

**SAN MATEO-FOSTER CITY
SCHOOL DISTRICT**

COUNTY OF SAN MATEO
FOSTER CITY, CALIFORNIA

AUDIT REPORT

JUNE 30, 2018



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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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, 2018, 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, 2018, 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.

Emphasis of a Matter

Deficit Net Position

As of June 30, 2018, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension and OPEB liabilities and deferrals as reported in Note 8. Our opinion is not modified with respect to this matter.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you-go basis. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

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 changes in total OPEB liability, 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, organization schedule, schedule of average daily attendance, schedule of instructional time offered, schedule of charter schools, schedule of financial trends and



analysis, schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the reconciliation of the Annual Financial Budget report to the audited financial statements, as required by the *2017-18 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, schedule of average daily attendance, schedule of instructional time offered, and the reconciliation of the Annual Financial Budget report to the audited financial statements are the responsibilities of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, schedule of average daily attendance, schedule of instructional time offered, and the reconciliation of the Annual Financial Budget report to the audited financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The organization schedule, schedule of charter schools and schedule of financial trends and analysis included have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018 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 LLP

December 10, 2018
San Jose, California

Management's Discussion and Analysis

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

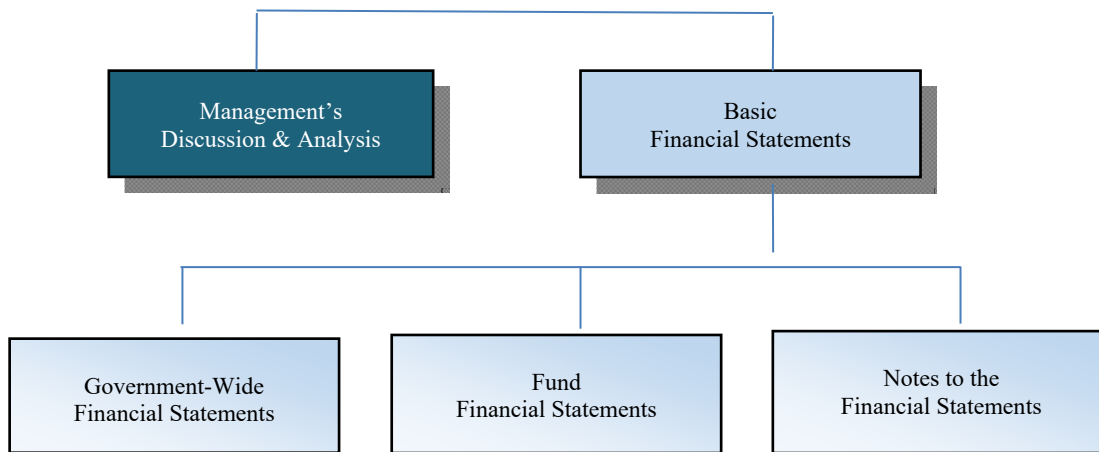
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018. 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, 2018 were as follows:

- Total net position decreased by \$57,061,225 (222%), which included a decrease in unrestricted net position of \$56,534,151, from June 30, 2017 to June 30, 2018. The decrease is mainly due to OPEB liabilities from the implementation of GASB 75.
- The District recorded deferred outflows of resources of \$44,858,556 and deferred inflows of resources of \$9,896,908 as required by GASB 68 and GASB 75 for pension and OPEB 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 \$173,795,161 in government-wide expenses which is 101% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$31,093,244, or 18.1%, of the total revenues of \$171,522,322.
- General revenue of \$140,429,078 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 81.9% of total revenues in 2018 versus 82.5% in 2017.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

- The fund balances of all governmental funds decreased by \$15,515,134, which is a 6.5% decrease from 2017.
- Total governmental fund revenues and expenditures totaled \$163,667,606 and \$179,942,740, 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, 2018

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 2017 - 2018?" 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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

information, such as cash flows. The District charges fees to help it cover the costs of certain services it 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, 2018 as compared to June 30, 2017:

Table 1 - Summary of Statement of Net Position						
Description	Governmental Activities			Business-type Activities		
	2018	2017	% Change	2018	2017	% Change
Assets						
Current and Other Assets	\$ 232,001,522	\$ 259,849,926	-10.7%	\$ 8,175,357	\$ 7,731,466	5.7%
Capital Assets	243,170,558	236,513,526	2.8%	-	-	0.0%
Total Assets	\$ 475,172,080	\$ 496,363,452	-4.3%	\$ 8,175,357	\$ 7,731,466	5.7%
Total Deferred Outflows of Resources	\$ 42,689,443	\$ 26,376,663	61.8%	\$ 2,169,113	\$ 2,113,841	2.6%
Liabilities						
Current Liabilities	\$ 12,250,509	\$ 24,766,896	-50.5%	\$ 400,915	\$ 397,337	0.9%
Long-term Liabilities	526,331,616	469,713,599	12.1%	10,675,083	5,817,687	83.5%
Total Liabilities	\$ 538,582,125	\$ 494,480,495	8.9%	\$ 11,075,998	\$ 6,215,024	78.2%
Total Deferred Inflows of Resources	\$ 9,532,458	\$ 5,458,586	74.6%	\$ 364,450	\$ 719,130	-49.3%
Net Position						
Net Investment in Capital Assets	\$ 81,050,502	\$ 72,222,115	12.2%	\$ -	\$ -	0.0%
Restricted	25,470,455	34,534,484	-26.2%	-	291,432	-100.0%
Unrestricted	(136,774,017)	(83,955,565)	-62.9%	(1,095,978)	2,619,721	-141.8%
Total Net Position	\$ (30,253,060)	\$ 22,801,034	-232.7%	\$ (1,095,978)	\$ 2,911,153	-137.6%

During the year, deferred outflows of resources increased by 57%, deferred inflows of resources increased by 60%, and long-term liabilities increased by 13% mostly because of changes in pension and OPEB amounts and actuarial assumptions related to GASB 68 and GASB 75, respectively. 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 and OPEB liabilities, deferred inflows and deferred outflows of resources to its business-type activities. As a result, there was a prior period adjustment for OPEB of \$3,545,803 and an ending long-term liabilities balance of \$10,675,083 for their net pension and OPEB liabilities, 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, 2018

Table 2 shows the changes in net position for fiscal year 2018 as compared to 2017:

Table 2 - Summary of Changes in Statement of Activities						
Description	Governmental Activities			Business-type Activities		
	2018	2017	%	2018	2017	%
			Change			Change
Revenues						
Program revenues	\$ 23,328,525	\$ 22,707,934	2.7%	\$ 7,764,719	\$ 6,699,876	15.9%
General revenues:						
Property taxes	121,985,205	120,292,399	1.4%	-	-	0.0%
Grants and entitlements, unrestricted	12,396,462	12,315,607	0.7%	-	-	0.0%
Other	6,717,416	6,470,305	3.8%	(670,005)	(183,443)	-265.2%
Total Revenues	164,427,608	161,786,245	1.6%	7,094,714	6,516,433	8.9%
Program Expenses						
Instruction	102,111,644	96,766,455	5.5%	-	-	0.0%
Instruction-related services	15,038,595	15,451,622	-2.7%	-	-	0.0%
Pupil services	12,109,054	11,614,235	4.3%	-	-	0.0%
General administration	8,771,821	8,079,443	8.6%	-	-	0.0%
Plant services	11,544,652	11,943,538	-3.3%	-	-	0.0%
Ancillary services	265,248	227,937	16.4%	-	-	0.0%
Other outgo	1,208,581	1,433,822	-15.7%	-	-	0.0%
Interest on long-term debt	15,189,524	15,676,820	-3.1%	-	-	0.0%
Enterprise	-	-	0.0%	7,556,042	6,220,761	21.5%
Total Expenses	166,239,119	161,193,872	3.1%	7,556,042	6,220,761	21.5%
Change in Net Position	(1,811,511)	592,373	-405.8%	(461,328)	295,672	-256.0%
Beginning Net Position	22,801,034	18,128,837	25.8%	2,911,153	6,836,988	-57.4%
Prior Period Adjustments - GASB 75	(51,242,583)	4,079,824	1356.0%	(3,545,803)	(4,221,507)	19.1%
Ending Net Position	\$ (30,253,060)	\$ 22,801,034	-232.7%	\$ (1,095,978)	\$ 2,911,153	-137.6%

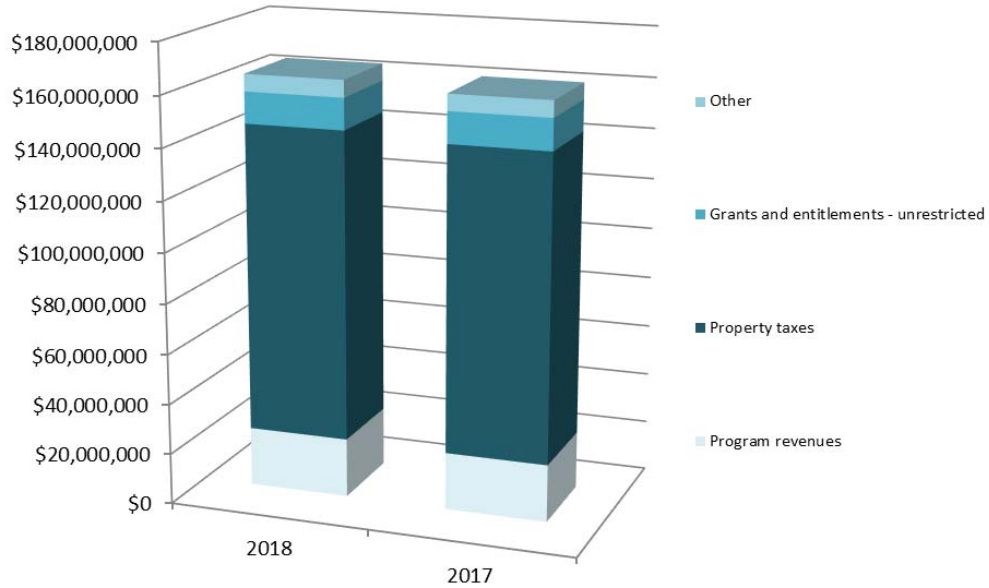
The District's expenses for instructional services was 67.4% of total expenses in both 2017-18 as compared to 67.0% in 2016-17. The purely administrative activities of the District accounted for 5.0% of total costs in 2017-18 as compared to 4.8% in 2016-17. Interest on long-term debt represented 8.7% of total expenses in 2017-18 as compared to 9.4% in 2016-17. Total expenses were 101% of revenue in 2017-18 versus 99% in 2016-17, which is reflected in the decrease in net position of \$2,272,839 in 2017-18 versus an increase in net position of \$888,045 in 2016-17. In regard to revenue, program revenues were 18.1% of total revenues in 2017-18 and 17.5% of total revenues in 2016-17.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

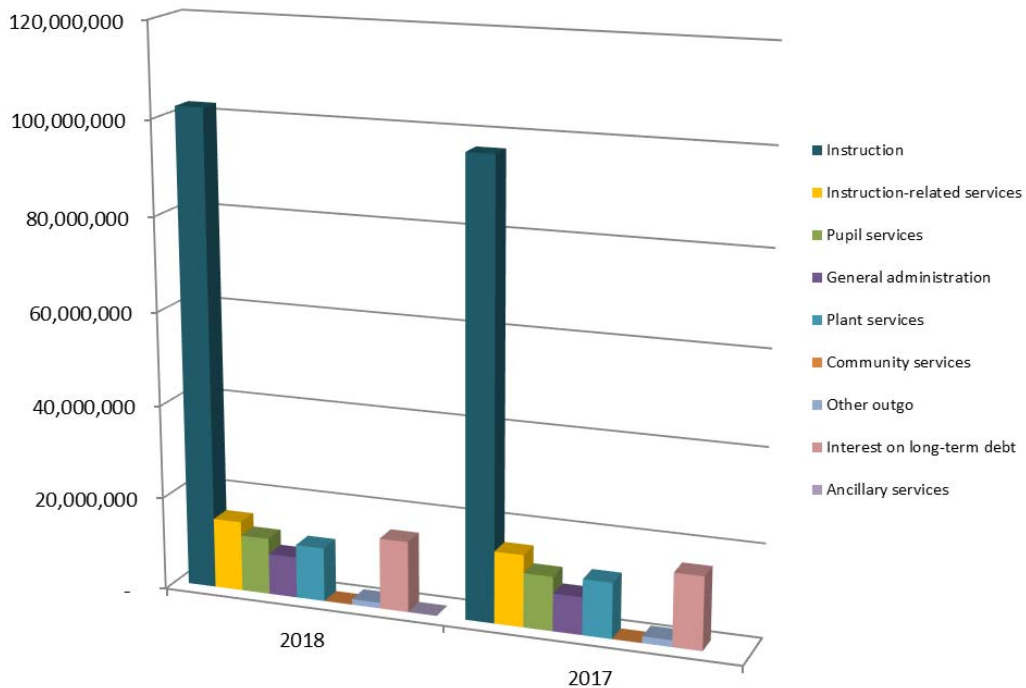
The following is a summary of government wide revenues for the fiscal year ended June 30, 2018:

Gov't Wide Revenues



The following is a summary of expenses by function for the fiscal year ended June 30, 2018:

Gov't Wide Program Expenses



SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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	2018	2017	Change	%	Change
Instruction	\$ 90,747,289	\$ 83,803,433	\$ 6,943,856		8.3%
Instruction-related services	13,677,780	14,020,250	(342,470)		-2.4%
Pupil services	8,789,672	8,112,343	677,329		8.3%
General administration	8,263,973	7,649,213	614,760		8.0%
Plant services	11,436,286	11,747,258	(310,972)		-2.6%
Ancillary services	215,259	182,903	32,356		17.7%
Other outgo	(5,409,189)	(2,706,282)	(2,702,907)		-50.0%
Interest on long-term debt	15,189,524	15,676,820	(487,296)		-3.1%
Total Net Cost of Services	\$ 142,910,594	\$ 138,485,938	\$ 4,424,656		3.2%

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	2018	2017	Change	%	Change
General Fund	\$ 73,491,976	\$ 84,431,404	\$ (10,939,428)		-13.0%
Building Fund	114,099,455	123,766,106	(9,666,651)		-7.8%
Bond Interest and Redemption Fund	19,724,443	21,455,693	(1,731,250)		-8.1%
Nonmajor Funds	16,602,022	9,779,827	6,822,195		69.8%
Total Fund Balances	\$ 223,917,896	\$ 239,433,030	\$ (15,515,134)		-6.5%

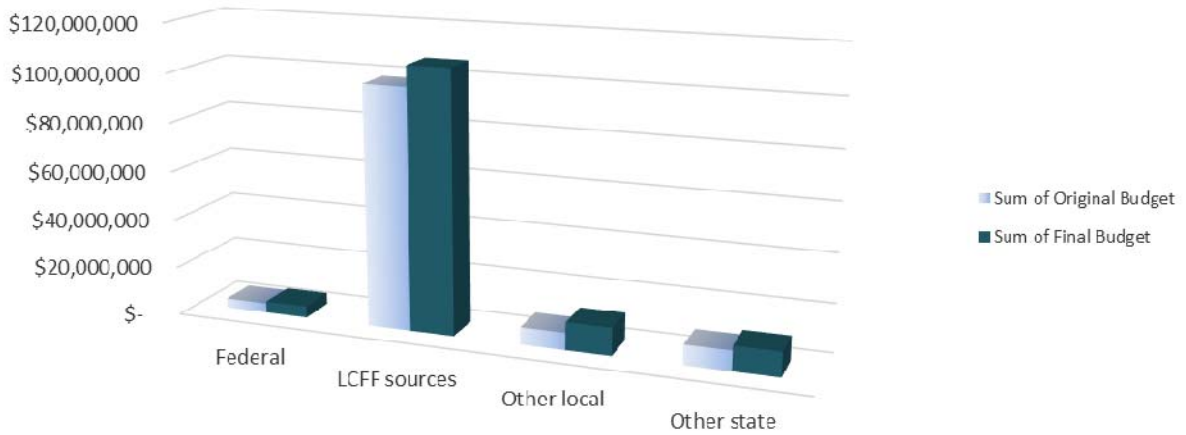
SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

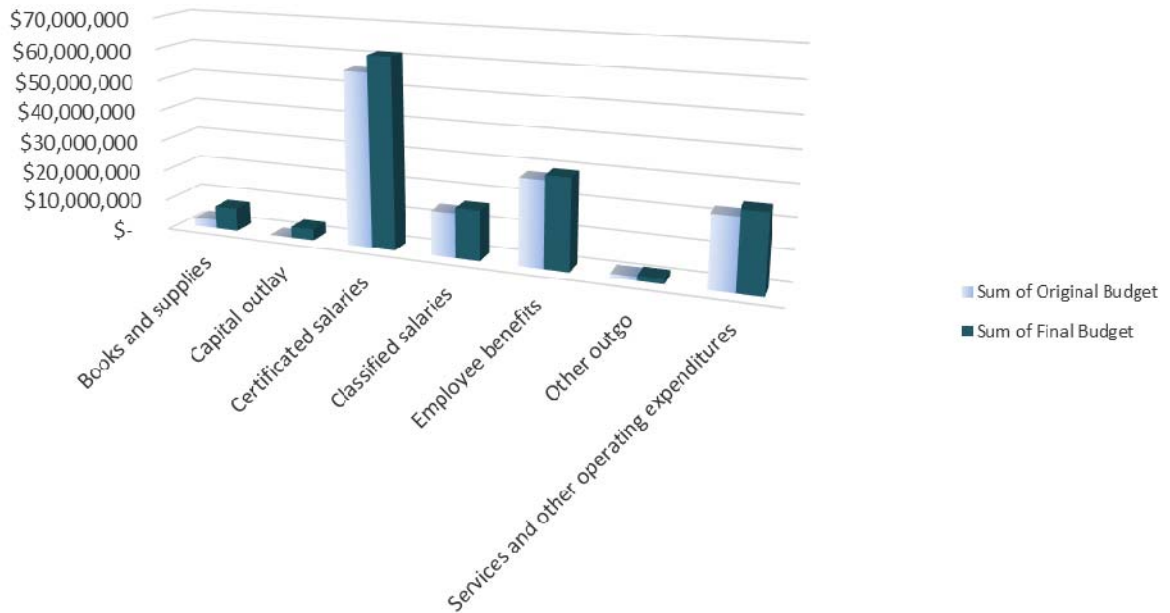
FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2017-18 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.

General Fund Budgeted Revenues



General Fund Budgeted Expenditures



SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSETS

Table 5 shows June 30, 2018 balances as compared to June 30, 2017.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2018	2017	Change	% Change
Land	\$ 11,996,895	\$ 11,996,895	\$ -	0.00%
Work-in-Progress	43,113,862	28,189,747	14,924,115	52.94%
Site Improvements	6,772,566	7,633,247	(860,681)	-11.28%
Buildings	176,459,870	183,477,471	(7,017,601)	-3.82%
Furniture and Equipment	4,827,365	5,216,166	(388,801)	-7.45%
Total Capital Assets - Net	\$ 243,170,558	\$ 236,513,526	\$ 6,657,032	2.81%

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	2018	2017	Change	% Change
Bonds	\$ 335,509,439	\$ 343,974,023	\$ (8,464,584)	-2.46%
Net OPEB Liabilities	68,903,581	12,753,494	56,150,087	440.27%
Compensated Absences	454,694	542,294	(87,600)	-16.15%
Net Pension Liabilities	132,138,985	118,261,475	13,877,510	11.73%
Total Long-term Liabilities	\$ 537,006,699	\$ 475,531,286	\$ 61,475,413	12.93%

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.

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 eighth year of expansion, lasting three 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.

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

any additional revenue as one-time funds and not commit these funds to ongoing expenditures. The District maintains a minimum unassigned fund balance of not less than 10 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 aid districts are vulnerable.

The District's Measure A parcel tax expired June 30, 2017. This represented a loss of \$7 million in revenue which began in the 2017-18 fiscal year. A Fiscal Advisory Committee was formed, and Town Hall meetings were 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. In November of 2018, the Measure V parcel tax passed, which will provide a consistent and reliable source of revenue generating approximately \$10 million annually for 9 years to support the following:

- Attracting and retaining excellent teachers and staff
- Providing outstanding reading, writing, math and science programs
- Enhancing programs including science, technology, engineering and math
- Supporting art, drama and music programs

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.

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Basic Financial Statements

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 227,186,038	\$ 8,276,077	\$ 235,462,115
Accounts receivable	4,347,992	66,288	4,414,280
Other assets	278,512	21,972	300,484
Internal balances	188,980	(188,980)	-
Total current assets	<u>232,001,522</u>	<u>8,175,357</u>	<u>240,176,879</u>
Noncurrent assets:			
Non-depreciable capital assets	55,110,757	-	55,110,757
Depreciable capital assets - net	188,059,801	-	188,059,801
Total noncurrent assets	<u>243,170,558</u>	<u>-</u>	<u>243,170,558</u>
Total Assets	<u>\$ 475,172,080</u>	<u>\$ 8,175,357</u>	<u>\$ 483,347,437</u>
Deferred Outflows of Resources			
OPEB adjustments	\$ 1,879,761	\$ 107,489	\$ 1,987,250
Pension adjustments	38,011,655	2,061,624	40,073,279
Deferred loss on early retirement of debt	2,798,027	-	2,798,027
Total Deferred Outflows of Resources	<u>\$ 42,689,443</u>	<u>\$ 2,169,113</u>	<u>\$ 44,858,556</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 7,605,106	\$ 80,128	\$ 7,685,234
Unearned revenue	478,520	320,787	799,307
Accrued interest	4,166,883	-	4,166,883
Total current liabilities	<u>12,250,509</u>	<u>400,915</u>	<u>12,651,424</u>
Long-term liabilities:			
Due within one year	12,695,373	-	12,695,373
Due after one year	513,636,243	10,675,083	524,311,326
Total long-term liabilities	<u>526,331,616</u>	<u>10,675,083</u>	<u>537,006,699</u>
Total Liabilities	<u>\$ 538,582,125</u>	<u>\$ 11,075,998</u>	<u>\$ 549,658,123</u>
Deferred Outflows of Resources			
OPEB adjustments	\$ 4,345,546	\$ 248,488	\$ 4,594,034
Pension adjustments	5,186,912	115,962	5,302,874
Total Deferred Inflows of Resources	<u>\$ 9,532,458</u>	<u>\$ 364,450</u>	<u>\$ 9,896,908</u>
Net Position			
Net investment in capital assets	\$ 81,050,502	\$ -	\$ 81,050,502
Restricted for:			
Capital projects	11,097,954	-	11,097,954
Parcel tax	2,300,000	-	2,300,000
Cafeteria programs	1,943,139	-	1,943,139
Educational programs	10,129,362	-	10,129,362
Total restricted net position	<u>25,470,455</u>	<u>-</u>	<u>25,470,455</u>
Unrestricted	<u>(136,774,017)</u>	<u>(1,095,978)</u>	<u>(137,869,995)</u>
Total Net Position	<u>\$ (30,253,060)</u>	<u>\$ (1,095,978)</u>	<u>\$ (31,349,038)</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, 2018**

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	\$ 102,111,644	\$ 140,543	\$ 11,223,812	\$ (90,747,289)	\$ -	\$ (90,747,289)
Instruction-related services:						
Supervision of instruction	3,682,109	214	392,520	(3,289,375)	-	(3,289,375)
Instruction library, media and technology	1,109,934	8,497	166,199	(935,238)	-	(935,238)
School site administration	10,246,552	12,777	780,608	(9,453,167)	-	(9,453,167)
Pupil services:						
Home-to-school transportation	3,074,524	95	10,024	(3,064,405)	-	(3,064,405)
Food services	3,181,698	554,622	1,979,313	(647,763)	-	(647,763)
All other pupil services	5,852,832	5,139	770,189	(5,077,504)	-	(5,077,504)
General administration:						
Data processing	1,598,090	326	5,522	(1,592,242)	-	(1,592,242)
All other general administration	7,173,731	32,389	469,611	(6,671,731)	-	(6,671,731)
Plant services	11,544,652	4,427	103,939	(11,436,286)	-	(11,436,286)
Ancillary services	265,248	2,628	47,361	(215,259)	-	(215,259)
Payments to other agencies	1,208,581	368,904	6,248,866	5,409,189	-	5,409,189
Interest on long-term debt	15,189,524	-	-	(15,189,524)	-	(15,189,524)
Total governmental activities	\$ 166,239,119	\$ 1,130,561	\$ 22,197,964	(142,910,594)	-	(142,910,594)
Business-type activities:						
The Children's Annex	5,103,838	5,643,430	-	-	539,592	539,592
Fee based preschool program	2,274,444	1,987,256	-	-	(287,188)	(287,188)
Bayside Theatre	177,760	134,033	-	-	(43,727)	(43,727)
Total business-type activities	\$ 7,556,042	\$ 7,764,719	\$ -	-	208,677	208,677
General revenues and transfers:						
Taxes and subventions:						
Taxes levied for general purposes				97,553,838	-	97,553,838
Taxes levied for debt service				20,764,352	-	20,764,352
Taxes levied for other specific purposes				3,667,015	-	3,667,015
Federal and state aid non restricted to specific purposes				12,396,462	-	12,396,462
Interest and investment earnings				1,846,687	89,995	1,936,682
Miscellaneous				4,110,729	-	4,110,729
Internal transfers				760,000	(760,000)	-
Total general revenues and transfers				141,099,083	(670,005)	140,429,078
Change in net position				(1,811,511)	(461,328)	(2,272,839)
Prior period adjustment - GASB 75				(51,242,583)	(3,545,803)	(54,788,386)
Net position beginning				22,801,034	2,911,153	25,712,187
Net position ending				\$ (30,253,060)	\$ (1,095,978)	\$ (31,349,038)

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, 2018**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 77,460,642	\$ 115,788,619	\$ 19,649,644	\$ 14,287,133	\$ 227,186,038
Accounts receivable	2,884,498	510,814	74,799	877,881	4,347,992
Due from other funds	252,426	-	-	1,878,881	2,131,307
Other assets	202,071	-	-	76,441	278,512
Total Assets	\$ 80,799,637	\$ 116,299,433	\$ 19,724,443	\$ 17,120,336	\$ 233,943,849
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 5,359,189	\$ 2,199,958	\$ -	\$ 45,959	\$ 7,605,106
Due to other funds	1,690,392	20	-	251,915	1,942,327
Unearned revenue	258,080	-	-	220,440	478,520
Total Liabilities	7,307,661	2,199,978	-	518,314	10,025,953
Fund balances:					
Nonspendable:					
Revolving fund	35,000	-	-	-	35,000
Stores inventory	-	-	-	59,858	59,858
Prepaid expenses	202,071	-	-	16,583	218,654
Restricted for:					
Parcel tax	2,300,000	-	-	-	2,300,000
Cafeteria programs	-	-	-	1,943,139	1,943,139
Capital projects	-	114,099,455	-	11,097,954	125,197,409
Educational programs	10,024,551	-	-	-	10,024,551
Legally restricted balances	-	-	-	104,811	104,811
Debt service	-	-	19,724,443	-	19,724,443
Assigned for:					
Cafeteria programs	-	-	-	644,885	644,885
Vacation	500,000	-	-	-	500,000
Supplemental	1,831,972	-	-	-	1,831,972
One-time basic aid	6,478,930	-	-	-	6,478,930
Balance of deficit gap	1,233,329	-	-	-	1,233,329
Emergency infrastructure repairs	5,000,000	-	-	-	5,000,000
Payroll reserves	9,000,000	-	-	-	9,000,000
Deferred maintenance projects	3,231,807	-	-	-	3,231,807
Flood insurance deductible	496,067	-	-	-	496,067
Retiree benefits	22,910,368	-	-	-	22,910,368
Capital projects	-	-	-	2,442,634	2,442,634
Educational programs	-	-	-	292,158	292,158
Unassigned:					
Economic uncertainties	8,987,631	-	-	-	8,987,631
Unappropriated	1,260,250	-	-	-	1,260,250
Total Fund Balances	73,491,976	114,099,455	19,724,443	16,602,022	223,917,896
Total Liabilities and Fund Balances	\$ 80,799,637	\$ 116,299,433	\$ 19,724,443	\$ 17,120,336	\$ 233,943,849

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, 2018**

Total fund balances - governmental funds \$ 223,917,896

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	\$ 357,959,087	
Accumulated depreciation	<u>(114,788,529)</u>	243,170,558

The differences from pension plan assumptions in actuarial valuations are 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. (5,186,912)

Deferred outflows of resources include amounts that will not be included in the calculation of the District's net pension liability of the plan year included in this report such as current fiscal year contributions as recorded in the fund statements. 38,011,655

The differences between projected and actual amounts in OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows:

OPEB adjustments:		
Contributions subsequent to the measurement date	\$ 1,879,761	
Change in assumptions	<u>(4,345,546)</u>	(2,465,785)

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds. (4,166,883)

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	\$ 335,509,439	
Loss on early retirement of long-term debt	(2,798,027)	
Net pension obligations	125,190,850	
Net OPEB liability	65,176,633	
Compensated absences (vacation)	<u>454,694</u>	<u>(523,533,589)</u>

Total net position - governmental activities \$ (30,253,060)

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, 2018**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	\$ 107,688,449	\$ -	\$ -	\$ -	\$ 107,688,449
Federal revenue	3,857,743	-	-	2,045,464	5,903,207
Other state	9,979,680	-	85,850	1,788,608	11,854,138
Other local	12,882,050	1,736,384	21,460,520	2,142,858	38,221,812
Total revenues	134,407,922	1,736,384	21,546,370	5,976,930	163,667,606
Expenditures:					
Current					
Instruction	93,387,172	-	-	1,260,962	94,648,134
Instruction-related services:					
Supervision of instruction	3,652,497	-	-	246	3,652,743
Instruction library, media and technology	1,101,082	-	-	-	1,101,082
School site administration	9,775,224	-	-	389,607	10,164,831
Pupil services:					
Home-to-school transportation	2,918,595	-	-	-	2,918,595
Food services	85	-	-	3,129,529	3,129,614
All other pupil services	5,806,153	-	-	-	5,806,153
General administration:					
Data processing	1,585,345	-	-	-	1,585,345
All other general administration	6,238,085	-	-	251,806	6,489,891
Plant services	10,400,032	-	-	284,126	10,684,158
Facilities acquisition and construction	3,005,224	11,403,035	-	604,602	15,012,861
Ancillary services	263,132	-	-	-	263,132
Payments to other agencies	1,208,581	-	-	-	1,208,581
Debt service:					
Principal	-	-	12,891,558	-	12,891,558
Interest and fees	-	-	10,386,062	-	10,386,062
Total expenditures	139,341,207	11,403,035	23,277,620	5,920,878	179,942,740
Excess (deficiency) of revenues over (under) expenditures	(4,933,285)	(9,666,651)	(1,731,250)	56,052	(16,275,134)
Other financing sources (uses):					
Transfers in	760,000	-	-	6,766,143	7,526,143
Transfers out	(6,766,143)	-	-	-	(6,766,143)
Total other financing sources (uses)	(6,006,143)	-	-	6,766,143	760,000
Net changes in fund balances	(10,939,428)	(9,666,651)	(1,731,250)	6,822,195	(15,515,134)
Fund balances beginning	84,431,404	123,766,106	21,455,693	9,779,827	239,433,030
Fund balances ending	<u>\$ 73,491,976</u>	<u>\$ 114,099,455</u>	<u>\$ 19,724,443</u>	<u>\$ 16,602,022</u>	<u>\$ 223,917,896</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 STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total net change in fund balances - governmental funds \$ (15,515,134)

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	\$ 15,197,227	
Depreciation expense	<u>(8,540,195)</u>	6,657,032

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. (5,688,283)

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		12,891,558
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

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: 87,600

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. 2,517,236

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. (3,646,341)

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. 183,117

Changes in net position of governmental activities \$ (1,811,511)

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, 2018

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Assets				
Cash and investments	\$ 5,586,184	\$ 2,437,362	\$ 252,531	\$ 8,276,077
Accounts receivable	49,603	2,300	14,385	66,288
Due from other funds	1,189	-	-	1,189
Other assets	20,172	1,800	-	21,972
Total Assets	<u>\$ 5,657,148</u>	<u>\$ 2,441,462</u>	<u>\$ 266,916</u>	<u>\$ 8,365,526</u>
Deferred Outflows of Resources				
OPEB Adjustments	\$ 74,088	\$ 31,494	\$ 1,907	\$ 107,489
Pension adjustments	1,420,986	604,053	36,585	2,061,624
Total Deferred Outflows of Resources	<u>\$ 1,495,074</u>	<u>\$ 635,547</u>	<u>\$ 38,492</u>	<u>\$ 2,169,113</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 37,324	\$ 35,673	\$ 7,131	\$ 80,128
Due to other funds	10,962	179,207	-	190,169
Unearned revenue	115,002	205,785	-	320,787
Total current liabilities	163,288	420,665	7,131	591,084
Long-term liabilities:				
Net OPEB liabilities	2,568,820	1,091,991	66,137	3,726,948
Net pension obligations	4,789,041	2,035,795	123,299	6,948,135
Total long-term liabilities	7,357,861	3,127,786	189,436	10,675,083
Total Liabilities	<u>\$ 7,521,149</u>	<u>\$ 3,548,451</u>	<u>\$ 196,567</u>	<u>\$ 11,266,167</u>
Deferred Inflows of Resources				
OPEB Adjustments	\$ 171,271	\$ 72,807	\$ 4,410	\$ 248,488
Pension adjustments	79,927	33,977	2,058	115,962
Total Deferred Inflows of Resources	<u>\$ 251,198</u>	<u>\$ 106,784</u>	<u>\$ 6,468</u>	<u>\$ 364,450</u>
Net Position				
Unrestricted	\$ (620,125)	\$ (578,226)	\$ 102,373	\$ (1,095,978)
Total Net Position	<u>\$ (620,125)</u>	<u>\$ (578,226)</u>	<u>\$ 102,373</u>	<u>\$ (1,095,978)</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, 2018**

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Operating Revenues				
Local revenue	\$ 5,643,430	\$ 1,987,256	\$ 134,033	\$ 7,764,719
Operating Expenses				
Certificated salaries	390,873	228,482	1,375	620,730
Classified salaries	2,661,192	1,105,014	92,501	3,858,707
Employee benefits	1,776,236	755,068	45,732	2,577,036
Books and supplies	197,728	24,238	3,032	224,998
Services and other operating expenses	77,809	161,642	35,120	274,571
Total Operating Expenses	<u>5,103,838</u>	<u>2,274,444</u>	<u>177,760</u>	<u>7,556,042</u>
Operating Income (Loss)	539,592	(287,188)	(43,727)	208,677
Nonoperating Revenues (Expenses):				
Interest income	89,995	-	-	89,995
Income Before Transfers	<u>629,587</u>	<u>(287,188)</u>	<u>(43,727)</u>	<u>298,672</u>
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	<u>(500,000)</u>	<u>(250,000)</u>	<u>(10,000)</u>	<u>(760,000)</u>
Change in Net Position	129,587	(537,188)	(53,727)	(461,328)
Prior Period Adjustments - GASB 75	(2,378,294)	(1,107,436)	(60,073)	(3,545,803)
Beginning Net Position	<u>1,628,582</u>	<u>1,066,398</u>	<u>216,173</u>	<u>2,911,153</u>
Ending Net Position	<u><u>\$ (620,125)</u></u>	<u><u>\$ (578,226)</u></u>	<u><u>\$ 102,373</u></u>	<u><u>\$ (1,095,978)</u></u>

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, 2018

	The Children's Annex	Fee Based Preschool Program	Bayside Theatre	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 5,620,073	\$ 1,993,011	\$ 141,917	\$ 7,755,001
Payments to employees	(4,255,197)	(1,567,740)	(123,805)	(5,946,742)
Payments to vendors	(261,408)	(218,361)	(37,198)	(516,967)
Net cash provided by (used for) operating activities	<u>1,103,468</u>	<u>206,910</u>	<u>(19,086)</u>	<u>1,291,292</u>
Cash Flows from Noncapital Financing Activities				
Transfer out	(500,000)	(250,000)	(10,000)	(760,000)
Net cash provided by (used for) noncapital financing activities	<u>(500,000)</u>	<u>(250,000)</u>	<u>(10,000)</u>	<u>(760,000)</u>
Cash Flows from Investing Activities				
Interest income	89,995	-	-	89,995
Increase in Cash and Cash Equivalents	693,463	(43,090)	(29,086)	621,287
Cash and Cash Equivalents - Beginning	4,892,721	2,480,452	281,617	7,654,790
Cash and Cash Equivalents - Ending	<u>\$ 5,586,184</u>	<u>\$ 2,437,362</u>	<u>\$ 252,531</u>	<u>\$ 8,276,077</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 539,592	\$ (287,188)	\$ (43,727)	\$ 208,677
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Decrease (increase) in operating assets				
Accounts receivable	(29,634)	(2,300)	8,884	(23,050)
Due from other funds	(877)	81,269	-	80,392
Other assets	(5,844)	(1,800)	-	(7,644)
Deferred outflows of resources	(6,713)	(48,940)	381	(55,272)
Increase (decrease) in operating liabilities				
Accounts payable	19,973	(30,681)	954	(9,754)
Due to other funds	(47,481)	175,378	(199)	127,698
Unearned revenue	6,277	8,055	(1,000)	13,332
Deferred inflows of resources	(255,143)	(92,780)	(6,757)	(354,680)
Net OPEB liabilities	190,526	(15,445)	6,064	181,145
Net pension obligations	692,792	421,342	16,314	1,130,448
Net cash provided by operating activities	<u>\$ 1,103,468</u>	<u>\$ 206,910</u>	<u>\$ (19,086)</u>	<u>\$ 1,291,292</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, 2018**

	Foundation Agency Fund	Student Body Agency Fund	Total
Assets			
Cash	\$ 129,289	\$ 26,137	\$ 155,426
Accounts receivable	630	109	739
Total Assets	\$ 129,919	\$ 26,246	\$ 156,165
Liabilities			
Due to student groups	\$ 129,919	26,246	\$ 156,165
Total Liabilities	\$ 129,919	\$ 26,246	\$ 156,165

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, 2018**

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, 2018, 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 to better identify the relationship between the government-wide statements and the statements for the governmental funds.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply.

The sources of authoritative GAAP are categorized in descending order of authority as follows:

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

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

Deferred Outflow of Resources and Deferred Inflow of Resources:

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding which is reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the net pension and OPEB liabilities reported in the Statement of Net Position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension and OPEB liabilities reported in the Statement of Net Position.

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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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 Deferred Maintenance Fund, 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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).
- 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 Academy 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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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. Benefit Plans

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, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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. 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. 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,

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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.

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of \$54,788,386 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

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. This statement did not have an impact on the District's financial statements.

K. Upcoming Accounting and Reporting Changes

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 issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021.

The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. 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. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged.

The District doesn't believe this statement will have a significant impact on the District's financial statements.

NOTE 2 - CASH AND INVESTMENTS

The following summarizes cash and investments as of June 30, 2018:

Description	Carrying Amount	Fair Value	Investment Rating
Governmental Activities:			
Cash in county treasury investment pool	\$ 224,723,867	\$ 223,708,115	AA
Cash in revolving fund	35,000	35,000	Not Rated
Cash on hand and in banks	2,221,758	2,221,758	Not Rated
Cash with fiscal agent	204,124	203,201	AA
Total Cash Deposits	227,184,749	226,168,074	
Investments:			
California Local Agency Investment Fund	1,289	1,287	N/A
Total Investments	1,289	1,287	
Total Governmental Cash and Investments	227,186,038	226,169,361	
Business-Type Activities:			
Cash in county treasury investment pool	7,732,144	7,697,195	AA
Cash in revolving fund	10,000	10,000	Not Rated
Cash on hand and in banks	533,933	533,933	Not Rated
Total Business-Type Cash and Investments	8,276,077	8,241,128	
Total Government-Wide Cash and Investments	\$ 235,462,115	\$ 234,410,489	
Fiduciary Activities:			
Cash in county treasury investment pool	\$ 155,426	\$ 154,723	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, 2018, the bank balance of the District's accounts with banks was \$2,715,866, which exceeded FDIC limits by \$2,465,866.

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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.

Fair Value Measurements

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

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

The District has the following recurring fair value measurements as of June 30, 2018:

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

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 \$1.468 billion and an amortized book value of \$1.475 billion.

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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 AA by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having 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, 2018:

	Governmental Activities				Business-type Activities			Total
	General Fund	Building Fund	Bond Interest & Redemption Fund	Other Nonmajor Funds	The Children's Annex	Fee-Based Preschool Program	Bayside Theatre	
Receivables								
Federal Government	\$ 541,920	\$ -	\$ -	\$ 370,908	\$ -	\$ -	\$ -	\$ 912,828
State Government	1,511,139	-	-	205,510	-	-	-	1,716,649
Other Local Resources	237,352	311,760	-	121	-	-	-	549,233
All Other Resources	594,087	199,054	74,799	301,342	49,603	2,300	14,385	1,235,570
Total Accounts Receivable	<u>\$ 2,884,498</u>	<u>\$ 510,814</u>	<u>\$ 74,799</u>	<u>\$ 877,881</u>	<u>\$ 49,603</u>	<u>\$ 2,300</u>	<u>\$ 14,385</u>	<u>\$ 4,414,280</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, 2018, the District interfund payables and receivables consisted of the following:

Fund	Due From	Due To
General Fund	\$ 252,426	\$ 1,690,392
Building Fund	-	20
The Children's Annex Fund	1,189	10,962
Fee Based Preschool Fund	-	179,207
Nonmajor Governmental Funds	1,878,881	251,915
Totals	<u>\$ 2,132,496</u>	<u>\$ 2,132,496</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, 2018, the District interfund transfers consisted of the following:

Fund	Transfers In	Transfers Out
General Fund	\$ 760,000	\$ 6,766,143
The Children's Annex Fund	-	500,000
Fee Based Preschool Fund	-	250,000
Bayside Theatre Fund	-	10,000
Nonmajor Governmental Funds	6,766,143	-
Totals	<u>\$ 7,526,143</u>	<u>\$ 7,526,143</u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

The following summarizes the changes in capital assets for the year ended June 30, 2018:

Capital Assets	Balance July 01, 2017	Additions	Adjustments & Deletions	Balance June 30, 2018
Land - not depreciable	\$ 11,996,895	\$ -	\$ -	\$ 11,996,895
Work-in-progress - not depreciable	28,189,747	15,197,227	(273,112)	43,113,862
Site improvements	19,725,017	-	-	19,725,017
Buildings and improvements	272,081,942	42,355	-	272,124,297
Furniture and equipment	10,768,259	230,757	-	10,999,016
Total capital assets	342,761,860	15,470,339	(273,112)	357,959,087
Less accumulated depreciation for:				
Site improvements	12,091,770	860,681	-	12,952,451
Buildings and improvements	88,604,471	7,059,956	-	95,664,427
Furniture and equipment	5,552,093	619,558	-	6,171,651
Total accumulated depreciation	106,248,334	8,540,195	-	114,788,529
Total capital assets - net depreciation	<u>\$ 236,513,526</u>	<u>\$ 6,930,144</u>	<u>\$ (273,112)</u>	<u>\$ 243,170,558</u>

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Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 6,790,180
Home-to-school transportation	132,464
Food services	26,923
All other general administration	631,664
Plant services	958,964
Total depreciation expense	\$ 8,540,195

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, 2018:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Bonds	\$ 343,974,023	\$ 5,774,977	\$ 14,239,561	\$ 335,509,439	\$ 12,468,026
Net OPEB liabilities	12,753,494	64,722,579	8,572,492	68,903,581	-
Compensated Absences	542,294	-	87,600	454,694	227,347
Net Pension Liabilities	118,261,475	68,391,525	54,514,015	132,138,985	-
Total Long-term Debt	\$ 475,531,286	\$ 138,889,081	\$ 77,413,668	\$ 537,006,699	\$ 12,695,373

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

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modernization of school facilities. This issue of the Bonds 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 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, 2018:

Description	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 01, 2017	Issued	Redeemed	Outstanding June 30, 2018
Principle Bonds:							
Revenue Bond, Series 2005	8/15/2023	3.0-5.5%	\$ 79,975,000	18,553,675	\$ -	\$ 4,430,839	\$ 14,122,836
GO Bonds 2008, Series A	8/1/2042	2.95-6.625%	54,999,413	54,940,827	-	60,719	54,880,108
GO Bonds 2008, Series Q	8/1/2026	6%	25,000,000	24,765,000	-	280,000	24,485,000
2012 GO Refunding Bonds	9/1/2020	2.0-5.0%	14,700,000	7,880,000	-	1,840,000	6,040,000
GO Bonds 2008, Series C	8/1/2039	2.0-5.0%	35,000,000	27,595,000	-	1,685,000	25,910,000
2014 GO Refunding Bonds	8/1/2026	5%	2,080,000	2,080,000	-	-	2,080,000
2015 GO Refunding Bonds	8/1/2023	3.0-5.0%	27,875,000	27,470,000	-	-	27,470,000
GO Bonds 2008, Series D	8/1/2044	2.0-5.0%	60,000,000	60,000,000	-	300,000	59,700,000
GO Bonds 2015, Series A	8/1/2045	2.0-5.0%	74,000,000	74,000,000	-	4,295,000	69,705,000
Subtotal General Obligation Bonds			373,629,413	297,284,502	-	12,891,558	284,392,944
Accreted Interest:							
GO Bonds 2008, Series A			-	31,153,974	5,774,977	86,694	36,842,257
Unamortized Bond Premium			21,518,897	15,535,547	-	1,261,309	14,274,238
Total Bond Related Debt			<u>\$ 395,148,310</u>	<u>\$ 343,974,023</u>	<u>\$ 5,774,977</u>	<u>\$ 14,239,561</u>	<u>\$ 335,509,439</u>

The following is a summary of the District's annual debt service requirements as of June 30, 2018:

Year Ending June 30	Principal	Interest	Total
2019	\$ 12,468,026	\$ 9,936,679	\$ 22,404,705
2020	12,983,081	9,419,945	22,403,026
2021	11,593,474	8,901,140	20,494,614
2022	12,852,733	8,329,571	21,182,304
2023	14,103,718	7,780,790	21,884,508
2024-2028	43,335,859	51,333,390	94,669,249
2029-2033	18,788,741	80,857,248	99,645,989
2034-2038	35,263,767	87,244,383	122,508,150
2039-2043	62,583,543	80,907,159	143,490,702
2044-2047	60,420,000	2,637,000	63,057,000
Total Debt Service	<u>\$ 284,392,942</u>	<u>\$ 347,347,305</u>	<u>\$ 631,740,247</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, 2018, are summarized as follows:

	CalPERS	
	Classic	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	7.0%	6.0%
Required employer contribution rates	15.531%	15.531%

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, 2018, the District's contributions were \$3,359,129.

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

As of June 30, 2018, 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/(Asset)
CalPERS	\$ 36,885,615

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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2017 and 2018 was as follows:

	CalPERS
Proportion - June 30, 2017	0.16070%
Proportion - June 30, 2018	0.15451%
Change - Increase/(Decrease)	-0.00619%

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For the year ended June 30, 2018, the District recognized pension expense of \$6,478,375 for the Plan.

At June 30, 2018, 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
Changes of Assumptions	\$ 4,953,442	\$ -
Differences between Expected and Actual Experience	1,321,460	-
Differences between Projected and Actual Investment Earnings	1,275,990	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	5,877
Change in Employer's Proportion	-	486,140
Pension Contributions Made Subsequent to Measurement Date	3,359,129	-
Total	\$ 10,910,021	\$ 492,017

The District reported \$3,359,129 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, 2019.

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 June 30:	Outflows/(Inflows) of Resources CalPERS
2019	\$ 1,959,253
2020	3,518,569
2021	2,279,785
2022	(698,732)
2023	-
Thereafter	-
Total	\$ 7,058,875

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
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

Discount Rate - The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical 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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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 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:

	CalPERS
1% Decrease	6.15%
Net Pension Liability \$	54,270,560
Current	7.15%
Net Pension Liability \$	36,885,615
1% Increase	8.15%
Net Pension Liability \$	22,463,348

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

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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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, 2018, are summarized as follows:

	CalSTRS	
	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	60	62
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%

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, 2018, the District's contributions were as follows:

	CalSTRS
Employer Contributions	\$ 8,612,908
State Contributions	959,655
Total	<u>\$ 9,572,563</u>

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

As of June 30, 2018, 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/(Asset)
District	\$ 95,253,370
State	35,405,678
Total	<u>\$ 130,659,048</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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The state contributed 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

	CalSTRS
Proportion - June 30, 2017	0.10700%
Proportion - June 30, 2018	0.10300%
Change - Increase/(Decrease)	-0.00400%

For the year ended June 30, 2018, the District recognized pension expense of \$3,555,923 for the Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 17,646,990	\$ -
Differences between Expected and Actual Experience	-	1,309,130
Differences between Projected and Actual Investment Earnings	-	2,536,890
Differences between Employer's Contributions and Proportionate Share of Contributions	2,903,361	-
Change in Employer's Proportion	-	964,837
Pension Contributions Made Subsequent to Measurement Date	8,612,908	-
Total	\$ 29,163,259	\$ 4,810,857

The District reported \$8,612,908 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Outflows/(Inflows) of Resources
Fiscal Year Ending June 30:	CalSTRS
2019	\$ 1,011,731
2020	4,717,156
2021	3,351,376
2022	866,501
2023	2,755,476
Thereafter	3,037,254
Total	\$ 15,739,494

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

- (1) Varies by age and service. Approximately 6% average over career including inflation
- (2) Net of pension plan investment expenses and administrative expenses, including inflation
- (3) Derived using CalSTRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed 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 (7.10 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.

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 ⁽¹⁾
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return / Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	100.00%	

⁽¹⁾ 20 year average

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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:

	CalSTRS
1% Decrease	6.10%
Net Pension Liability	\$ 139,863,700
Current	7.10%
Net Pension Liability	\$ 95,253,370
1% Increase	8.10%
Net Pension Liability	\$ 59,050,930

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

C. Postemployment Benefits Other Than Pension Benefits

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.

Benefits

Certificated employees who retire after age 50 with at least 5 years of service will be paid the PEMHCA minimum benefit for as long as the retiree lives. This amount, per month, at the time that the employee retires, remain unchanged for life. Before age 65, the PEMHCA minimum benefit is paid whether the retired employee is enrolled in a PERS medical plan or not. After age 65, the PEMHCA minimum benefit is only paid if the retired employee is enrolled in a PERS medical plan. Whether or not the retiree is enrolled under dental and/or vision benefits does not affect the amount that the District pays each month.

Classified employees who retire after age 50, with at least 5 years of service, will be paid the PEMHCA minimum benefit for as long as the retiree lives. This amount will increase each year in the future to align with the PEMHCA minimum benefit. The PEMHCA minimums are only paid if the retired employee is enrolled under a CalPERS or District medical plan. Whether or not the retiree is enrolled under dental and/or vision benefits does not affect the amount that the District pays each month.

Management and confidential employees who retire after age 50 with at least 5 years of service will be paid the PEMHCA minimum benefit for as long as the retiree lives. This amount will increase each year in the future. The PEMHCA minimums are only paid if the retiree is enrolled under a CalPERS medical plan.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Employees Covered by Benefit Terms

At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	1,181
Inactive employees	672
Total employees	1,853

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were \$1,987,250. Total benefit payments included in the measurement period were \$1,991,208. The actuarially determined contribution for the measurement period was \$9,171,667. The District's contributions were 2.5% of payroll during the measurement period June 30, 2018. Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Actuarial Cost Method Level Percent of Payroll
Amortization Period:	20 years
Actuarial Assumptions:	
Discount Rate	3.13%
Inflation	2.75%
Payroll Increases	3.00%
Healthcare Trend Rate	5.00%
Mortality	2014 CalPERS OPEB Assumptions Model for classified and confidential employees, and 2016 valuation of CalSTRS for certificated and management employees
Retirement	2014 CalPERS OPEB Assumptions Model for classified and confidential employees, and 2016 valuation of CalSTRS for certificated and management employees

Discount Rate

Since the benefits are not funded, the discount rate is equal to the Bond Buyer 20-Year Bond Index, which was 3.13%.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017 (measurement date) and was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

Changes in the Total OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018:

Fiscal Year Ended June 30, 2018 (Measurement Date June 30, 2017)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 69,533,090	\$ -	\$ 69,533,090
Service cost	4,484,420	-	4,484,420
Interest in Total OPEB Liability	1,857,366	-	1,857,366
Balance of changes in assumptions	(4,980,087)	-	(4,980,087)
Benefit payments	(1,991,208)	-	(1,991,208)
Net changes	(629,509)	-	(629,509)
Balance at June 30, 2018	\$ 68,903,581	\$ -	\$ 68,903,581

Covered Payroll at Measurement Date	\$ 70,004,222
Total OPEB Liability as a % of covered payroll	98.43%
Service cost as a % of covered payroll	6.41%

The District's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ -
Difference between actual and expected earnings	-	-
Change in assumptions	-	4,594,034
OPEB contribution subsequent to measurement date	1,987,250	-
Totals	\$ 1,987,250	\$ 4,594,034

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,987,250 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ending June 30, 2019.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Year Ended June 30,	
2019	\$ (386,053)
2020	(386,053)
2021	(386,053)
2022	(386,053)
2023	(386,053)
Thereafter	(2,663,767)
Total	<u><u>\$ (4,594,034)</u></u>

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018:

Service cost	\$ 4,484,420
Interest in TOL	1,857,366
Expected investment income	-
Other	-
Employee contributions	-
Difference between actual and expected experience	-
Difference between actual and expected earnings	-
Change in assumptions	(386,053)
Administrative expenses	-
OPEB Expense	<u><u>\$ 5,955,733</u></u>

The following summarizes changes in the total OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018:

Total OPEB liability ending	\$ 68,903,581
Total OPEB liability beginning	<u>(69,533,090)</u>
Change in total OPEB liability	(629,509)
Changes in deferred outflows	-
Changes in deferred inflows	4,594,034
Employer contributions	<u>1,991,208</u>
OPEB Expense	<u><u>\$ 5,955,733</u></u>

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Sensitivity to Changes in the Discount Rate

The total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	2.13%	3.13%	4.13%
	(1% Decrease)	(Current Rate)	(1% Increase)
Total OPEB Liability	\$ 81,693,681	\$ 68,903,581	\$ 58,907,456

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	4.0%	5.0%	6.0%
	(1% Decrease)	(Current Rate)	(1% Increase)
Total OPEB Liability	\$ 61,446,802	\$ 68,903,581	\$ 78,328,952

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.

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.

**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, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
LCFF sources	\$ 98,454,028	\$ 106,806,779	\$ 107,688,449	\$ 881,670
Federal revenues	3,897,881	4,715,660	3,857,743	(857,917)
Other state	8,167,840	10,059,252	9,979,680	(79,572)
Other local	7,110,996	11,394,102	12,882,050	1,487,948
Total revenues	117,630,745	132,975,793	134,407,922	1,432,129
Expenditures:				
Certificated salaries	56,102,144	61,409,146	60,854,505	554,641
Classified salaries	14,423,386	16,192,152	15,959,016	233,136
Employee benefits	27,750,754	29,323,691	28,293,300	1,030,391
Books and supplies	2,848,417	7,571,718	6,606,413	965,305
Services and other operating expenditures	22,838,414	24,988,547	23,565,650	1,422,897
Capital outlay	10,000	3,648,239	3,105,543	542,696
Other outgo	1,270,654	1,620,122	956,780	663,342
Total expenditures	125,243,769	144,753,615	139,341,207	5,412,408
Excess (deficiency) of revenues over (under) expenditures	(7,613,024)	(11,777,822)	(4,933,285)	6,844,537
Other financing sources (uses):				
Transfers in	750,000	760,000	760,000	-
Transfers out	(3,832,450)	(5,076,737)	(6,766,143)	(1,689,406)
Total other financing sources (uses)	(3,082,450)	(4,316,737)	(6,006,143)	(1,689,406)
Change in fund balance	<u>\$ (10,695,474)</u>	<u>\$ (16,094,559)</u>	(10,939,428)	<u>\$ 5,155,131</u>
Fund balance beginning			84,431,404	
Fund balance ending			<u>\$ 73,491,976</u>	

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures cannot legally exceed appropriations by major object.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALPERS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CalPERS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 3,359,129	\$ 2,738,437	\$ 2,283,587	\$ 2,120,002
Contributions in Relation to Actuarially Determined Contributions	3,359,129	2,738,437	2,283,587	2,120,002
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 21,628,543	\$ 19,718,008	\$ 19,275,168	\$ 18,010,381
Contributions as a Percentage of Covered Payroll	15.53%	13.89%	11.85%	11.77%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 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 four years are shown.
There were no changes in benefit terms.
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALPERS PROPORTIONATE SHARE
OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CalPERS	2018	2017	2016	2015
District's Proportion of Net Pension Liability	0.15451%	0.15719%	0.15600%	0.15810%
District's Proportionate Share of Net Pension Liability	\$ 36,885,615	\$ 31,045,565	\$ 22,994,554	\$ 17,948,200
District's Covered Employee Payroll	\$ 19,718,008	\$ 19,275,168	\$ 18,010,381	\$ 16,753,618
District's Proportionate Share of NPL as a % of Covered Employee Payroll	187.07%	161.07%	127.67%	107.13%
Plan's Fiduciary Net Position as a % of the TPL	71.87%	73.90%	79.43%	83.38%

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

STRS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 8,612,908	\$ 6,866,436	\$ 5,718,444	\$ 4,512,050
Contributions in Relation to Actuarially Determined Contributions	8,612,908	6,866,436	5,718,444	4,512,050
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 59,687,512	\$ 54,582,162	\$ 53,293,979	\$ 50,811,374
Contributions as a Percentage of Covered Payroll	14.43%	12.58%	10.73%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll
7 Years Remaining Amortization Period
Inflation Assumed at 3.00%
Investment Rate of Returns set at 7.50%
STRS mortality table using membership data for all funds

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

There were no changes in benefit terms

STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PROPORTIONATE SHARE
OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

STRS	2018	2017	2016	2015
District's Proportion of Net Pension Liability	0.10300%	0.10783%	0.10800%	0.10300%
District's Proportionate Share of Net Pension Liability	\$ 95,253,370	\$ 87,215,910	\$ 72,709,920	\$ 60,190,110
District's Covered Employee Payroll	\$ 54,582,162	\$ 53,293,979	\$ 50,811,374	\$ 45,563,758
District's Proportionate Share of NPL as a % of Covered Employee Payroll	174.51%	163.65%	143.10%	132.10%
Plan's Fiduciary Net Position as a % of the TPL	69.46%	70.04%	74.02%	76.52%

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

There were no changes in benefit terms

STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN
TOTAL OPEB LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Fiscal Year Ended June 30, 2018
Total OPEB liability	
Service cost	\$ 4,484,420
Interest	1,857,366
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(4,980,087)
Benefit payments	(1,991,208)
Net change in Total OPEB Liability	(629,509)
Total OPEB Liability - beginning	69,533,090
Total OPEB Liability - ending	<u>\$ 68,903,581</u>
 Plan fiduciary net position	
Employer contributions	\$ -
Employer implicit subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	-
Other	-
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u>\$ -</u>
 Net OPEB liability	 \$ 68,903,581
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.00%
 Covered employee payroll	 \$ 70,004,222
 Net OPEB Liability as a percentage of covered payroll	 98.43%
 Total OPEB Liability as a percentage of covered payroll	 98.43%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

This plan is nontrusted, the amount shown above as contributions is actually benefit payments during the fiscal year

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 - 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 3 - 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.

NOTE 4 - SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

This schedule presents information on the District's changes in total OPEB liability in compliance with GASB 75.

**SUPPLEMENTARY
INFORMATION**

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	
Assets						
Cash and investments	\$ 177,022	\$ 2,524,543	\$ 4,032,332	\$ 24,217	\$ 7,529,019	\$ 14,287,133
Accounts receivable	188,083	392,761	263,912	106	33,019	877,881
Due from other funds	178,108	12,040	-	-	1,688,733	1,878,881
Other assets	-	76,441	-	-	-	76,441
Total Assets	\$ 543,213	\$ 3,005,785	\$ 4,296,244	\$ 24,323	\$ 9,250,771	\$ 17,120,336
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	9,271	\$ 5,938	\$ 30,750	\$ -	\$ -	\$ 45,959
Due to other funds	91,373	160,542	-	-	-	251,915
Unearned revenue	45,600	174,840	-	-	-	220,440
Total Liabilities	146,244	341,320	30,750	-	-	518,314
Fund balances:						
Nonspendable:						
Inventory	-	59,858	-	-	-	59,858
Prepaid expenses	-	16,583	-	-	-	16,583
Restricted for:						
Cafeteria programs	-	1,943,139	-	-	-	1,943,139
Capital projects	-	-	2,000,000	-	9,097,954	11,097,954
Legally restricted balances	104,811	-	-	-	-	104,811
Assigned for:						
Capital projects	-	-	2,265,494	24,323	152,817	2,442,634
Cafeteria programs	-	644,885	-	-	-	644,885
Educational programs	292,158	-	-	-	-	292,158
Total Fund Balances	396,969	2,664,465	4,265,494	24,323	9,250,771	16,602,022
Total Liabilities and Fund Balances	\$ 543,213	\$ 3,005,785	\$ 4,296,244	\$ 24,323	\$ 9,250,771	\$ 17,120,336

**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, 2018**

	Special Revenue Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	
Revenues:						
Federal revenue	\$ 94,082	\$ 1,951,382	\$ -	\$ -	\$ -	\$ 2,045,464
Other state	1,657,799	130,809	-	-	-	1,788,608
Other local	56,852	741,196	1,261,870	336	82,604	2,142,858
Total revenues	1,808,733	2,823,387	1,261,870	336	82,604	5,976,930
Expenditures:						
Current						
Instruction	1,260,962	-	-	-	-	1,260,962
Instruction-related services:						
Supervision of instruction	246	-	-	-	-	246
School site administration	389,607	-	-	-	-	389,607
Pupil services:						
Food services	-	3,129,529	-	-	-	3,129,529
General administration:						
All other general administration	91,340	160,466	-	-	-	251,806
Plant services	58,649	2,702	36,140	-	186,635	284,126
Facilities acquisition & construction	-	-	216,050	-	388,552	604,602
Total expenditures	1,800,804	3,292,697	252,190	-	575,187	5,920,878
Excess (deficiency) of revenues over (under) expenditures	7,929	(469,310)	1,009,680	336	(492,583)	56,052
Other financing sources (uses):						
Transfers in	-	-	-	-	6,766,143	6,766,143
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	6,766,143	6,766,143
Change in fund balances	7,929	(469,310)	1,009,680	336	6,273,560	6,822,195
Fund balances beginning	389,040	3,133,775	3,255,814	23,987	2,977,211	9,779,827
Fund balances ending	\$ 396,969	\$ 2,664,465	\$ 4,265,494	\$ 24,323	\$ 9,250,771	\$ 16,602,022

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**STATE AND FEDERAL
AWARD COMPLIANCE
SECTION**

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
ORGANIZATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

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, three middle schools, two K-8 school and one Before and After School Children Annex.

Governing Board

Name	Office	Term Expires
Audrey Ng	President	November, 2019
Shara Watkins	Vice President	November, 2020
Noelia Corzo	Clerk	November, 2020
Rebecca Hitchcock	Trustee	November, 2020
Kenneth Chin	Trustee	November, 2019

Administration

Joan Rosas, Ed.D.
Superintendent

Heather Olsen
Assistant Superintendent for Educational Services

Molly Barton
Assistant Superintendent for Student Services

Sue Wieser
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, 2018**

	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA:				
Grades TK/K through three	5,356.96	5,353.33	5,356.96	5,353.33
Grades four through six	3,656.26	3,654.42	3,656.26	3,654.42
Grades seven and eight	2,386.71	2,387.15	2,386.71	2,387.15
Regular ADA Totals	11,399.93	11,394.90	11,399.93	11,394.90
Extended year Special education:				
Grades TK/K through three	2.61	2.61	2.61	2.61
Grades four through six	1.89	1.89	1.89	1.89
Grades seven and eight	1.38	1.38	1.38	1.38
Special education - nonpublic, nonsect schools:				
Grades TK/K through three	5.21	6.90	5.21	6.90
Grades four through six	6.51	6.58	6.51	6.58
Grades seven and eight	6.03	6.37	6.03	6.37
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.53	0.53	0.53	0.53
Grades four through six	0.47	0.47	0.47	0.47
Grades TK/K through three	0.97	0.97	0.97	0.97
ADA Totals	11,425.53	11,422.60	11,425.53	11,422.60

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirements	2018 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	43,140	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	54,236	180	0	In compliance
Grade 7	54,000	54,236	180	0	In compliance
Grade 8	54,000	54,236	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 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 (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	(Budget ¹)			
	2019	2018	2017	2016
<u>General Fund</u>				
Revenues and other financial sources	\$ 132,580,117	\$ 135,167,922	\$ 134,439,738	\$ 133,934,796
Expenditures	139,978,044	139,341,207	129,291,765	120,441,101
Other uses and transfers (out)	32,450	6,766,143	2,258,496	8,775,904
Total outgo	140,010,494	146,107,350	131,550,261	129,217,005
Change in fund balance	(7,430,377)	(10,939,428)	2,889,477	4,717,791
Prior period adjustments:				
Special Reserve Fund for Other Than Capital Outlay per GASB 54	-	-	314,630	-
Ending fund balance	\$ 66,061,599	\$ 73,491,976	\$ 84,431,404	\$ 81,227,297
Available reserves ⁽²⁾	\$ 8,336,717	\$ 10,247,881	\$ 21,225,894	\$ 17,964,039
Reserve for economic uncertainties	\$ 8,282,660	\$ 8,987,631	\$ 13,032,209	\$ 12,682,962
Unassigned fund balance	\$ 54,057	\$ 1,260,250	\$ 8,193,685	\$ 5,281,077
Available reserves as a percentage of total outgo	6.0%	7.0%	16.1%	13.9%
Total long-term debt	\$ 513,636,243	\$ 526,331,616	\$ 469,713,599	\$ 453,333,449
Average daily attendance at P-2	11,360	11,426	11,554	11,580

Average daily attendance has decreased by 154 over the last three years. The district anticipates a decrease of 66 ADA in 2018-19.

The district has operated at a surplus in two of the past three years. Total long-term debt has increased by \$72,998,167 over the past three years, due to new bond issuances and pension obligations.

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).

¹ Budget numbers are based on the first adopted budget of the fiscal year 2018-19.

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, 2018**

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 I, Part A, Basic Grants Low-Income and Neglected	84.010		14329	Yes	\$ 1,047,214
NCLB: Title III, Limited English Proficient (LEP) Student Program	84.365		14346		308,198
NCLB: Title II, Part A, Teacher Quality	84.367		14341		200,273
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		1,938,308
Special Ed: IDEA Preschool Grants, Part B, Sec 619	84.173	Spec Ed	13430		60,217
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	84.027	Spec Ed	13682		187,560
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	84.173	Spec Ed	13431		1,640
Special Education: IDEA Local Assistance, Part B, Private School ISPs	84.027	Spec Ed	10115		17,110
Special Education Cluster					2,204,835
TOTAL U. S. DEPARTMENT OF EDUCATION:					3,760,520
U. S. DEPARTMENT OF AGRICULTURE:					
Passed through California Department of Education:					
Child Nutrition: School Programs (NSL Sec 11)	10.555	SchoolLnch	13396	Yes	1,951,382
TOTAL U.S. DEPARTMENT OF AGRICULTURE					1,951,382
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Child Dev:elopment: Federal General (CCTR) and State Preschool (CSPP)	93.596	CCDF	13609		94,082
Passed through California Department of Health Services:					
Medi-Cal Billing Option	93.778	TitleXIX:Medicaid	10013		75,879
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					169,961
TOTAL EXPENDITURES					\$ 5,881,863

Note: There were no pass throughs to subrecipients during the year.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018.

**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, 2018**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Retiree Benefit Funds
June 30, 2018 Annual Financial and Budget Report Fund Balances.	\$ 46,853,733	\$ 114,099,455	\$ 19,724,443	\$ 20,329,897	\$ 22,910,368
Adjustments to reconcile audited financials: GASB 54 Fund Consolidations	<u>26,638,243</u>	<u>-</u>	<u>-</u>	<u>(3,727,875)</u>	<u>(22,910,368)</u>
June 30, 2018 Audited Financial Statements Fund Balances	<u>\$ 73,491,976</u>	<u>\$ 114,099,455</u>	<u>\$ 19,724,443</u>	<u>\$ 16,602,022</u>	<u>\$ -</u>

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2018**

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.

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2018**

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.

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, 2018, 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 December 10, 2018.

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

December 10, 2018
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, 2018. 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, 2018.



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 CP

December 10, 2018
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 *2017-18 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, 2018.

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, *2017-18 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 *2017-18 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
Apprenticeship: Related and Supplemental Instruction	N/A
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
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, 2018.

C & A LLP

December 10, 2018
San Jose, California

**FINDINGS AND
RECOMMENDATIONS**

**SAN MATEO-FOSTER CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>
84.01	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected
10.555	Child Nutrition: School Programs (NSL Sec 11)

Dollar threshold used to distinguish between type A and type B programs:	\$ <u> 750,000 </u>
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, 2018**

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, 2018**

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.