>

(1) Audited as major program

Millbrae School District
Reconciliation of Annual Financial and Budget Report (SACS)
to the Audited Financial Statements
For the Fiscal Year Ended June 30, 2016

	General Fund	Special Reserve Fund For Postemployment Benefits	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2016 Annual Financial and Budget Report Fund Balances	\$ 4,215,766	\$ 1,944,225	\$ 13,289,703	\$ 4,726,745	\$ 635,664
Adjustments and Reclassifications:					
Special Reserve Fund for Other Than Capital Outlay:					
Cash with County Treasury	160,120	-	-	-	(160,120)
Accounts Receivable	363	-	-	-	(363)
Special Reserve Fund for Postemployment Benefits:					
Cash with County Treasury	1,939,925	(1,939,925)	-	-	-
Accounts Receivable	4,300	(4,300)	-	-	-
June 30, 2016 Audited Financial Statements Fund Balances	<u>\$ 6,320,474</u>	<u>\$ -</u>	<u>\$ 13,289,703</u>	<u>\$ 4,726,745</u>	<u>\$ 475,181</u>

Millbrae School District
Notes to State and Federal Award Compliance Sections
For the Fiscal Year Ended June 30, 2016

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments in state funds are made to school Districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. 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 46201 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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.

E. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

Millbrae School District
Notes to State and Federal Award Compliance Sections
For the Fiscal Year Ended June 30, 2016

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Millbrae School District
Millbrae, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Millbrae School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Millbrae School District's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Millbrae 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 Millbrae School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Millbrae 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Millbrae 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

November 17, 2016
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Millbrae School District
Millbrae, California

Report on Compliance for Each Major Federal Program

We have audited Millbrae School District's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Millbrae School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Millbrae School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Millbrae School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the



purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Millbrae School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

C & A UP

November 17, 2016
Campbell, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

The Honorable Board of Trustees
Millbrae School District
Millbrae, California

Compliance

We have audited the Millbrae School District's (the District) compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide 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 compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Description	Procedures Performed
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes



Description	Procedures Performed
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	N/A
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No
Immunizations	Yes
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom - Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for Full-time Independent Study and Independent Study-Course Based programs because the ADA was under the level that requires testing.

Opinion

In our opinion, Millbrae School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2016.

C & A UP

November 17, 2016
San Jose, California

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FINDINGS AND RECOMMENDATIONS

Millbrae School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Non-compliance material to financial statements noted? Yes x No

Federal Awards

Internal control over major programs:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Type of auditor's report issued on compliance over major programs Unmodified

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a) Yes x No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027	IDEA Basic Local Assistance
84.027	IDEA Private School ISP's
84.027	IDEA Preschool Local Entitlement
84.173	IDEA Preschool Grants
84.173	IDEA Preschool Staff Development

Dollar threshold used to distinguish between
type A and type B programs: \$ 750,000

Auditee qualified as low risk auditee? x Yes No

State Awards

Internal control over state programs:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Type of auditor's report issued on compliance over state programs: Unmodified

Millbrae School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Millbrae School District
Status of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

* * *

The audit staff wishes to express their thanks and appreciation for the help and cooperation of the District office staff during the course of our audit.