

**SAN MATEO-FOSTER CITY
SCHOOL DISTRICT**

**COUNTY OF SAN MATEO
FOSTER CITY, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2017



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

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SAN MATEO COUNTY
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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
San Mateo-Foster City School District
Foster City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of San Mateo-Foster City School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the San Mateo-Foster City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

San Mateo-Foster City 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 San Mateo-Foster City School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 *2016-17 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 26, 2017 on our consideration of San Mateo-Foster City 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 San Mateo-Foster City School District's internal control over financial reporting and compliance.

C & A UP

November 26, 2017
San Jose, California

Management's Discussion and Analysis

San Mateo-Foster City School District

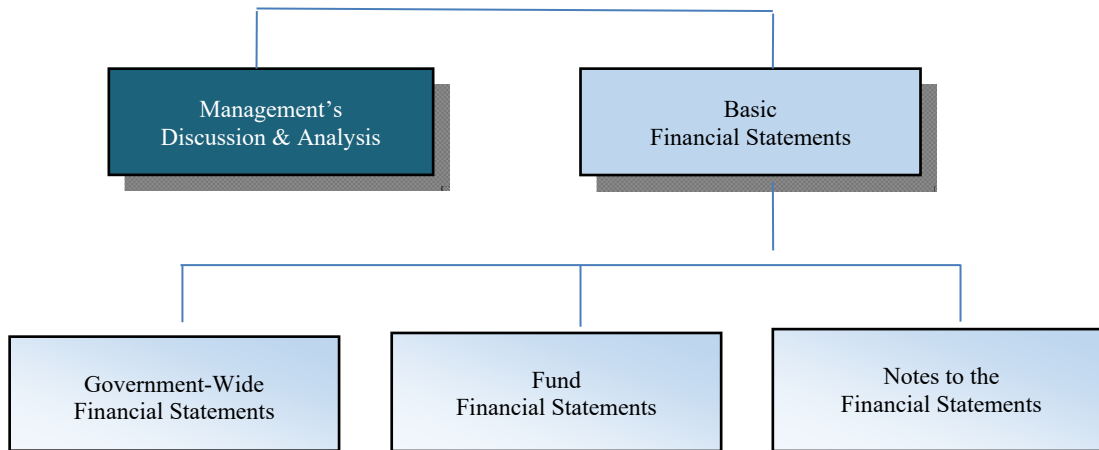
Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2017 were as follows:

- Total net position increased by \$749,362 (3%), which included a decrease in unrestricted net position of \$14,603,766, from June 30, 2016 to June 30, 2017.
- The District recorded deferred outflows of resources of \$28,490,504 and deferred inflows of resources of \$6,177,716 as 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 \$167,414,633 in government-wide expenses which is 99% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$29,407,810, or 17.5%, of the total revenues of \$168,302,678.
- General revenue of \$138,894,868 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 82.5% of total revenues in 2017 versus 79.8% in 2016.

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

- The fund balances of all governmental funds decreased by \$6,330,210, which is a 2.6% decrease from 2016.
- Total governmental fund revenues and expenditures totaled \$161,536,245 and \$167,974,772, 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 the District as 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 government-wide financial statements and provide information about the activities of the whole 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 District's most significant funds with all other non-major funds presented in total in one column. In the case of the 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's Discussion and Analysis. The 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, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, 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.

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

GOVERNMENT-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 2016 - 2017?" 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 revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. 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, required educational programs and other factors.

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 have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on with the Balance Sheet. 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, 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.

Proprietary funds

When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's enterprise funds are included within the business-type activities and reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District charges fees to help it cover the costs of certain services it

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

provides. The District's Children's Annex; Bayside Theatre program and fee based preschool services are included in the proprietary funds.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2017 as compared to June 30, 2016:

Table 1 - Summary of Statement of Net Position						
Description	Governmental Activities			Business-type Activities		
	2017	2016	% Change	2017	2016	% Change
Assets						
Current and Other Assets	\$ 259,849,926	\$ 250,015,926	4%	\$ 7,731,466	\$ 7,135,658	8%
Capital Assets	236,513,526	222,705,607	6%	-	-	0%
Total Assets	\$ 496,363,452	\$ 472,721,533	5%	\$ 7,731,466	\$ 7,135,658	8%
Total Deferred Outflows of Resources	\$ 26,376,663	\$ 20,216,392	30%	\$ 2,113,841	\$ -	100%
Liabilities						
Current Liabilities	\$ 24,766,896	\$ 17,529,040	41%	\$ 397,337	\$ 298,670	33%
Long-term Liabilities	469,713,599	443,926,009	6%	5,817,687	-	100%
Total Liabilities	\$ 494,480,495	\$ 461,455,049	7%	\$ 6,215,024	\$ 298,670	1981%
Total Deferred Inflows of Resources	\$ 5,458,586	\$ 13,357,039	-59%	\$ 719,130	\$ -	100%
Net Position						
Net Investment in Capital Assets	\$ 72,222,115	\$ 57,935,542	25%	\$ -	\$ -	0%
Restricted	34,534,484	33,467,929	3%	291,432	291,432	0%
Unrestricted	(83,955,565)	(73,277,634)	15%	2,619,721	6,545,556	-60%
Total Net Position	\$ 22,801,034	\$ 18,125,837	26%	\$ 2,911,153	\$ 6,836,988	-57%

During the year, deferred outflows of resources increased by 41%, deferred inflows of resources decreased by 54%, and long-term liabilities increased by 7% mostly because of changes in in pension amounts and actuarial assumptions related to GASB 68. GASB 68 requires all local governments that participate in cost sharing pension plans to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. The District also allocated a portion of its net pension liabilities, deferred inflows and deferred outflows of resources to its business-type activities, resulting in a prior period adjustment of \$4,221,507 and an ending net pension liability of \$5,817,687 in the business-type activities and proprietary funds.

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

Table 2 shows the changes in net position for fiscal year 2017 as compared to 2016:

Table 2 - Summary of Changes in Statement of Activities						
Description	Governmental Activities			Business-type Activities		
	2017	2016	% Change	2017	2016	% Change
Revenues						
Program revenues	\$ 22,707,934	\$ 25,058,391	-9%	\$ 6,699,876	\$ 6,166,283	8.65%
General revenues:						
Property taxes	120,292,399	86,460,143	39%	-	-	0.00%
Grants and entitlements, unrestricted	12,315,607	30,665,972	-60%	-	-	0.00%
Other	6,470,305	6,441,920	0%	(183,443)	93,122	-296.99%
Total Revenues	161,786,245	148,626,426	9%	6,516,433	6,259,405	4.11%
Program Expenses						
Instruction	96,766,455	86,562,750	12%	-	-	0.00%
Instruction-related services	15,451,622	14,856,043	4%	-	-	0.00%
Pupil services	11,614,235	11,329,970	3%	-	-	0.00%
General administration	8,079,443	7,556,725	7%	-	-	0.00%
Plant services	11,943,538	11,690,841	2%	-	-	0.00%
Ancillary services	227,937	196,604	16%	-	-	0.00%
Community services	-	315,103	-100%	-	-	0.00%
Other outgo	1,433,822	1,427,825	0%	-	-	0.00%
Interest on long-term debt	15,676,820	13,463,126	16%	-	-	0.00%
Enterprise	-	-	0%	6,220,761	5,613,489	10.82%
Total Expenses	161,193,872	147,398,987	9%	6,220,761	5,613,489	10.82%
Change in Net Position	592,373	1,227,439	-52%	295,672	645,916	-54.22%
Beginning Net Position	18,128,837	17,073,358	6%	6,836,988	6,191,072	10.43%
Prior Period Adjustments	4,079,824	(174,960)	2432%	(4,221,507)	-	-100.00%
Ending Net Position	\$ 22,801,034	\$ 18,125,837	26%	\$ 2,911,153	\$ 6,836,988	-57.42%

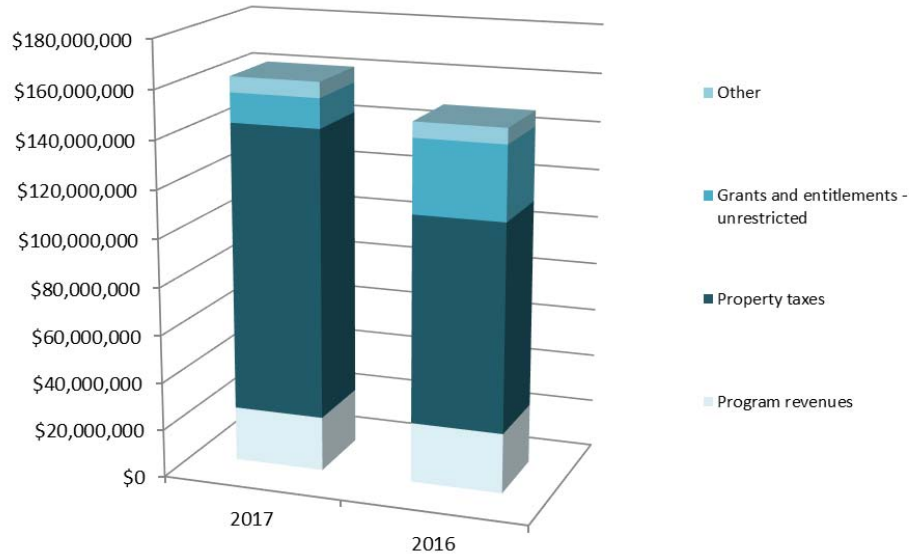
The District's expenses for instructional services was 67% of total expenses in 2016-17 as compared to 66% in 2015-16. The purely administrative activities of the District accounted for 5% of total costs in 2016-17 as compared to 5% in 2015-16. Interest on long-term debt represented 9.4% of total expenses in 2016-17 as compared to 8.8% in 2015-16. Total expenses were 99% of revenue in 2016-17 versus 103% in 2015-16, which is reflected in the increase in net position of \$592,373 in 2016-17 versus an increase in net position of \$1,227,439 in 2015-16. In regard to revenue, program revenues were 17.5% of total revenues in 2016-17 and 21% of total revenues in 2015-16.

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

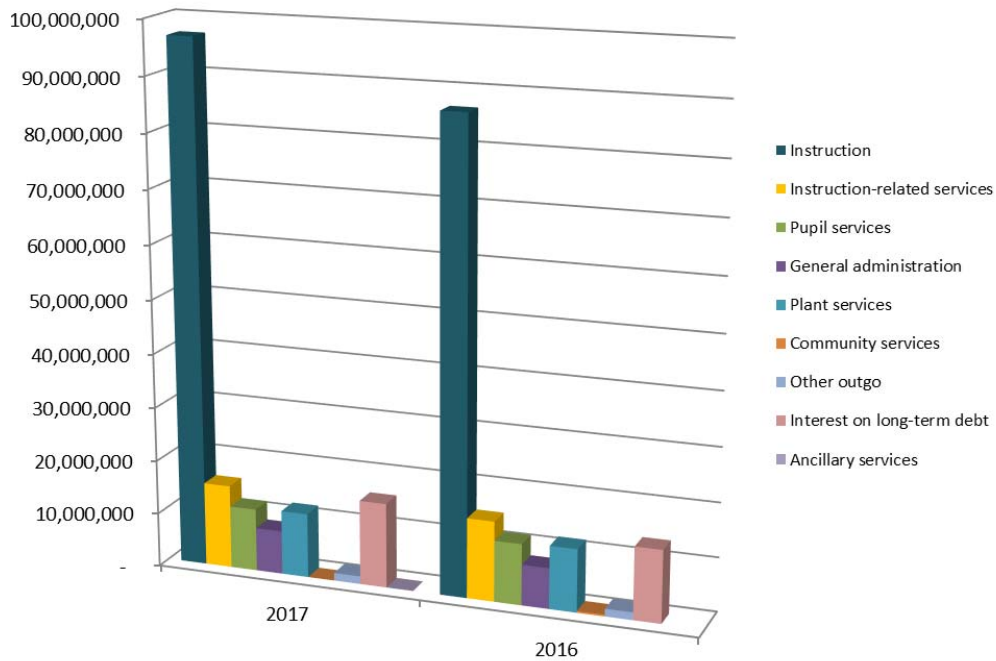
The following is a summary of government wide revenues for the fiscal year ended June 30, 2017:

Gov't Wide Revenues



The following is a summary of expenses by function for the fiscal year ended June 30, 2017:

Gov't Wide Program Expenses



San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services Governmental Activities					
Description	2017	2016	Change	% Change	
Instruction	\$ 83,803,433	\$ 71,939,647	\$ 11,863,786	16.5%	
Instruction-related services	14,020,250	12,869,284	1,150,966	8.9%	
Pupil services	8,112,343	8,088,531	23,812	0.3%	
General administration	7,649,213	6,919,741	729,472	10.5%	
Plant services	11,747,258	11,537,787	209,471	1.8%	
Ancillary services	182,903	68,530	114,373	166.9%	
Community services	-	304,220	(304,220)	-100.0%	
Other outgo	(2,706,282)	(2,850,270)	143,988	-5.3%	
Interest on long-term debt	15,676,820	13,463,126	2,213,694	16.4%	
Total Net Cost of Services	\$ 138,485,938	\$ 122,340,596	\$ 16,145,342	13.2%	

The following summarizes the District's functions:

- *Instruction* expenditures include activities directly dealing with the teaching of pupils.
- *Instruction-related Services* include the activities involved with assisting staff with the content and process of educating students.
- *Pupil Services* include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- *General Administration* reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.
- *Plant Services* involve keeping the school grounds and equipment in effective working condition.
- *Ancillary Services* represent the expenditures associated with co-curricular and athletic programs.
- *Community Services* are expenses related to direct support around the community.
- *Other Outgo* includes tuitions and transfers of resources between the District and other educational agencies for services provided to District students.

THE DISTRICT'S FUNDS

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

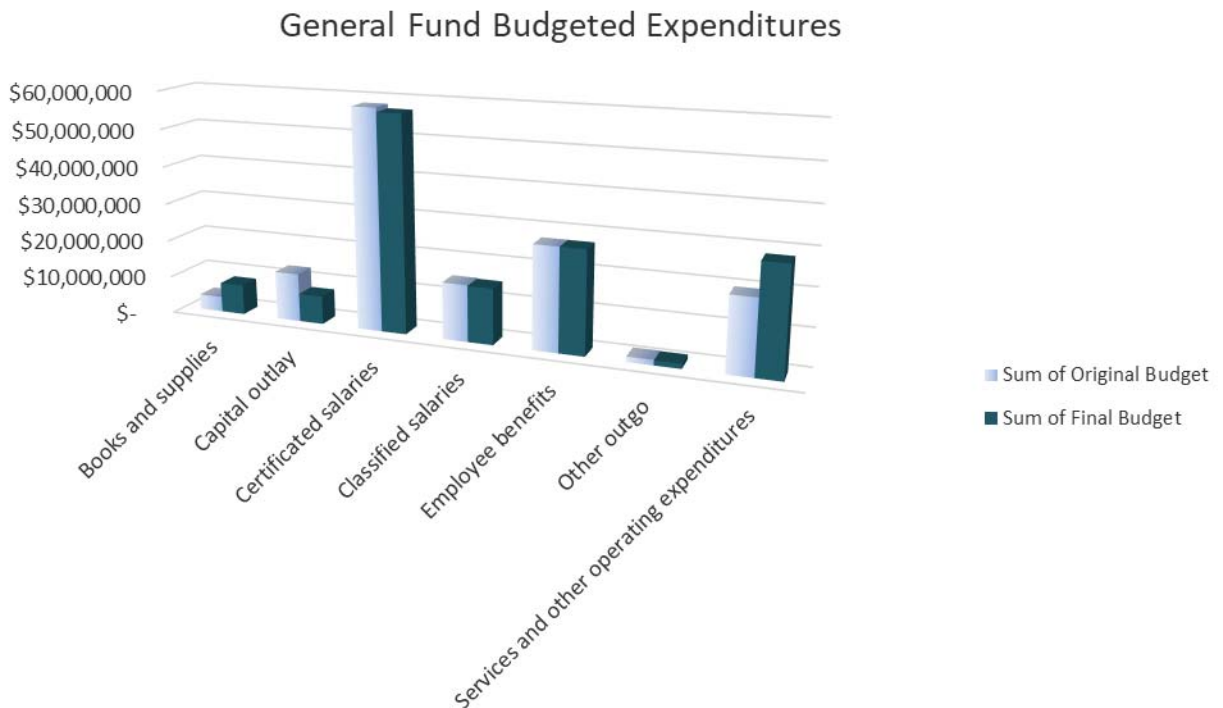
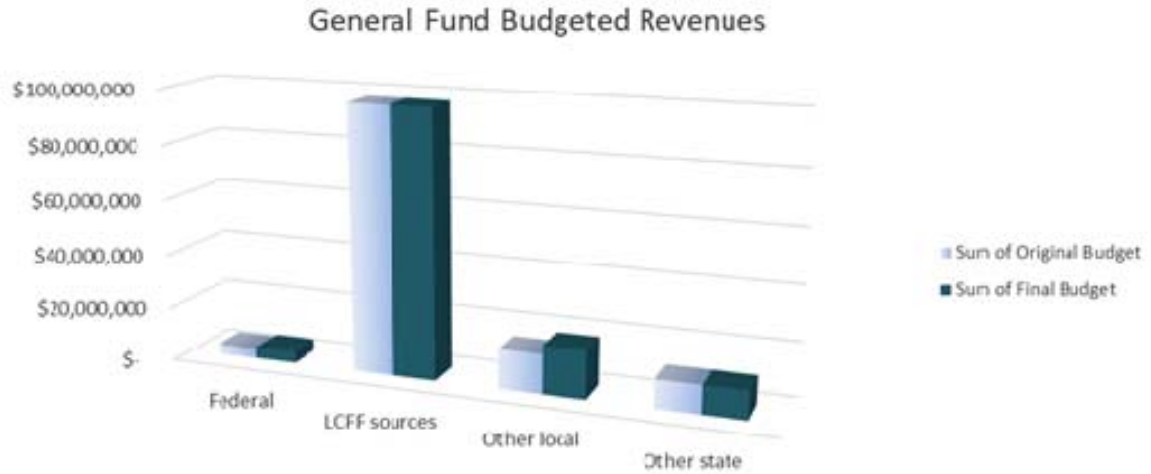
Table 4 - Summary of Fund Balances					
Description	2017	2016	Change	% Change	
General Fund	\$ 84,431,404	\$ 81,227,297	\$ 3,204,107	3.9%	
Building Fund	123,766,106	133,724,235	(9,958,129)	-7.4%	
Bond Interest and Redemption Fund	21,455,693	19,282,137	2,173,556	11.3%	
Nonmajor Funds	9,779,827	11,529,571	(1,749,744)	-15.2%	
Total Fund Balances	\$ 239,433,030	\$ 245,763,240	\$ (6,330,210)	-2.6%	

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2016-17 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The following charts summarize the changes from the District's original and final budgets.



San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

CAPITAL ASSETS

Table 5 shows June 30, 2017 balances as compared to June 30, 2016.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2017	2016	Change	% Change
Land	\$ 11,996,895	\$ 10,269,460	\$ 1,727,435	16.82%
Work-in-Progress	28,189,747	11,977,652	16,212,095	135.35%
Site Improvements	7,633,247	7,131,877	501,370	7.03%
Buildings	183,477,471	188,562,493	(5,085,022)	-2.70%
Furniture and Equipment	5,216,166	4,764,125	452,041	9.49%
Total Capital Assets - Net	\$ 236,513,526	\$ 222,705,607	\$ 13,807,919	6.20%

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities				
Description	2017	2016	Change	% Change
Bonds	\$ 343,974,023	\$ 347,378,861	\$ (3,404,838)	-0.98%
Net OPEB Obligation	12,753,494	9,745,697	3,007,797	30.86%
Compensated Absences	542,294	504,417	37,877	7.51%
Net Pension Obligations	118,261,475	95,704,474	22,557,001	23.57%
Total Long-term Liabilities	\$ 475,531,286	\$ 453,333,449	\$ 22,197,837	4.90%

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that will affect the San Mateo-Foster City School District' future.

One significant issue the District will face over the next few years is higher costs arising from scheduled pension contribution rate increases.

By far the largest unknown for California school districts is the implementation of the Local Control Funding Formula (LCFF) which replaced the state Revenue Limit funding model in 2013-2014. The eight years necessary to bring the District to target funding could be unpredictable and unstable, thereby creating a need for a larger reserve than past years.

As assessed property values continue to increase at a rate that exceeds new revenue allocated through the LCFF, the District will flip between the LCFF and Basic Aid funding models. This presents uncertainty for the District since it will be difficult to determine if additional property tax revenue received while the District is Basic Aid will be one time or ongoing funds. During this time of flipping between the two funding models, it would be prudent to recognize any additional revenue as one-time funds and not commit these funds to ongoing expenditures.

The District's Measure A parcel tax expired June 30, 2017. This will represent a loss of \$7 million in revenue beginning with the 2017-18 fiscal year. A Fiscal Advisory Committee has been formed and Town Hall meetings will be conducted to review the budget with the goal of providing community input on solving the deficit spending resulting from the loss of parcel tax revenue and escalating pension costs. The District chose a collaborative process to engage the community to learn what priorities they value and would support in their local schools.

San Mateo-Foster City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

Projections of California's economic future by the Department of Finance are positive, and the state has made significant progress toward the full implementation of the LCFF target funding. The economy has finished its seventh year of expansion, lasting two years longer than the average recovery. The Governor and the Department of Finance urge the Legislature and local governments, including School districts, to plan for the next recession. School districts are advised to budget conservatively and to maintain adequate reserves over the minimum typical 3%-5% required by the state.

Future predictions and uncertainties with the changes to the State funding formula, enrollment and aging District facilities require management to plan carefully and prudently to provide the necessary resources to meet the student's needs and continue to keep pace with inflation increases over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Chief Business Official, Carolyn Chow, at San Mateo-Foster City School District, 1170 Chess Drive, Foster City, California, 94404, or e-mail to cchow@smfcsd.net.

Basic Financial Statements

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 255,951,974	\$ 7,654,790	\$ 263,606,764
Accounts receivable	3,763,985	43,238	3,807,223
Other assets	153,077	14,328	167,405
Internal balances	(19,110)	19,110	-
Total current assets	<u>259,849,926</u>	<u>7,731,466</u>	<u>267,581,392</u>
Noncurrent assets:			
Non-depreciable capital assets	40,186,642	-	40,186,642
Depreciable capital assets - net	196,326,884	-	196,326,884
Total noncurrent assets	<u>236,513,526</u>	<u>-</u>	<u>236,513,526</u>
Total Assets	<u>\$ 496,363,452</u>	<u>\$ 7,731,466</u>	<u>\$ 504,094,918</u>
Deferred Outflows of Resources			
Pension adjustments	\$ 23,019,031	\$ 2,113,841	\$ 25,132,872
Deferred loss on early retirement of debt	3,357,632	-	3,357,632
Total Deferred Outflows of Resources	<u>\$ 26,376,663</u>	<u>\$ 2,113,841</u>	<u>\$ 28,490,504</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 19,976,642	\$ 89,882	\$ 20,066,524
Unearned revenue	440,254	307,455	747,709
Accrued interest	4,350,000	-	4,350,000
Total current liabilities	<u>24,766,896</u>	<u>397,337</u>	<u>25,164,233</u>
Long-term liabilities:			
Due within one year	13,162,705	-	13,162,705
Due after one year	456,550,894	5,817,687	462,368,581
Total long-term liabilities	<u>469,713,599</u>	<u>5,817,687</u>	<u>475,531,286</u>
Total Liabilities	<u>\$ 494,480,495</u>	<u>\$ 6,215,024</u>	<u>\$ 500,695,519</u>
Deferred Outflows of Resources			
Pension adjustments	<u>\$ 5,458,586</u>	<u>\$ 719,130</u>	<u>\$ 6,177,716</u>
Net Position			
Net investment in capital assets	\$ 72,222,115	\$ -	\$ 72,222,115
Restricted for:			
Children's annex	-	291,432	291,432
Capital projects	2,551,570	-	2,551,570
Parcel tax	7,000,000	-	7,000,000
Cafeteria programs	2,554,727	-	2,554,727
Educational programs	22,428,187	-	22,428,187
Total restricted net position	<u>34,534,484</u>	<u>291,432</u>	<u>34,825,916</u>
Unrestricted	(83,955,565)	2,619,721	(81,335,844)
Total Net Position	<u>\$ 22,801,034</u>	<u>\$ 2,911,153</u>	<u>\$ 25,712,187</u>

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction	\$ 96,766,455	\$ 224,327	\$ 12,738,695	\$ (83,803,433)	\$ -	\$ (83,803,433)
Instruction-related services:						
Supervision of instruction	3,857,331	530	360,708	(3,496,093)	-	(3,496,093)
Instruction library, media and technology	1,253,506	14,405	201,582	(1,037,519)	-	(1,037,519)
School site administration	10,340,785	20,307	833,840	(9,486,638)	-	(9,486,638)
Pupil services:						
Home-to-school transportation	2,856,386	-	19,071	(2,837,315)	-	(2,837,315)
Food services	3,210,468	730,012	1,979,357	(501,099)	-	(501,099)
All other pupil services	5,547,381	9,037	764,415	(4,773,929)	-	(4,773,929)
General administration:						
Data processing	1,408,289	400	5,165	(1,402,724)	-	(1,402,724)
All other general administration	6,671,154	41,582	383,083	(6,246,489)	-	(6,246,489)
Plant services	11,943,538	116,535	79,745	(11,747,258)	-	(11,747,258)
Ancillary services	227,937	3,066	41,968	(182,903)	-	(182,903)
Payments to other agencies	1,433,822	296,222	3,843,882	2,706,282	-	2,706,282
Interest on long-term debt	15,676,820	-	-	(15,676,820)	-	(15,676,820)
Total governmental activities	<u>\$ 161,193,872</u>	<u>\$ 1,456,423</u>	<u>\$ 21,251,511</u>	<u>(138,485,938)</u>	<u>-</u>	<u>(138,485,938)</u>
Business-type activities:						
The Children's Annex	4,278,746	4,677,570	-	-	398,824	398,824
Fee based preschool program	1,797,077	1,837,015	-	-	39,938	39,938
Bayside Theatre	144,938	185,291	-	-	40,353	40,353
Total business-type activities	<u>\$ 6,220,761</u>	<u>\$ 6,699,876</u>	<u>\$ -</u>	<u>-</u>	<u>479,115</u>	<u>479,115</u>
General revenues and transfers:						
Taxes and subventions:						
Taxes levied for general purposes				90,791,988	-	90,791,988
Taxes levied for debt service				18,857,859	-	18,857,859
Taxes levied for other specific purposes				10,642,552	-	10,642,552
Federal and state aid non restricted to specific purposes				12,315,607	-	12,315,607
Interest and investment earnings				1,897,791	66,557	1,964,348
Miscellaneous				4,322,514	-	4,322,514
Internal transfers				250,000	(250,000)	-
Total general revenues and transfers				<u>139,078,311</u>	<u>(183,443)</u>	<u>138,894,868</u>
Change in net position				592,373	295,672	888,045
Prior period adjustments				4,079,824	(4,221,507)	(141,683)
Net position beginning				18,128,837	6,836,988	24,965,825
Net position ending				<u>\$ 22,801,034</u>	<u>\$ 2,911,153</u>	<u>\$ 25,712,187</u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 102,968,214	\$ 124,134,252	\$ 21,404,900	\$ 7,444,608	\$ 255,951,974
Accounts receivable	2,870,550	332,289	50,793	510,353	3,763,985
Due from other funds	437,031	26,364	-	2,790,911	3,254,306
Other assets	67,143	-	-	85,934	153,077
Total Assets	<u>\$ 106,342,938</u>	<u>\$ 124,492,905</u>	<u>\$ 21,455,693</u>	<u>\$ 10,831,806</u>	<u>\$ 263,123,342</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 19,255,439	\$ 571,622	\$ -	\$ 149,581	\$ 19,976,642
Due to other funds	2,215,841	155,177	-	902,398	3,273,416
Unearned revenue	440,254	-	-	-	440,254
Total Liabilities	<u>21,911,534</u>	<u>726,799</u>	<u>-</u>	<u>1,051,979</u>	<u>23,690,312</u>
Fund balances:					
Nonspendable:					
Revolving fund	35,000	-	-	-	35,000
Stores inventory	-	-	-	83,705	83,705
Prepaid expenses	67,143	-	-	2,229	69,372
Restricted for:					
Parcel tax	7,000,000	-	-	-	7,000,000
Cafeteria programs	-	-	-	2,554,727	2,554,727
Capital projects	-	123,766,106	-	2,551,570	126,317,676
Educational programs	22,328,591	-	-	-	22,328,591
Legally restricted balances	-	-	-	99,596	99,596
Debt service	-	-	21,455,693	-	21,455,693
Assigned for:					
Cafeteria programs	-	-	-	493,114	493,114
Vacation	542,294	-	-	-	542,294
Supplemental	1,538,382	-	-	-	1,538,382
One-time basic aid	1,400,000	-	-	-	1,400,000
Equipment replacement	482,598	-	-	-	482,598
Salary increases	9,307,315	-	-	-	9,307,315
Substitute teacher rate increase	165,000	-	-	-	165,000
Deferred maintenance projects	2,766,659	-	-	-	2,766,659
Flood insurance deductible	403,628	-	-	-	403,628
Retiree benefits	17,168,900	-	-	-	17,168,900
Capital projects	-	-	-	3,705,442	3,705,442
Educational programs	-	-	-	289,444	289,444
Unassigned:					
Economic uncertainties	13,032,209	-	-	-	13,032,209
Unappropriated	8,193,685	-	-	-	8,735,979
Total Fund Balances	<u>84,431,404</u>	<u>123,766,106</u>	<u>21,455,693</u>	<u>9,779,827</u>	<u>239,433,030</u>
Total Liabilities and Fund Balances	<u>\$ 106,342,938</u>	<u>\$ 124,492,905</u>	<u>\$ 21,455,693</u>	<u>\$ 10,831,806</u>	<u>\$ 263,123,342</u>

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total fund balances - governmental funds \$ 239,433,030

Amounts reported in the Statement of Net Position are different because:

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

Capital assets at cost	\$ 342,761,860	
Accumulated depreciation	<u>(106,248,334)</u>	236,513,526

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, while contributions made in the current were reported as deferred outflows of resources because they were not paid as of the plans' valuation dates. Pension adjustments are reported as deferred outflows and inflows of resources in the government-wide financial statements, not are not reported in the governmental funds. 17,560,445

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds. (4,350,000)

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 consists of:

General obligation and revenue bonds	\$ 343,974,023	
Loss on early retirement of long-term debt	(3,357,632)	
Net pension obligations	112,443,788	
Annual net OPEB obligation	12,753,494	
Compensated absences (vacation)	<u>542,294</u>	<u>(466,355,967)</u>

Total net position - governmental activities \$ 22,801,034

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	\$ 100,950,047	\$ -	\$ -	\$ -	\$ 100,950,047
Federal revenue	3,663,507	-	-	2,040,830	5,704,337
Other state	10,675,292	-	87,474	1,686,827	12,449,593
Other local	18,900,892	1,210,977	20,127,049	2,193,350	42,432,268
Total revenues	134,189,738	1,210,977	20,214,523	5,921,007	161,536,245
Expenditures:					
Current					
Instruction	82,421,880	-	-	1,228,894	83,650,774
Instruction-related services:					
Supervision of instruction	3,591,169	-	-	-	3,591,169
Instruction library, media and technology	1,167,012	-	-	-	1,167,012
School site administration	9,352,156	-	-	275,098	9,627,254
Pupil services:					
Home-to-school transportation	2,587,975	-	-	-	2,587,975
Food services	-	-	-	2,917,624	2,917,624
All other pupil services	5,164,502	-	-	101	5,164,603
General administration:					
Data processing	1,311,115	-	-	-	1,311,115
All other general administration	5,381,477	-	-	233,676	5,615,153
Plant services	10,205,700	8,083	-	139,768	10,353,551
Facilities acquisition and construction	6,462,748	11,187,364	-	4,651,432	22,301,544
Ancillary services	212,209	-	-	-	212,209
Payments to other agencies	1,433,822	-	-	-	1,433,822
Debt service:					
Principal	-	-	7,573,099	-	7,573,099
Interest and fees	-	-	10,467,868	-	10,467,868
Total expenditures	129,291,765	11,195,447	18,040,967	9,446,593	167,974,772
Excess (deficiency) of revenues over (under) expenditures	4,897,973	(9,984,470)	2,173,556	(3,525,586)	(6,438,527)
Other financing sources (uses):					
Transfers in	250,000	26,341	-	2,801,560	3,077,901
Transfers out	(2,258,496)	-	-	(569,405)	(2,827,901)
Total other financing sources (uses)	(2,008,496)	26,341	-	2,232,155	250,000
Net changes in fund balances	2,889,477	(9,958,129)	2,173,556	(1,293,431)	(6,188,527)
Fund balances beginning	81,227,297	133,724,235	19,282,137	11,529,571	245,763,240
Prior period adjustments	314,630	-	-	(456,313)	(141,683)
Fund balances beginning - as adjusted	81,541,927	133,724,235	19,282,137	11,073,258	245,621,557
Fund balances ending	\$ 84,431,404	\$ 123,766,106	\$ 21,455,693	\$ 9,779,827	\$ 239,433,030

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Total net change in fund balances - governmental funds	\$	(6,188,527)
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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.

Capital assets additions, net disposals and adjustments	\$ 22,450,280		
Depreciation expense	<u>(8,642,361)</u>		13,807,919

Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements.		(5,429,570)
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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.		(6,345,492)
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The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Repayment of debt principal		7,573,099	
Amortization of loss on early retirement of long-term debt		(559,605)	

Discounts and premiums related to bond issues are recorded as other financing sources and uses in the fund financial statements, but are recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:		1,261,309
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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 the amounts used by:		(37,877)
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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 postemployment benefit obligation is 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:		(3,007,797)
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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.		<u>(481,086)</u>
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Changes in net position of governmental activities	\$	<u>592,373</u>
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The notes to basic financial statements are an integral part of this statement

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Assets				
Cash and investments	\$ 4,892,721	\$ 2,480,452	\$ 281,617	\$ 7,654,790
Accounts receivable	19,969	-	23,269	43,238
Due from other funds	312	81,269	-	81,581
Other assets	14,328	-	-	14,328
Total Assets	<u>\$ 4,927,330</u>	<u>\$ 2,561,721</u>	<u>\$ 304,886</u>	<u>\$ 7,793,937</u>
Deferred Outflows of Resources				
Pension adjustments	<u>\$ 1,488,361</u>	<u>\$ 586,607</u>	<u>\$ 38,873</u>	<u>\$ 2,113,841</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 17,351	\$ 66,354	\$ 6,177	\$ 89,882
Due to other funds	58,443	3,829	199	62,471
Unearned revenue	108,725	197,730	1,000	307,455
Total current liabilities	184,519	267,913	7,376	459,808
Long-term liabilities:				
Net pension obligations	4,096,249	1,614,453	106,985	5,817,687
Total Liabilities	<u>\$ 4,280,768</u>	<u>\$ 1,882,366</u>	<u>\$ 114,361</u>	<u>\$ 6,277,495</u>
Deferred Outflows of Resources				
Pension adjustments	<u>\$ 506,341</u>	<u>\$ 199,564</u>	<u>\$ 13,225</u>	<u>\$ 719,130</u>
Net Position				
Restricted	\$ 291,432	\$ -	\$ -	\$ 291,432
Unrestricted	1,337,150	1,066,398	216,173	2,619,721
Total Net Position	<u>\$ 1,628,582</u>	<u>\$ 1,066,398</u>	<u>\$ 216,173</u>	<u>\$ 2,911,153</u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Operating Revenues				
Local revenue	\$ 4,677,570	\$ 1,837,015	\$ 185,291	\$ 6,699,876
Operating Expenses				
Certificated salaries	286,452	134,812	1,440	422,704
Classified salaries	2,532,323	988,830	90,804	3,611,957
Employee benefits	1,214,380	478,623	31,717	1,724,720
Books and supplies	183,263	24,150	8,304	215,717
Services and other operating expenses	62,328	164,872	12,673	239,873
Capital Outlay	-	5,790	-	5,790
Total Operating Expenses	4,278,746	1,797,077	144,938	6,220,761
Operating Income (Loss)	398,824	39,938	40,353	479,115
Nonoperating Revenues (Expenses):				
Interest income	66,557	-	-	66,557
Income Before Transfers	465,381	39,938	40,353	545,672
Transfers to Other Funds	-	-	-	-
Transfers from Other Funds	(250,000)	-	-	(250,000)
Change in Net Position	215,381	39,938	40,353	295,672
Prior Period Adjustments - GASB 68	(2,972,374)	(1,171,501)	(77,632)	(4,221,507)
Beginning Net Position	4,385,575	2,197,961	253,452	6,836,988
Ending Net Position	\$ 1,628,582	\$ 1,066,398	\$ 216,173	\$ 2,911,153

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2017

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 4,699,103	\$ 1,853,725	\$ 163,022	\$ 6,715,850
Payments to employees	(3,726,951)	(1,610,089)	(120,865)	(5,457,905)
Payments to vendors	(258,635)	(133,435)	(18,639)	(410,709)
Net cash provided by (used for) operating activities	<u>713,517</u>	<u>110,201</u>	<u>23,518</u>	<u>847,236</u>
Cash Flows from Noncapital Financing Activities				
Transfers in	-	-	-	-
Transfer out	(250,000)	-	-	(250,000)
Net cash provided by (used for) noncapital financing activities	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Cash Flows from Investing Activities				
Interest income	<u>66,557</u>	<u>-</u>	<u>-</u>	<u>66,557</u>
Increase in Cash and Cash Equivalents	530,074	110,201	23,518	663,793
Cash and Cash Equivalents - Beginning	<u>4,362,647</u>	<u>2,370,251</u>	<u>258,099</u>	<u>6,990,997</u>
Cash and Cash Equivalents - Ending	<u>\$ 4,892,721</u>	<u>\$ 2,480,452</u>	<u>\$ 281,617</u>	<u>\$ 7,654,790</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 398,824	\$ 39,938	\$ 40,353	\$ 479,115
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Decrease (increase) in operating assets				
Accounts receivable	(5,054)	60	(23,269)	(28,263)
Due from other funds	295,502	(59,261)	-	236,241
Other assets	(3,759)	-	-	(3,759)
Deferred outflows of resources	(1,488,361)	(586,607)	(38,873)	(2,113,841)
Increase (decrease) in operating liabilities				
Accounts payable	(9,285)	61,377	2,338	54,430
Due to other funds	(131,153)	(4,472)	(609)	(136,234)
Unearned revenue	26,587	16,650	1,000	44,237
Deferred inflows of resources	506,341	199,564	13,225	719,130
Net pension obligations	1,123,875	442,952	29,353	1,596,180
Net cash provided by operating activities	<u>\$ 713,517</u>	<u>\$ 110,201</u>	<u>\$ 23,518</u>	<u>\$ 847,236</u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

	Foundation Agency Fund	Student Body Agency Fund	Total
Assets			
Cash	\$ 135,840	\$ 29,627	\$ 165,467
Accounts receivable	401	61	462
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 136,241</u>	<u>\$ 29,688</u>	<u>\$ 165,929</u>
Liabilities			
Due to student groups	\$ 136,241	29,688	\$ 165,929
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 136,241</u>	<u>\$ 29,688</u>	<u>\$ 165,929</u>

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

The San Mateo-Foster City 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 accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

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. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit’s reporting entity for general purpose financial reports is the ability of the governmental unit’s elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit’s power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2017, the District had the following component units:

- The San Mateo-Foster City School District Public Education Facilities Financing Corporation - its purpose is to finance the construction of facilities to be used for the direct benefit of the District. However, there has been no financial activity for the past few years.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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.

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 nonmajor funds are aggregated into one column. The enterprise funds are presented by fund type on the face of the proprietary fund statements. 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, deferred outflows, current liabilities and deferred inflows 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.

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.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

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 inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

On 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, then unrestricted resources as they are needed.

Proprietary Funds:

Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Fiduciary Funds:

Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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 and nonmajor 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 Retiree Benefits Fund.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

The *Bond Interest and Redemption Fund* is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the interest and redemption of principal of the funding of general obligation bonds issued by the District.

Nonmajor 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 three nonmajor special revenue fund:

- The *Child Development Fund* is used to account for resources restricted for child development programs maintained by the District
- The *Cafeteria Fund* is a special revenue fund used to account for revenues received and expenditures made to operate the District's food service programs.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains two 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).

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- The *County School Facilities Fund* is used primarily to account separately for State apportionments for the construction of school facilities (Education Code Sections 17010.10-17076.10).
- The *Special Reserve Fund for Capital Outlay Projects* exists primarily for the accumulation of General Fund monies for capital outlay purposes.

Proprietary Funds:

Proprietary Funds focus on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary Funds are classified as enterprise or internal service. The District has the following proprietary funds:

The *Children's Annex* enterprise fund accounts for revenue and expenses of the District's before and after school child care and enrichment programs.

The *Fee Based Preschool Program* enterprise fund accounts for revenue and expenses of the District's fee based preschool programs.

The *Bayside Theatre* enterprise fund accounts for revenue and expenses related to the operation of the Bayside Theatre on the Bayside Middle School campus.

Each of these funds were reported as a major funds.

Fiduciary Funds:

Fiduciary Funds are agency funds used to account for assets of others for which the District acts as an agent. The District maintains a foundation scholarship fund and student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The amounts reported for student body funds represent the combined totals of all schools within the District.

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 and district superintendent 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this period, the following time frames were used:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

I. Assets, Liabilities, and Equity

1. 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.

2. 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The following is a summary of the definition of fair value:

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.

3. Inventories and Prepaid Expenditures

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 a moving average cost and consists of expendable supplies held for consumption. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

4. Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of \$5,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	5-50
Buildings and improvements	20-50
Furniture and Equipment	2-15

5. 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. Unearned revenue is recorded as a deferred inflow of resources to the extent that cash received on specific projects and programs exceeds qualified expenditures.

6. Compensated Absences

All vacation pay plus related payroll tax 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.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, 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.

7. Long-Term Obligations

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 are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

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.

8. Fund Balance Classifications

The District maintains a minimum unassigned fund balance of not less than 5 percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which basic aide districts are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Non-spendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* fund balance includes 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* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- *Assigned* fund balance includes 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.
- *Unassigned* fund balance includes positive amounts 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.

9. 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.

Parcel Tax restrictions will be used as allowed by the voter approved parcel tax measure.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Cafeteria Programs restrictions reflect the amounts to be expended for federal and state funded nutrition programs.

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

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.

10. Interfund Balances and Activity

In the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

11. Operating and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are parent fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

12. 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (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.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

13. Risk Management

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance and participation in a public entity risk pool. The District participates in the San Mateo County Schools Insurance Group public entity risk pool (JPA). Refer to Note 10 for additional information regarding the JPA. Excess property and liability coverage is obtained through SELF. Coverage provided by San Mateo-County Schools Insurance Group for property and liability workers' compensation is as follows:

Workers' compensation	State of California Statutory Limits
Property	\$250,000 - \$1,000,000,000 per occurrence
Liability	\$250,000 - \$25,000,000 per occurrence

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

14. 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

15. 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.

J. Implemented New Accounting Pronouncements

GASB Statement No. 77, *Tax Abatement Disclosures* - Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District). 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 District 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.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

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.

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. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

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Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

Management believes this statement will not have a significant impact on the District's financial statements.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

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

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

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NOTE 2 - CASH AND INVESTMENTS

The following summarizes cash and investments as of June 30, 2017:

Description	Carrying Amount	Fair Value	Investment Rating
Governmental Activities:			
Cash in county treasury investment pool	\$ 253,301,177	\$ 253,020,013	AA
Cash in revolving fund	35,000	35,000	Not Rated
Cash in banks	2,412,873	2,412,873	Not Rated
Cash with fiscal agent	201,650	201,426	AA
Total Cash Deposits	255,950,700	255,669,312	
Investments:			
California Local Agency Investment Fund	1,274	\$ 1,273	N/A
Total Investments	1,274	1,273	
Total Governmental Cash and Investments	255,951,974	255,670,585	
Business-Type Activities:			
Cash in county treasury investment pool	7,318,429	\$ 7,310,306	AA
Cash in revolving fund	10,000	10,000	Not Rated
Cash in banks	326,361	326,361	Not Rated
Total Business-Type Cash and Investments	7,654,790	7,646,667	
Total Government-Wide Cash and Investments	\$ 263,606,764	\$ 263,317,252	
Fiduciary Activities:			
Cash in banks	\$ 165,467	\$ 165,467	Not Rated

Cash in banks and 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, 2017, the bank balance of the District's accounts with banks was \$2,655,935, which exceeded FDIC limits by \$2,405,935.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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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 Entity has the following recurring fair value measurements as of June 30, 2017:

- The cash in the County investment pool of \$260,330,319 are valued using Level 2 inputs.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 keeps cash in the San Mateo County Investment Pool which had a fair value of approximately \$1.478 billion and an amortized book value of \$1.48 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

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governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2017:

	Governmental Activities				Business-type Activities		Total
	General Fund	Building Fund	Bond Interest & Redemption Fund	Other Nonmajor Funds	The Children's Annex	Bayside Theatre	
Receivables							
Federal Government	\$ 177,038	\$ -	\$ -	\$ 340,097	\$ -	\$ -	\$ 517,135
State Government	1,348,287	-	-	80,464	-	-	1,428,750
Other Local Resources	292,352	-	-	-	-	-	292,352
All Other Resources	1,052,873	332,289	50,793	89,792	19,969	23,269	1,568,985
Total Accounts Receivable	<u>\$ 2,870,550</u>	<u>\$ 332,289</u>	<u>\$ 50,793</u>	<u>\$ 510,353</u>	<u>\$ 19,969</u>	<u>\$ 23,269</u>	<u>\$ 3,807,223</u>

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, 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.

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Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2017, the District interfund payables and receivables consisted of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 437,031	\$ 2,215,841
Building Fund	26,364	155,177
The Children's Annex Fund	312	58,443
Fee Based Preschool Fund	81,269	3,829
Bayside Theatre Fund	-	199
Nonmajor Governmental Funds	2,790,911	902,398
Totals	<u>\$ 3,335,887</u>	<u>\$ 3,335,887</u>

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. As of June 30, 2017, the District interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 250,000	\$ 2,258,496
Building Fund	26,341	-
The Children's Annex Fund	-	250,000
Nonmajor Governmental Funds	2,801,560	569,405
Totals	<u>\$ 3,077,901</u>	<u>\$ 3,077,901</u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

The following summarizes the changes in capital assets for the year ended June 30, 2017:

<u>Capital Assets</u>	<u>Balance July 01, 2016</u>	<u>Additions</u>	<u>Adjustments & Deletions</u>	<u>Balance June 30, 2017</u>
Land - not depreciable	\$ 10,269,460	\$ 6,238,185	\$ (4,510,750)	\$ 11,996,895
Work-in-progress - not depreciable	11,977,652	16,212,095	-	28,189,747
Site improvements	18,362,966	1,362,051	-	19,725,017
Buildings and improvements	270,111,243	1,970,699	-	272,081,942
Furniture and equipment	9,590,259	1,178,000	-	10,768,259
Total capital assets	<u>320,311,580</u>	<u>26,961,030</u>	<u>(4,510,750)</u>	<u>342,761,860</u>
Less accumulated depreciation for:				
Site improvements	11,231,089	860,681	-	12,091,770
Buildings and improvements	81,548,750	7,055,721	-	88,604,471
Furniture and equipment	4,826,134	725,959	-	5,552,093
Total accumulated depreciation	<u>97,605,973</u>	<u>8,642,361</u>	<u>-</u>	<u>106,248,334</u>
Total capital assets - net depreciation	<u>\$ 222,705,607</u>	<u>\$ 18,318,669</u>	<u>\$ (4,510,750)</u>	<u>\$ 236,513,526</u>

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Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 6,877,965
Home-to-school transportation	76,602
Food services	76,602
All other general administration	639,830
Plant services	971,362
Total depreciation expense	<u>\$ 8,642,361</u>

NOTE 6 - SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term debt for the year ended June 30, 2017:

Long-term Debt	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds	\$ 347,378,861	\$ 5,483,514	\$ 8,888,352	\$ 343,974,023	\$ 12,891,558
Annual Net OPEB Obligation	9,745,697	3,007,797	-	12,753,494	-
Compensated Absences	504,417	37,877	-	542,294	271,147
Net Pension Liabilities	95,704,474	22,557,001	-	118,261,475	-
Total Long-term Debt	<u>\$ 453,333,449</u>	<u>\$ 31,086,189</u>	<u>\$ 8,888,352</u>	<u>\$ 475,531,286</u>	<u>\$ 13,162,705</u>

Payments on bonds are made by the Bond Interest and Redemption Fund from local revenues. The accrued vacation, pension liabilities, and other postemployment benefits will be paid by the fund for which the employee worked.

NOTE 7 - BONDS

Revenue Bonds, Series 2005

On October 13, 2005, San Mateo-Foster City School Facilities Financing Authority (the Authority) issued \$79,975,000 of revenue bonds. These were issued to generate over \$3 million in savings to taxpayers by refunding the District's old bonds and to finance facilities to be acquired and/or constructed. This was partially refunded by the 2014 and 2015 General Obligation Refunding bonds during the 14/15 fiscal year.

General Obligation Bonds, Election 2008, Series A

In February 2010, the District issued \$54,999,413 of general obligation bonds, Election of 2008, Series A. The bonds were authorized at an election of the registered voters of the District held on February 5, 2008, which authorized the issuance of \$175,000,000 principal amount of general obligation bonds for the purpose of financing the renovation and modernization of school facilities. The Bonds are the first series of bonds to be issued under this authorization.

General Obligation Bonds, Election 2008, Series Q

In July 2010, the District issued \$25,000,000 General Obligation Bonds, Election of 2008, Series Q, under the Federal Taxable Direct-Pay Qualified School Construction Bonds (QSCB) pursuant to a resolution adopted by the Board on June 17, 2011. The Bonds were authorized at an election of the registered voters of the District held on February 5, 2008, which authorized the issuance of \$175,000,000 principal amount of general obligation bonds for the purpose of financing the renovation and modernization of school facilities. This issue of the Bonds

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is the second series of bonds to be issued under this authorization. The issuance will save approximately \$12.9 million to the District's taxpayers in property tax levy.

2012 General Obligation Refunding Bonds

On June 5, 2012, the District issued the 2012 General Obligation Refunding Bonds to refund a portion of the outstanding principal amount of its 2003 General Obligation Refunding Bonds, maturing on September 1 in the years 2013 through and including the year 2020, in the aggregate principal amount of \$15,180,000. The proceeds of the 2012 General Obligation Refunding Bonds received on the Closing Date, \$15,536,459.38 was deposited in a refunding escrow fund. This was sufficient to pay the principal of and interest on the 2003 General Obligation Refunding Bonds refunded on September 1, 2012.

General Obligation Bonds, Election 2008, Series C

In November 2012, the District issued \$35,000,000 of general obligation bonds, Election of 2008, Series C. The Bonds were authorized at an election of the registered voters of the District held on February 5, 2008, which authorized the issuance of \$175,000,000 principal amount of general obligation bonds for the purpose of financing the renovation and modernization of school facilities. This issue of the Bonds is the third series of bonds to be issued under this authorization.

2014 General Obligation Refunding Bonds

In August 2014, the District issued \$2,080,000 of general obligation refunding bonds for the purpose of partially refunding the Revenue Bonds, Series 2005.

2015 General Obligation Refunding Bonds

In May 2015, the District issued \$27,875,000 of general obligation refunding bonds for the purpose of partially refunding the Revenue Bonds, Series 2005.

General Obligation Bonds, Election 2008, Series D

In October 2015, the District issued \$60,000,000 of general obligation bonds, Election of 2008, Series D. The Bonds were authorized at an election of the registered voters of the District held on February 5, 2008, which authorized the issuance of \$175,000,000 principal amount of general obligation bonds for the purpose to acquire, repair and construct certain equipment, sites and facilities of the District and to pay the costs associated with the issuance of the Bonds. This issue of the Bonds is the fourth series of bonds to be issued under this authorization.

General Obligation Bonds, Election 2015, Series A

In March 2016, the District issued \$74,000,000 of general obligation bonds, Election of 2015, Series A. The Bonds were authorized at an election of the registered voters of the District held on November 3, 2015, which authorized the issuance of \$148,000,000 principal amount of general obligation bonds for the purpose to acquire, repair and construct certain equipment, sites and facilities of the District and to pay the costs associated with the issuance of the Bonds. This issue of the Bonds is the first series of bonds to be issued under this authorization.

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The following schedule summarizes the District's outstanding Bonds as of June 30, 2017:

Description	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
Principle Bonds:							
Revenue Bond, Series 2005	8/15/2023	3.0-5.5%	\$ 79,975,000	\$ 22,590,382	\$ -	\$ 4,036,707	\$ 18,553,675
General Obligation Bonds 2008, Series A	8/1/1942	2.95-6.625%	54,999,413	54,982,219	-	41,392	54,940,827
General Obligation Bonds 2008, Series Q	8/1/2026	6%	25,000,000	24,935,000	-	170,000	24,765,000
2012 General Obligation Refunding Bonds	9/1/2020	2.0-5.0%	14,700,000	9,655,000	-	1,775,000	7,880,000
General Obligation Bonds 2008, Series C	8/1/1939	2.0-5.0%	35,000,000	29,145,000	-	1,550,000	27,595,000
2014 General Obligation Refunding Bonds	8/1/2026	5%	2,080,000	2,080,000	-	-	2,080,000
2015 General Obligation Refunding Bonds	8/1/2023	3.0-5.0%	27,875,000	27,470,000	-	-	27,470,000
General Obligation Bonds 2008, Series D	8/1/1944	2.0-5.0%	60,000,000	60,000,000	-	-	60,000,000
General Obligation Bonds 2015, Series A	8/1/1945	2.0-5.0%	74,000,000	74,000,000	-	-	74,000,000
Subtotal General Obligation Bonds			373,629,413	304,857,601	-	7,573,099	297,284,502
Accreted Interest:							
General Obligation Bonds 2008, Series A			-	25,724,404	5,483,514	53,944	31,153,974
Unamortized Bond Premium			21,518,897	16,796,856	-	1,261,309	15,535,547
Total Bond Related Debt			\$ 395,148,310	\$ 347,378,861	\$ 5,483,514	\$ 8,888,352	\$ 343,974,023

The following is a summary of the District's annual debt service requirements as of June 30, 2017:

Year Ending June 30	Principal	Interest	Total
2018	\$ 12,891,558	\$ 10,400,227	\$ 23,291,785
2019	12,468,026	9,936,678	22,404,704
2020	12,983,081	9,419,944	22,403,025
2021	11,593,474	8,901,140	20,494,614
2022	12,852,733	8,329,569	21,182,302
2023-2027	55,055,822	43,545,112	98,600,934
2028-2032	16,041,521	79,721,191	95,762,712
2033-2037	31,504,156	86,250,014	117,754,170
2038-2042	56,219,301	88,596,632	144,815,933
2043-2046	75,674,830	12,647,024	88,321,854
Total Debt Service	<u>\$ 297,284,502</u>	<u>\$ 357,747,531</u>	<u>\$ 655,032,033</u>

NOTE 8 - 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.

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The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	PERS	
	<u>Tier 1</u>	<u>Tier 2</u>
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%	6.25%
Required employer contribution rates	13.888%	6.25%

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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>CalPERS</u>
Contributions - employer	\$ 2,283,587
Contributions - employee	1,367,772
Total	<u>\$ 3,651,359</u>

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
CalPERS	<u>\$ 31,045,565</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, 2016, 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, 2015 rolled forward to June 30, 2016 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.

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The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 (measurement dates 2015 and 2016) was as follows:

	CalPERS
Proportion - June 30, 2016	0.0261%
Proportion - June 30, 2017	0.0262%
Change in Proportions	0.0001%

For the year ended June 30, 2017, the District recognized pension expense of \$4,311,333 for the Plan.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,740,192	\$ -
Changes in assumptions	-	(953,548)
Differences between expected and actual experiences	1,365,053	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(379,269)
Net differences between projected and actual earnings on plan investments	8,059,083	(3,134,312)
Total	<u>\$ 12,164,328</u>	<u>\$ (4,467,129)</u>

The District reported \$2,740,192 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, 2018.

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

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ 696,685
2019	698,192
2020	2,276,808
2021	1,285,322
Total	<u>\$ 4,957,007</u>

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 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	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

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

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

Sensitivity of 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	\$ 46,228,520
Current Discount Rate	7.65%
Net Pension Liability	\$ 31,045,565
1% Increase	8.65%
Net Pension Liability	\$ 18,402,767

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017, are summarized as follows:

	STRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	55
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	12.580%	12.580%

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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	STRS
Contributions - employer	\$ 5,718,444
Contributions - employee	3,163,990
Total	<u>\$ 8,882,434</u>

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

As of June 30, 2017, 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
STRS	\$ 87,215,910

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, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2016 and 2017 (measurement dates 2015 and 2016) was as follows:

	STRS
Proportion - June 30, 2016	0.1080%
Proportion - June 30, 2017	0.1078%
Change in Proportions	-0.0002%

For the year ended June 30, 2017, the District recognized pension expense of \$16,408,804 for the Plan. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,285,180	\$ -
Changes in assumptions	-	-
Differences between expected and actual experiences	-	(2,111,568)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	203,817	-
Net differences between projected and actual earnings on plan investments	6,880,528	-
Total	<u>\$ 13,369,525</u>	<u>\$ (2,111,568)</u>

The District reported \$6,285,180 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, 2018.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL 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:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ (125,947)
2019	(125,947)
2020	3,723,271
2021	2,304,451
2020	(276,175)
Thereafter	(526,876)
Total	<u>\$ 4,972,777</u>

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.6% (2)
Mortality	(3)

- (1) Varies by age and service
- (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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	Long-Term Expected Rate of Return
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Inflation Sensitive	4.00%	3.80%
Private Equity	13.00%	9.30%
Real Estate	13.00%	5.20%
Absolute Return/Risk Mitigation	9.00%	2.90%
Liquidity	2.00%	-1.00%
Total	<u>100.00%</u>	

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	\$ 125,568,637
Current Discount Rate	7.60%
Net Pension Liability	\$ 87,215,910
1% Increase	8.60%
Net Pension Liability	\$ 55,362,365

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

C. Postemployment Healthcare Plan (PHP)

Plan Description.

The District administers a single-employer defined benefit healthcare plan. It provides lifetime postemployment health care benefits, in accordance with District's employment contracts, to most employees who retire from the District. Managers, who retire from the District, are eligible for full lifetime medical, vision, and dental premiums for the employee only. There is a cap on SMETA and CSEA payments up to the age of 65 and after the age of 65. Membership of the Plan consists of 664 retirees currently receiving benefits, and 1,180 active plan members.

Funding Policy.

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute 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 District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go method).

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	\$ 5,639,780
Interest on net OPEB obligation	509,378
Adjustment to annual required contribution	<u>(608,314)</u>
Annual OPEB cost (expense)	5,540,844
Contributions made	<u>(2,533,047)</u>
Increase in net OPEB obligation	3,007,797
Net OPEB obligation - beginning of year	<u>9,745,697</u>
Net OPEB obligation - end of year	<u><u>\$ 12,753,494</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 3,064,016	100%	\$ 7,704,650
6/30/2016	5,221,702	61%	9,745,697
6/30/2017	5,540,844	46%	12,753,494

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Funded Status and Funding Progress

The most recent actuarial valuation date was July 1, 2015. The following summarizes the funded status of the plan as of June 30, 2017:

Actuarial accrued liability (AAL)	\$ 49,791,993
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 49,791,993</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 75,393,858
UAAL as a percentage of covered payroll	66.04%

Actuarial Methods and Assumptions

The actuarial present value of the benefits which are allocated to the current year is called the Normal Cost. The actuarial present value of the benefits which are allocated to past years, including the full value of benefits for all former employees, is called the Actuarial Accrued Liability, and is amortized over a period of future years. The ARC is the sum of that amortization and the Normal Cost. Under the entry age normal funding method, normal costs are computed as a level percentage of salary. Amortization of unfunded liability is being made as a level percentage of payroll over the 30-year period beginning July 1, 2015. The remaining amortization period at June 30, 2017, was twenty-three years.

In the July 1, 2015 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a discount rate of 4.5 percent per year, an inflation rate of 2.75 percent and an annual healthcare cost trend rate of 4 percent. 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.

NOTE 9 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District is a member of the San Mateo County Schools' Insurance Group (SMCSIG), joint powers authority (JPA). The District pays an annual premium to the entity for its health, workers' compensation, and property liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Litigation

The District may be exposed to 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.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

The District increased beginning net position of its governmental activities by \$4,221,507 and reduced its beginning net position for business-type activities by \$4,221,507 to reflect the correct share of pension obligations in each of these activities. Pension contributions totaling \$530,732 (17.91% of total contributions) were made by the District for employees that worked in enterprise programs, which are classified as separate proprietary funds and business-type activities in the financial statements.

The District also adjusted beginning net position for governmental-activities by \$141,683 to reflect the reclassification of the foundation trust fund from a special revenue fund to a fiduciary fund.

REQUIRED
SUPPLEMENTARY
INFORMATION

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
LCFF sources	\$ 97,179,624	\$ 97,219,274	\$ 100,950,047	\$ 3,730,773
Federal revenues	3,757,668	4,344,340	3,663,507	(680,833)
Other state	10,396,861	10,334,796	10,675,292	340,496
Other local	14,502,423	17,752,875	18,900,892	1,148,017
Total revenues	125,836,576	129,651,285	134,189,738	4,538,453
Expenditures:				
Certificated salaries	58,094,710	56,990,519	55,743,155	1,247,364
Classified salaries	14,962,898	14,737,936	14,261,067	476,869
Employee benefits	27,173,413	27,141,903	26,611,456	530,447
Books and supplies	4,055,120	7,990,976	4,024,730	3,966,246
Services and other operating expenditures	19,648,951	28,341,313	20,984,556	7,356,757
Capital outlay	12,871,025	7,485,271	6,466,653	1,018,618
Other outgo	1,399,298	1,280,953	1,200,148	80,805
Total expenditures	138,205,415	143,968,871	129,291,765	14,677,106
Excess (deficiency) of revenues over (under) expenditures	(12,368,839)	(14,317,586)	4,897,973	19,215,559
Other financing sources (uses):				
Transfers in	250,000	250,000	250,000	-
Transfers out	-	(32,450)	(2,258,496)	(2,226,046)
Total other financing sources (uses)	250,000	217,550	(2,008,496)	(2,226,046)
Change in fund balance	<u>\$ (12,118,839)</u>	<u>\$ (14,100,036)</u>	2,889,477	<u>\$ 16,989,513</u>
Fund balances beginning - as adjusted			<u>81,541,927</u>	
Fund balances ending			<u>\$ 84,431,404</u>	

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALPERS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 2,738,437	\$ 2,283,587	\$ 2,120,002
Contributions in Relation to Actuarially Determined Contributions	2,738,437	2,283,587	2,120,002
Contribution Deficiency (Excess)	-	-	-
 Covered Employee Payroll	 \$ 19,725,547	 \$ 19,275,656	 \$ 18,010,381
 Contributions as a Percentage of Covered Payroll	 13.89%	 11.85%	 11.77%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.7 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 three years are shown.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALPERS PROPORTIONATE SHARE
OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	2017	2016	2015
Proportion of Net Pension Liability	0.15719%	0.15600%	0.15810%
Proportionate Share of Net Pension Liability	\$ 31,045,565	\$ 22,994,554	\$ 17,948,200
Covered Employee Payroll	\$ 19,725,547	\$ 19,275,656	\$ 18,010,381
Proportionate Share of NPL as a % of Covered Employee Payroll	157.39%	119.29%	99.65%
Plan's Fiduciary Net Position as a % of the TPL	73.74%	79.43%	83.38%

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 6,866,436	\$ 5,718,444	\$ 4,512,050
Contributions in Relation to Actuarially Determined Contributions	6,866,436	5,718,444	4,512,050
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	\$ 54,620,106	\$ 53,616,509	\$ 50,972,960
Contributions as a Percentage of Covered Payroll	12.58%	10.73%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
7 Year Amortization Period
Inflation Assumed at 3%
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 three years are shown.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PROPORTIONATE SHARE
OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	2017	2016	2015
Proportion of Net Pension Liability	0.10783%	0.10800%	0.10300%
Proportionate Share of Net Pension Liability	\$ 87,215,910	\$ 72,709,920	\$ 60,190,110
Covered Employee Payroll	\$ 54,620,106	\$ 53,616,509	\$ 50,972,960
Proportionate Share of NPL as a % of Covered Employee Payroll	159.68%	135.61%	118.08%
Plan's Fiduciary Net Position as a % of the TPL	70.08%	74.02%	76.52%

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTHCARE PLAN
OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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))
7/1/2011	\$ -	\$ 27,969,800	27,969,800	0.00%	\$ 55,201,100	51%
7/1/2013	-	41,206,314	41,206,314	0.00%	63,661,227	65%
7/1/2015	-	49,791,993	49,791,993	0.00%	75,393,858	66%

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budget for the General Fund is presented as Required Supplementary Information. The basis of budgeting is the same as GAAP and there were not expenditures in excess of appropriations during the year.

NOTE 2 - SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

NOTE 3 - SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

These schedules present information on the District's portion of the Net Pension Liability of CalSTRS and the Net Pension Liability of CalPERS in compliance with GASB 68.

NOTE 4 - SCHEDULES OF THE DISTRICT'S CONTRIBUTIONS

These schedules provide information about the District's required and actual contributions to CalSTRS and CalPERS during the year.

SUPPLEMENTARY
INFORMATION

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Funds		Capital Projects Funds			
	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Assets						
Cash and investments	\$ 516,749	\$ 2,843,021	\$ 3,787,099	\$ 23,923	\$ 273,816	\$ 7,444,608
Accounts receivable	82,066	342,692	84,757	64	774	510,353
Due from other funds	-	21,506	-	-	2,769,405	2,790,911
Other assets	-	85,934	-	-	-	85,934
Total Assets	\$ 598,815	\$ 3,293,153	\$ 3,871,856	\$ 23,987	\$ 3,043,995	\$ 10,831,806
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 25,125	\$ 11,311	\$ 46,361	\$ -	\$ 66,784	\$ 149,581
Due to other funds	184,650	148,067	569,681	-	-	902,398
Total Liabilities	209,775	159,378	616,042	-	66,784	1,051,979
Fund balances:						
Nonspendable:						
Inventory	-	83,705	-	-	-	83,705
Prepaid expenses	-	2,229	-	-	-	2,229
Restricted for:						
Cafeteria programs	-	2,554,727	-	-	-	2,554,727
Capital projects	-	-	-	-	2,551,570	2,551,570
Legally restricted balances	99,596	-	-	-	-	99,596
Assigned for:						
Capital projects	-	-	3,255,814	23,987	425,641	3,705,442
Cafeteria programs	-	493,114	-	-	-	493,114
Educational programs	289,444	-	-	-	-	289,444
Total Fund Balances	389,040	3,133,775	3,255,814	23,987	2,977,211	9,779,827
Total Liabilities and Fund Balances	\$ 598,815	\$ 3,293,153	\$ 3,871,856	\$ 23,987	\$ 3,043,995	\$ 10,831,806

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Special Revenue Funds				Capital Projects Funds			
	Child Development Fund	Cafeteria Fund	Foundation Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Revenues:								
Federal revenue	\$ 92,388	\$ 1,948,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,040,830
Other state	1,560,978	125,849	-	-	-	-	-	1,686,827
Other local	93,432	923,087	-	-	1,163,043	226	13,562	2,193,350
Total revenues	1,746,798	2,997,378	-	-	1,163,043	226	13,562	5,921,007
Expenditures:								
Current								
Instruction	1,228,894	-	-	-	-	-	-	1,228,894
Instruction-related services:								
School site administration	275,098	-	-	-	-	-	-	275,098
Pupil services:								
Food services	-	2,917,624	-	-	-	-	-	2,917,624
All other pupil services	101	-	-	-	-	-	-	101
General administration:								
All other general administration	95,826	137,850	-	-	-	-	-	233,676
Plant services	47,907	4,511	-	-	35,854	-	51,496	139,768
Facilities acquisition & construction	73,797	-	-	-	1,318,646	-	3,258,989	4,651,432
Total expenditures	1,721,623	3,059,985	-	-	1,354,500	-	3,310,485	9,446,593
Excess (deficiency) of revenues over (under) expenditures	25,175	(62,607)	-	-	(191,457)	226	(3,296,923)	(3,525,586)
Other financing sources (uses):								
Transfers in	208	-	-	-	-	-	2,801,352	2,801,560
Transfers out	-	-	-	-	(569,405)	-	-	(569,405)
Total other financing sources (uses)	208	-	-	-	(569,405)	-	2,801,352	2,232,155
Change in fund balances	25,383	(62,607)	-	-	(760,862)	226	(495,571)	(1,293,431)
Prior period adjustments	-	-	(141,683)	(314,630)	-	-	-	(456,313)
Fund balances beginning	363,657	3,196,382	141,683	314,630	4,016,676	23,761	3,472,782	11,529,571
Fund balances ending	\$ 389,040	\$ 3,133,775	\$ -	\$ -	\$ 3,255,814	\$ 23,987	\$ 2,977,211	\$ 9,779,827

STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2017**

The San Mateo-Foster City School District (the “District”) was established in 1948 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K to 8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools, four middle schools, one K-8 school and one Before and After School Children Annex.

Governing Board

Name	Office	Term Expires
Chelsea Bonini	President	November, 2017
Lory Lorimer Lawson	Vice President	November, 2017
Audrey Ng	Clerk	November, 2019
Ed Coady	Trustee	November, 2017
Nancy Kohn Hsieh	Trustee	November, 2019

Administration

Joan Rosas, Ed.D.
Superintendent

Heather Olsen
Assistant Superintendent for Educational Services

Molly Barton
Assistant Superintendent for Student Services

Donna Lewis
Assistant Superintendent for Human Resources

Carolyn Chow
Chief Business Official

Christine Gong
Director of Fiscal Services

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Total ADA		Classroom Based	
	Second	Annual	Second	Annual
	Period	Report	Period	Report
Santa Rosa Elementary	Report	Report	Report	Report
Regular ADA:				
Grades TK/K through three	5,423.70	5,421.81	5,423.70	5,421.81
Grades four through six	3,754.23	3,750.09	3,754.23	3,750.09
Grades seven and eight	2,354.60	2,353.17	2,354.60	2,353.17
Regular ADA Totals	11,532.53	11,525.07	11,532.53	11,525.07
Extended year Special education:				
Grades TK/K through three	1.91	1.91	1.91	1.91
Grades four through six	2.25	2.25	2.25	2.25
Grades seven and eight	1.01	1.01	1.01	1.01
Special education - nonpublic, nonsect schools:				
Grades TK/K through three	4.11	4.79	4.11	4.79
Grades four through six	9.56	12.03	9.56	12.03
Grades seven and eight	1.28	1.34	1.28	1.34
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.44	0.44	0.44	0.44
Grades four through six	1.05	1.20	1.05	1.20
Grades TK/K through three	0.07	0.07	0.07	0.07
ADA Totals	11,554.21	11,550.11	11,554.21	11,550.11

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirements	2017 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	50,460	180	0	In compliance
Grade 2	50,400	50,460	180	0	In compliance
Grade 3	50,400	50,460	180	0	In compliance
Grade 4	54,000	54,072	180	0	In compliance
Grade 5	54,000	54,072	180	0	In compliance
Grade 6	54,000	54,072	180	0	In compliance
Grade 7	54,000	56,032	180	0	In compliance
Grade 8	54,000	56,032	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 not 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	(Budget ¹)			
	2018	2017	2016	2015
General Fund				
Revenues and other financial sources	\$ 118,380,745	\$ 134,439,738	\$ 133,934,796	\$ 116,464,126
Expenditures	125,243,769	129,291,765	120,441,101	108,234,780
Other uses and transfers (out)	3,832,450	2,258,496	8,775,904	3,451,025
Total outgo	129,076,219	131,550,261	129,217,005	111,685,805
Change in fund balance	(10,695,474)	2,889,477	4,717,791	4,778,321
Prior period adjustments:				
Special Reserve Fund for Other Than				
Capital Outlay per GASB 54	-	314,630	-	-
Ending fund balance	\$ 73,735,930	\$ 84,431,404	\$ 81,227,297	\$ 76,509,506
Available reserves ⁽²⁾	\$ 8,533,500	\$ 21,225,894	\$ 17,964,039	\$ 25,713,048
Reserve for economic uncertainties	\$ 7,812,484	\$ 13,032,209	\$ 12,682,962	\$ 25,713,048
Unassigned fund balance	\$ 721,016	\$ 8,193,685	\$ 5,281,077	\$ -
Available reserves as a percentage of total outgo	6.6%	16.1%	13.9%	23.0%
Total long-term debt	\$ 456,550,894	\$ 469,713,599	\$ 453,333,449	\$ 296,724,933
Average daily attendance at P-2	11,546	11,554	11,580	11,429

Average daily attendance has increased by 125 over the last three years. The district anticipates an 8 decrease in ADA.

The general fund's fund balance has increased by \$7,921,898 in 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, other uses (total outgo).

The district has operated at a surplus in each of the past three years. Total long-term debt has increased by \$172,988,666 over the past three years, due to new bond issuances and pension obligations.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2017/18.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Program Name	Federal Catalog Number	Cluster Name	Pass Through Number	Major Program	Program Expenditures
U. S. DEPARTMENT OF EDUCATION:					
Passed through California Department of Education:					
NCLB: Title III, Immigrant Education Program	84.365	Title III	15146		\$ 738,165
NCLB: Title III, Limited English Proficient (LEP) Student Program	84.365	Title III	14346		296,482
NCLB: Title III Cluster					<u>1,034,647</u>
NCLB: Title II, Part A, Teacher Quality	84.367	Title II	14341		<u>263,367</u>
Passed through Sonoma County SELPA:					
Individuals with Disabilities Education Act (IDEA):					
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	Spec Ed	13379	Yes	1,973,880
Special Ed: IDEA Preschool Grants, Part B, Sec 619	84.173	Spec Ed	13430	Yes	61,084
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	84.027	Spec Ed	13682	Yes	196,931
Special Education: IDEA Local Assistance, Part B, Private School ISPs	84.027	Spec Ed	10115	Yes	16,432
Special Education Cluster				Yes	<u>2,248,327</u>
TOTAL U. S. DEPARTMENT OF EDUCATION:					3,546,341
U. S. DEPARTMENT OF AGRICULTURE:					
Passed through California Department of Education:					
Child Nutrition: School Programs (NSL Sec 11)	10.555	SchoolLnch	13396	Yes	1,948,443
TOTAL U.S. DEPARTMENT OF AGRICULTURE					1,948,443
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Child Development: Federal General (CCTR) and State Preschool (CSPP)	97.036		10014		92,388
Passed through California Department of Health Services:					
Medi-Cal Billing Option	93.778	TitleXIX:Medicaid	10013		118,057
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					210,445
TOTAL EXPENDITURES					\$ 5,705,229

Note: There were not any awards passed through to subrecipients

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017**

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 sponsored by the District as of June 30, 2017.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Retiree Benefit Funds
June 30, 2017 Annual Financial and Budget Report Fund Balances.	\$ 64,090,217	\$ 123,766,106	\$ 21,455,693	\$ 12,952,114	\$ 17,168,900
Adjustments to reconcile audited financials: GASB 54 Fund Consolidations	<u>20,341,187</u>	<u>-</u>	<u>-</u>	<u>(3,172,287)</u>	<u>(17,168,900)</u>
June 30, 2017 Audited Financial Statements Fund Balances	<u><u>\$ 84,431,404</u></u>	<u><u>\$ 123,766,106</u></u>	<u><u>\$ 21,455,693</u></u>	<u><u>\$ 9,779,827</u></u>	<u><u>\$ -</u></u>

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2017**

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has not 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 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.

D. 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 and state requirements. The District has not used the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

E. 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.

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 as reported in the annual financial and budget report to the audited financial statements.

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

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 and State Awards.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2017

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

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Mateo-Foster City School 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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
San Mateo-Foster City School District
Foster City, 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 San Mateo-Foster City School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise San Mateo-Foster City School District's basic financial statements, and have issued our report thereon dated November 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Mateo-Foster City 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 San Mateo-Foster City School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Mateo-Foster City School District's internal control.

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

Our consideration of internal control 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 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 San Mateo-Foster City School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,



accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

November 26, 2017
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY TITLE 2 CFR PART 200 (UNIFORM GUIDANCE)**

Board of Education
San Mateo-Foster City School District
Foster City, California

Report on Compliance for Each Major Federal Program

We have audited San Mateo-Foster City School District's compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of San Mateo-Foster City School District's major federal programs for the year ended June 30, 2017. San Mateo-Foster City School 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Mateo-Foster City School 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 the 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 San Mateo-Foster City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, San Mateo-Foster City 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, 2017.



Report on Internal Control over Compliance

Management of San Mateo-Foster City 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 San Mateo-Foster City 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 Uniform Guidance, 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 San Mateo-Foster City 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

C & A UP

November 26, 2017
San Jose, California



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

Board of Education
San Mateo-Foster City School District
Foster City, California

Compliance

We have audited the San Mateo-Foster City School District's (the District) compliance with the types of compliance requirements described in the *2016-17 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, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2016-17 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 *2016-17 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:

<u>Description</u>	<u>Procedures Performed</u>
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
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
Mental Health Expenditures	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	N/A
Immunizations	N/A
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 Independent Study program because the ADA was under the level that requires testing.



Opinion

In our opinion, the San Mateo-Foster City 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, 2017.

C & A LLP

November 26, 2017
San Jose, California

FINDINGS AND RECOMMENDATIONS

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses?	_____ Yes	<u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> x </u> No
Non-compliance material to financial statements noted?	_____ Yes	<u> x </u> No

Federal Awards

Internal control over major programs:		
Material weaknesses?	_____ Yes	<u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> x </u> No
Type of auditor's report issued on compliance over major programs	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ Yes	<u> x </u> No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027, 84.173	Special Education Cluster
10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$ _____ 750,000
Auditee qualified as low risk auditee?	_____ Yes <u> x </u> No

State Awards

Internal control over state programs:		
Material weaknesses?	_____ Yes	<u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> x </u> No
Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>	

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings

No findings noted.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Section IV – State Award Findings and Questioned Costs

No findings noted.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017**

Section I – Financial Statement Findings

No findings noted.

Section II – Federal Award Findings and Questioned Costs

No findings noted.

Section III – State Award Findings and Questioned Costs

No findings noted.