

**SAN MATEO-FOSTER CITY
SCHOOL DISTRICT
COUNTY OF SAN MATEO
SAN MATEO, CALIFORNIA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013**



Vargas and Company
certified public accountants

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
June 30, 2013

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Financial Section



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Mateo-Foster City School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; schedule of revenues, expenditures, and changes in fund balances - budget and actual - general funds; and schedule of funding progress on pages 4-12; 53; and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

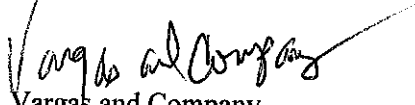
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Mateo-Foster City School District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining fund statements, supplementary information, and the schedule of expenditures of federal awards are the responsibility 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 fund statements, supplementary information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the 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.


Vargas and Company
San Jose, California
November 8, 2013

**Management's Discussion and Analysis (MD&A) -
Required Supplementary Information**

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

This section of San Mateo-Foster City School District's ("the District") annual financial report presents the District's Management Discussion and Analysis ("MD&A"). The MD&A provides information on the District's financial performance during the fiscal year that ended on June 30, 2013. The MD&A should be read in conjunction with the District's financial statements (including the notes and supplementary information).

I. FINANCIAL HIGHLIGHTS

- The District's financial status improved in fiscal year 2012-2013. The net position at June 30, 2013 totaled \$107.95 million, an increase of \$3.72 million or 3.57% from the prior year. This increase is primarily in governmental activities, \$2.89 million, due to the District's ability to keep expenditures below budgeted amounts.
- Expenses were \$116.41 million and revenues were \$121.59 million.
- Enrollment increased by 2.5% causing an increase in state funding.
- The District's net position at the close of the 2012-2013 fiscal year is \$107.95 million. Of this amount, \$77.24 million (*unrestricted net position*) may be used for ongoing operations, \$24.83 million is legally restricted (*restricted net position*), and \$5.88 million is net investment in capital assets.
- As of June 30, 2013, the District's governmental funds reported combined ending fund balances of \$104.82 million, an increase of \$10.44 million compared to the prior year. Of this combined fund balances, approximately 45% is unassigned, 31% is assigned, 24% is restricted, and less than a percent is nonspendable.
- The District issued a \$35 million bond payable under Measure L, approved by voters in 2008.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all District activities and component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus and uses the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the District (including infrastructure), as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

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

The *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the San Mateo-Foster City School District.

The Statement of Net Position and the Statement of Activities

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

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

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

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

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, and Federal, State, and local grants, as well as general obligation bonds, finance these activities.

Business-Type Activities - The District charges fees to help it covers the costs of certain services it provides. The District's Children's Annex; Bayside Theatre program and food services are included here.

III. REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

IV. THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, such as funds for associated student body activities, scholarships, and employee retiree benefits. The District's fiduciary activities are reported in separate *Statement of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

V. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The District's net position was \$107.95 million for the fiscal year ended June 30, 2013. Of this amount, \$77.24 million was unrestricted. Restricted net position, \$24.83 million, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net position for day-to-day operations. Table 1 below provides the analysis of the District's net position.

Table 1: Net Position

	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>Total</u>		
	<u>2013</u>	<u>2012</u>	<u>% Change 2012-2013</u>	<u>2013</u>	<u>2012</u>	<u>% Change 2012-2013</u>	<u>2013</u>	<u>2012</u>	<u>% Change 2012-2013</u>
Assets:									
Current and other assets	\$116,596,310	\$115,041,336	1.35%	\$5,138,994	\$4,040,555	27.19%	\$121,735,304	\$119,081,891	2.23%
Capital assets	<u>216,193,760</u>	<u>199,429,716</u>	8.41%	-	-	na	<u>216,193,760</u>	<u>199,429,716</u>	8.41%
Total assets	<u>332,790,070</u>	<u>314,471,052</u>	5.83%	<u>5,138,994</u>	<u>4,040,555</u>	27.19%	<u>337,929,064</u>	<u>318,511,607</u>	6.10%
Liabilities:									
Current liabilities	19,660,305	41,569,823	-52.71%	669,436	398,435	68.02%	20,329,741	41,968,258	-51.56%
Long-term liabilities	<u>209,627,249</u>	<u>172,055,206</u>	21.84%	-	-	na	<u>209,627,249</u>	<u>172,055,206</u>	21.84%
Total liabilities	<u>229,287,554</u>	<u>213,625,029</u>	7.33%	<u>669,436</u>	<u>398,435</u>	68.02%	<u>229,956,990</u>	<u>214,023,464</u>	7.44%
Deferred Inflow of Resources:									
Deferred revenue	<u>25,733</u>	<u>260,644</u>	-90.13%	-	-	na	<u>25,733</u>	<u>260,644</u>	-90.13%
Net position:									
Invested in capital assets, net of related debt	5,876,416	12,644,661	-53.53%	-	-	na	5,876,416	12,644,661	-53.53%
Restricted	24,825,434	36,361,447	-31.73%	-	-	na	24,825,434	36,361,447	-31.73%
Unrestricted	<u>72,774,933</u>	<u>51,579,271</u>	41.09%	<u>4,469,558</u>	<u>3,642,120</u>	22.72%	<u>77,244,491</u>	<u>55,221,391</u>	39.88%
Total net position	<u>\$103,476,783</u>	<u>\$100,585,379</u>	2.87%	<u>\$4,469,558</u>	<u>\$3,642,120</u>	22.72%	<u>\$107,946,341</u>	<u>\$104,227,499</u>	3.57%

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

Changes in Net Asset

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 provides the analysis of the changes in net position.

Table 2: Changes in Net Position

	Governmental Activities			Business-type Activities			Total		
	2013	2012	% Change 2012-2013	2013	2012	% Change 2012-2013	2013	2012	% Change 2012-2013
Revenues									
Program revenues									
Charges for services	\$ 1,334,476	\$ 1,160,336	15.01%	\$5,461,545	\$5,146,727	6.12%	\$ 6,796,021	\$ 6,307,063	7.75%
Operating grants and contributions	18,069,046	15,965,422	13.18%	-	-	na	18,069,046	15,965,422	13.18%
General revenues									
Taxes levied for general purposes	67,330,469	62,063,194	8.49%	-	-	na	67,330,469	62,063,194	8.49%
Taxes levied for debt service	8,475,358	8,362,371	1.35%	-	-	na	8,475,358	8,362,371	1.35%
Taxes levied for other specific purposes	9,456,124	9,210,990	2.66%	-	-	na	9,456,124	9,210,990	2.66%
Federal and state aid not restricted for specific purposes	6,510,308	6,120,775	6.36%	-	-	na	6,510,308	6,120,775	6.36%
Interest and investment earnings	756,368	1,081,567	-30.07%	28,017	33,530	16.44%	784,385	1,115,097	-29.66%
Miscellaneous	4,171,982	2,372,499	75.85%	-	-	na	4,171,982	2,372,499	75.85%
Internal transfers	200,000	500,000	-60.00%	(200,000)	(500,000)	60.00%	-	-	na
Total revenues	116,304,131	106,837,154	8.86%	5,289,562	4,680,257	13.02%	121,593,693	111,517,411	9.04%
Expenses									
Instruction	65,232,818	59,524,184	9.59%	-	-	na	65,232,818	59,524,184	9.59%
Instruction-related services	10,864,774	8,639,023	25.76%	-	-	na	10,864,774	8,639,023	25.76%
Pupil services	5,942,153	5,511,602	7.81%	-	-	na	5,942,153	5,511,602	7.81%
General administration	5,140,439	4,053,096	26.83%	-	-	na	5,140,439	4,053,096	26.83%
Plant services	7,734,602	6,623,931	16.77%	-	-	na	7,734,602	6,623,931	16.77%
Ancillary services	249,236	252,405	-1.26%	-	-	na	249,236	252,405	-1.26%
Community services	397,597	301,334	31.95%	-	-	na	397,597	301,334	31.95%
Enterprise	1,643,901	1,575,330	4.35%	4,462,124	4,123,070	8.22%	6,106,025	5,698,400	7.15%
Other outgo	1,872,614	1,811,606	3.37%	-	-	na	1,872,614	1,811,606	3.37%
Interest on long-term debt	12,866,336	8,386,327	53.42%	-	-	na	12,866,336	8,386,327	53.42%
Total expenses	111,944,470	96,678,838	15.79%	4,462,124	4,123,070	8.22%	116,406,594	100,801,908	15.48%
Change in Net Position	4,359,661	10,158,316	-57.08%	827,438	557,187	48.50%	5,187,099	10,715,503	-51.59%
Net Position, Beginning	100,585,379	90,427,063	11.23%	3,642,120	3,084,933	18.06%	104,227,499	93,511,996	11.46%
Adjustment	(1,468,257)	-	na	-	-	na	(1,468,257)	-	na
Net Asset, Ending	\$103,476,783	\$100,585,379	2.87%	\$4,469,558	\$3,642,120	22.72%	\$107,946,341	\$104,227,499	3.57%

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$111.94 million. However, the amount that our taxpayers ultimately financed for these activities through taxes levied for general purposes was only \$67.33 million because the cost was paid by those who benefited from the programs (\$1.33 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$18.07 million). We paid for the remaining "public benefit" portion of our governmental activities with \$17.93 million in taxes, \$6.51 million in federal and state funds, and with other revenues, e.g. interest and general entitlements.

VI. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Table 3 provides the changes in the District's Fund Balances from the prior year. The District's total governmental fund balances increased by \$10.44 million. The major increase is due to the Building Fund (\$13.88 million). The major construction projects are close to completion. The General Fund increased by \$7.53 million.

Table 3: District's Fund Balances

	<u>Fund Balance</u>		<u>Increase</u>
	<u>2013</u>	<u>2012</u>	<u>(Decrease)</u>
Governmental funds:			
Major funds:			
General funds	\$ 62,861,387	\$ 55,334,826	\$ 7,526,561
Capital Project – Building	22,739,646	8,858,222	13,881,424
Debt Service – Bond Interest & Redemption	12,679,465	24,866,032	(12,186,567)
Nonmajor funds:			
Special Revenue:			
Child Development	370,673	238,293	132,380
Cafeteria	3,808,498	3,260,589	547,909
Special Reserve	53,514	-	53,514
Foundation	144,886	146,958	(2,072)
Capital Project:			
Capital Facilities	1,752,170	960,936	791,234
County School Facilities	22,867	22,593	274
Special Reserve	<u>385,594</u>	<u>686,187</u>	<u>(300,593)</u>
Total Governmental Funds	<u>\$104,818,700</u>	<u>\$94,374,636</u>	<u>\$10,444,064</u>
Proprietary fund	<u>\$4,469,558</u>	<u>\$3,642,120</u>	<u>\$827,438</u>

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

As of June 30, 2013, the District's General Fund revenues were \$7.65 million higher than in the prior year. Other State Revenues decreased by \$2.05 million and Other Local Revenues increased by \$0.8 million.

The District's General Fund expenditures were \$11 million more than in the prior year. The General Fund's salaries and fringe benefit expenditures were \$9.4 million more due to cost of living adjustment approved by the Board for all collective bargaining units and administrative groups. The district also hired more teachers to reduce grades K-3 class size from 26 to 24. Table 4 below provides additional detail.

Table 4: General Fund Combined

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Revenues:			
Revenue Limit Sources	\$69,251,315	\$61,604,073	\$7,647,241
Federal Revenue	4,222,015	5,967,243	(1,745,229)
Other State Revenue	7,003,501	9,051,271	(2,047,770)
Other Local Revenue	14,453,449	13,654,447	799,002
Transfer In	<u>200,000</u>	<u>941,622</u>	<u>(741,622)</u>
Total Revenues	<u>\$95,130,280</u>	<u>\$94,374,636</u>	<u>\$3,911,623</u>
Expenditures:			
Salary & Benefits	\$71,610,005	\$62,206,978	\$ 9,403,027
Supplies & All Operating expenses	<u>17,018,090</u>	<u>15,352,687</u>	<u>1,665,402</u>
Total Expenditures	<u>\$88,628,095</u>	<u>\$77,559,665</u>	<u>\$11,068,429</u>

As the District completed 2012-2013, our General Fund reported a fund balance of \$56 million, which is an increase of \$4.85 million from the prior year. There was \$8.78 million legally restricted fund balance at the end of the year. Included in the \$56 million General Fund balance is \$4.92 million assigned for site uses (Tier III State categorical grants carryover).

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

VII. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$216.19 million in a broad range of capital assets (net of depreciation), including land, buildings, improvement, equipment and work-in-progress. This amount represents a net increase (including additions, deductions, and depreciation) of \$16.76 million, or 8.41%, from the prior year. Table 5 below provides additional detail.

Table 5: Capital Assets

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2013</u>	<u>2012</u>	<u>2012-2013</u>
Land	\$ 10,269,460	\$ 10,269,460	na
Work in progress	83,269,608	65,677,373	26.79%
Improvements, net	5,967,573	6,590,589	-9.45%
Buildings, net	115,539,277	115,783,708	-0.21%
Equipment, net	<u>1,147,842</u>	<u>1,108,586</u>	3.54%
Total	<u>\$216,193,760</u>	<u>\$199,429,716</u>	8.41%

In 2008, voters from San Mateo and Foster City passed the Measure L for a \$175 million General Obligation Bond to modernize and upgrade district facilities.

Long-Term Debt

At the end of this year, the District had \$215.31 million in long-term debt versus \$192.59 million in the prior year, an increase of 11.8%. Long-term debt (due within one year and beyond one year) consisted of details are listed below in Table 6.

Table 6: Long-term Debt

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2013</u>	<u>2012</u>	<u>2012-2013</u>
Bonds payable (including premium, discount, refunding charge)	\$210,095,129	\$187,862,150	11.83%
Capital lease	222,215	391,162	-43.19%
Compensated absences	356,032	403,613	-11.79%
Early retirement incentive	-	63,750	-100.00%
Net OPEB obligation	<u>4,641,431</u>	<u>3,864,952</u>	20.09%
Total	<u>\$215,314,807</u>	<u>\$192,585,627</u>	11.80%

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

The District's general obligation bond rating was upgraded from "Aa2" to "Aa1" by Moody's Investor Services. The State limits the amount of general obligation debt that Districts can issue to 1.25% of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$210 million (approximately 0.87% of total assessed value) is below the \$300.57 million statutorily-imposed limit.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term debt. We present more detailed information regarding our long-term liabilities in the Notes to the financial statements.

VIII. FACTORS BEARING ON THE DISTRICT'S FUTURE

The District continues to project enrollment growth for the next several years. As long as the revenue limit deficit factor remains at 22.272%, the District will continue to be entirely funded by local property taxes without any State aid. The District plans to maintain class size for grades K-3 at 24:1. This will increase employee salaries and benefit expenditures, but the District's healthy fund balance will be able to absorb the additional costs.

IX. DISTRICT'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the District's Chief Business Official, Laura Phan, at San Mateo-Foster City School District, 1170 Chess Drive, Foster City, California, 94404, or e-mail to lphan@smfc.k12.ca.us.

**Basic Financial Statements -
Government-wide Financial Statements**

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash in county treasury	\$ 107,004,046	\$ 4,940,299	\$ 111,944,345
Cash on hand and in bank	3,082,126	315,730	3,397,856
Cash in revolving fund	35,000	40,000	75,000
Cash with fiscal agent	79,074	-	79,074
Investments	1,255	-	1,255
Accounts receivable	1,112,438	30,389	1,142,827
Due from grantor government	5,044,143	-	5,044,143
Internal balances	198,971	(198,971)	-
Inventory	38,882	-	38,882
Prepaid expenses	375	11,547	11,922
Land	10,269,460	-	10,269,460
Improvements	14,969,746	-	14,969,746
Buildings	176,636,854	-	176,636,854
Equipment	4,487,534	-	4,487,534
Work in progress	83,269,608	-	83,269,608
Less accumulated depreciation	<u>(73,439,442)</u>	<u>-</u>	<u>(73,439,442)</u>
Total Assets	<u>332,790,070</u>	<u>5,138,994</u>	<u>337,929,064</u>
Liabilities			
Accounts payable and accrued liabilities	7,613,771	669,436	8,283,207
Due to grantor government	6,358,976	-	6,358,976
Long-term debt			
Due within one year			
General obligation bonds payable	5,154,764	-	5,154,764
Capital lease	176,762	-	176,762
Compensated absences	356,032	-	356,032
Total due within one year	<u>5,687,558</u>	<u>-</u>	<u>5,687,558</u>
Due beyond one year			
General obligation bonds payable	204,940,365	-	204,940,365
Capital lease	45,453	-	45,453
Net OPEB obligation	4,641,431	-	4,641,431
Total due beyond one year	<u>209,627,249</u>	<u>-</u>	<u>209,627,249</u>
Total Liabilities	<u>229,287,554</u>	<u>669,436</u>	<u>229,956,990</u>
Deferred Inflow of Resources			
Deferred revenue	<u>25,733</u>	<u>-</u>	<u>25,733</u>
Net Position			
Net investment in capital assets	5,876,416	-	5,876,416
Restricted			
Legally restricted	24,825,434	-	24,825,434
Unrestricted	<u>72,774,933</u>	<u>4,469,558</u>	<u>77,244,491</u>
Total Net Position	<u>\$ 103,476,783</u>	<u>\$ 4,469,558</u>	<u>\$ 107,946,341</u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
Instruction	\$ 65,232,818	\$ 142,375	\$ 8,039,997	\$ (57,050,446)	\$ -	\$ (57,050,446)
Instruction-related services	10,864,774	35,390	1,578,810	(9,250,574)	-	(9,250,574)
Pupil services	5,942,153	765,733	1,952,368	(3,224,052)	-	(3,224,052)
General administration	5,140,439	34,661	219,644	(4,886,134)	-	(4,886,134)
Plant services	7,734,602	2,258	45,193	(7,687,151)	-	(7,687,151)
Ancillary services	249,236	2,943	52,712	(193,581)	-	(193,581)
Community services	397,597	-	108,425	(289,172)	-	(289,172)
Enterprise	1,643,901	168	2,888	(1,640,845)	-	(1,640,845)
Other outgo	1,872,614	350,948	6,069,009	4,547,343	-	4,547,343
Interest on long-term debt	12,866,336	-	-	(12,866,336)	-	(12,866,336)
Total Governmental Activities	111,944,470	1,334,476	18,069,046	(92,540,948)	-	(92,540,948)
Business-type Activities						
Bayside Theater	4,462,124	5,461,545	-	-	999,421	999,421
Total	\$ 116,406,594	\$ 6,796,021	\$ 18,069,046	(92,540,948)	999,421	(91,541,527)
General Revenues						
Taxes and subventions						
Taxes levied for general purposes				67,330,469	-	67,330,469
Taxes levied for debt service				8,475,358	-	8,475,358
Taxes levied for other specific purposes				9,456,124	-	9,456,124
Federal and state aid not restricted for specific purposes				6,510,308	-	6,510,308
Interest and investment earnings				756,368	28,017	784,385
Miscellaneous				4,171,982	-	4,171,982
Internal transfers				200,000	(200,000)	-
Total General Revenues				96,900,609	(171,983)	96,728,626
Change in Net Position				4,359,661	827,438	5,187,099
Net Position, Beginning				100,585,379	3,642,120	104,227,499
Adjustments				(1,468,257)	-	(1,468,257)
Net Position, Ending				\$ 103,476,783	\$ 4,469,558	\$ 107,946,341

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

**Basic Financial Statements -
Fund Financial Statements**

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2013**

	General Funds	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total
Assets					
Cash in county treasury	\$ 67,878,378	\$ 23,718,874	\$ 12,661,706	\$ 2,745,088	\$ 107,004,046
Cash on hand and in bank	(1,068)	-	-	3,083,194	3,082,126
Cash in revolving fund	35,000	-	-	-	35,000
Cash with fiscal agent	79,074	-	-	-	79,074
Investments	-	-	-	1,255	1,255
Accounts receivable	810,366	38,679	17,759	245,634	1,112,438
Due from grantor government	4,514,632	-	-	529,511	5,044,143
Due from other funds	1,912,529	849	-	206,043	2,119,421
Inventory	-	-	-	38,882	38,882
Prepaid expenditures	375	-	-	-	375
Total Assets	\$ <u>75,229,286</u>	\$ <u>23,758,402</u>	\$ <u>12,679,465</u>	\$ <u>6,849,607</u>	\$ <u>118,516,760</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable and accrued liabilities	\$ 4,173,904	\$ 1,018,642	\$ -	\$ 200,355	\$ 5,392,901
Due to grantor government	6,358,976	-	-	-	6,358,976
Due to other funds	1,809,286	114	-	111,050	1,920,450
Deferred revenue	25,733	-	-	-	25,733
Total Liabilities	<u>12,367,899</u>	<u>1,018,756</u>	<u>-</u>	<u>311,405</u>	<u>13,698,060</u>
Fund Balances					
Nonspendable					
Revolving Cash	35,000	-	-	-	35,000
Stores	-	-	-	38,882	38,882
Prepaid Expenditures	375	-	-	-	375
Restricted					
Legally Restricted Balance	8,775,384	-	12,679,465	3,370,585	24,825,434
Assigned					
Other Assignments	6,532,100	22,739,646	-	3,128,735	32,400,481
Unassigned					
Economic Uncertainties	9,316,072	-	-	-	9,316,072
Unassigned	38,202,456	-	-	-	38,202,456
Total Fund Balances	<u>62,861,387</u>	<u>22,739,646</u>	<u>12,679,465</u>	<u>6,538,202</u>	<u>104,818,700</u>
Total Liabilities and Fund Balances	\$ <u>75,229,286</u>	\$ <u>23,758,402</u>	\$ <u>12,679,465</u>	\$ <u>6,849,607</u>	\$ <u>118,516,760</u>

The notes to the 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 Government-wide
Statement of Net Position - Governmental Activities
June 30, 2013

Total fund balances - governmental funds		\$ 104,818,700
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Cost	\$ 289,633,202	
Accumulated depreciation	<u>(73,439,442)</u>	216,193,760
To recognize accrued interest at year end.		(2,220,870)
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, including premium/discount/refunding charge, at year-end consist of:		
General obligation bonds payable, net	210,095,129	
Capital lease	222,215	
Net OPEB obligation	4,641,431	
Compensated absences	<u>356,032</u>	<u>(215,314,807)</u>
Total net position - governmental activities		<u>\$ 103,476,783</u>

The notes to the 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
Year Ended June 30, 2013

	General Funds	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total
Revenues					
Revenue limit sources					
State apportionments	\$ 2,121,053	\$ -	\$ -	\$ -	\$ 2,121,053
Local sources	62,231,788	-	-	-	62,231,788
Revenue limit transfers	4,898,474	-	-	205,113	5,103,587
Total revenue limit	69,251,315	-	-	205,113	69,456,428
Federal	4,222,015	-	-	1,531,995	5,754,010
Other state	7,003,501	-	56,383	1,203,954	8,263,838
Other local	17,170,119	180,271	13,065,140	2,214,325	32,629,855
Total Revenues	97,646,950	180,271	13,121,523	5,155,387	116,104,131
Expenditures					
Instruction	59,956,157	-	-	959,771	60,915,928
Instruction-related services	10,468,191	-	-	309,915	10,778,106
Pupil services	4,018,259	-	-	1,792,058	5,810,317
Ancillary services	247,248	-	-	-	247,248
Community services	394,426	-	-	-	394,426
Enterprise	1,643,901	-	-	-	1,643,901
General administration	4,461,034	-	-	110,845	4,571,879
Plant services	7,267,674	21,092,847	-	751,037	29,111,558
Other outgo	1,810,124	-	-	62,490	1,872,614
Debt service:					
Principal	-	-	4,510,000	-	4,510,000
Interest	-	-	5,261,631	-	5,261,631
Total Expenditures	90,267,014	21,092,847	9,771,631	3,986,116	125,117,608
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,379,936	(20,912,576)	3,349,892	1,169,271	(9,013,477)
Other Financing Sources (Uses)					
Operating transfers in	1,799,555	-	556,711	53,375	2,409,641
Operating transfers out	(1,652,930)	-	(556,711)	-	(2,209,641)
Proceeds from long-term debt	-	34,794,000	-	-	34,794,000
Other sources (uses)	-	-	(15,536,459)	-	(15,536,459)
Total Other Financing Sources (Uses)	146,625	34,794,000	(15,536,459)	53,375	19,457,541
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	7,526,561	13,881,424	(12,186,567)	1,222,646	10,444,064
Fund Balances, Beginning	55,334,826	8,858,222	24,866,032	5,315,556	94,374,636
Fund Balances, Ending	\$ 62,861,387	\$ 22,739,646	\$ 12,679,465	\$ 6,538,202	\$ 104,818,700

The notes to the 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 to the Government-wide Statement of Activities -
Governmental Activities
Year Ended June 30, 2013

Total net change in fund balances - governmental funds \$ 10,444,064

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay exceeds depreciation expense in the period:

Capital outlay	\$ 21,804,274	
Depreciation expense	<u>(5,040,230)</u>	16,764,044

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of premium when bond is first issued, whereas, this amounts are and amortized in the statement of activities. Issue costs are expensed the year the debt is issued. Interest is recognized as an expenditures in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Proceeds from long-term debt	(34,794,000)	
Cost of issuing new debt	(3,975,335)	
Refunding debt closed prior year but refunded in the current year	15,536,459	
Repayment of bond principal	4,510,000	
Amortization of bond premium (discount/refunding charge)	664,456	
Accretion of Capital Appreciation Bonds	<u>(4,174,559)</u>	(22,232,979)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure.

Payment of capital lease		168,947
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid).

This year vacation earned exceeded the amounts used by:		47,581
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In the statement of activities, change in net OPEB obligation are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year net OPEB obligation earned exceeded the amounts used by:

(776,479)

Liabilities for early retirement incentive is not recorded in the governmental funds until the payments are due, however, they are recorded in the statement of activities when the liability is recognized

63,750

Interest in 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.

(119,267)

Total change in net position - governmental activities		\$ <u><u>4,359,661</u></u>
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The notes to the basic financial statements are an integral part of this statement.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2013

	Business-type Activities
	Enterprise Fund
	Bayside Theatre
Assets	
Cash in county treasury	\$ 4,940,299
Cash on hand and in bank	315,730
Cash in revolving fund	40,000
Accounts receivable	30,389
Due from other funds	2,839
Prepaid expenses	11,547
Total Assets	5,340,804
Liabilities	
Accounts payable and accrued liabilities	669,436
Due to other funds	201,810
Total Liabilities	871,246
Net Position	
Unrestricted	4,469,558
Total Net Position	\$ 4,469,558

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2013

	<u>Business-type Activities</u> <u>Enterprise Fund</u> <u>Bayside Theatre</u>
Operating Revenues	
Local revenue	\$ <u>5,461,545</u>
Total Operating Revenues	<u>5,461,545</u>
Operating Expenses	
Payroll costs	4,102,702
Supplies and materials	250,269
Services and other operating expenses	<u>109,153</u>
Total Operating Expenses	<u>4,462,124</u>
Net Operating Income	<u>999,421</u>
Non-operating Revenues (Expenses)	
Interest and investment income	28,017
Transfer out	<u>(200,000)</u>
Total Non-operating Revenues (Expenses)	<u>(171,983)</u>
Change in Net Position	827,438
Net Position, Beginning	<u>3,642,120</u>
Net Position, Ending	<u>\$ <u>4,469,558</u></u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2013

	Business-type Activities
	Enterprise Fund
	Bayside Theatre
Cash Flows from Operating Activities	
Receipts from customers	\$ 5,448,682
Payments to employees	(4,102,702)
Payments to vendors	94,007
	1,439,987
Net Cash Provided by Operating Activities	1,439,987
Cash Flows from Non-Capital Financing Activities	
Transfer out	(200,000)
Cash Flows from Investing Activities	
Interest and investment income	28,017
	28,017
Net Increase in Cash	1,268,004
Cash, Beginning	4,028,025
	4,028,025
Cash, Ending	\$ 5,296,029
Cash Flows from Operating Activities	
Net Operating Income	\$ 999,421
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities	
Decrease (increase) in operating assets	
Accounts receivable	(12,863)
Due from other funds	(2,331)
Prepaid expenses	(6,011)
Increase (decrease) in operating liabilities	
Accounts payable and accrued liabilities	271,001
Due to other funds	190,770
	190,770
Net Cash Provided by Operating Activities	\$ 1,439,987

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Statement of Net Position
Fiduciary Funds
June 30, 2013

	<u>Student Body Funds</u>
Assets	
Cash and investments	\$ <u>17,898</u>
Total assets	\$ <u><u>17,898</u></u>
Liabilities	
Due to student group	\$ <u>17,898</u>
Total Liabilities	\$ <u><u>17,898</u></u>

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

Basic Financial Statements -
Notes to the Basic Financial Statements

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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-8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools, four middle schools, one K-8 school and one Before and After School Children Annex program.

A reporting entity is comprised of the primary government, component units, and other organizations to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For San Mateo-Foster City School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District for the approval of their budgets, the issuance of their debt, or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the financial statements to be misleading or incomplete. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of its relationship with the District. The component units, although a legally separate entity, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the Governing Boards of the component units are essentially the same as the governing board of the District.

Blended Component Units – The District has 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.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

- San Mateo-Foster City School Facility Financing Authority (the Authority) – This was formed to i) purchase the San Mateo-Foster City School District General Obligation Refunding Bonds, Series 2005, ii) finance certain school facilities to be acquired and/or constructed by the Authority, iii) pay the premium for a bond insurance policy, and iv) pay certain costs of issuance associated with the Bonds. Individual financial statements are not prepared for the Authority. The Authority's financial data are combined with the District's data. The Authority's Revenue Bonds, Series 2005 are included as long-term debt in the government-wide financial statements.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools: The District is associated with the San Mateo County Schools Insurance Group (SMCSIG). This agency does not meet the criteria for inclusion as a component unit of the District.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e. statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District.

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

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented a single column. The enterprise fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

Governmental Funds: All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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.

C. Fund Accounting

District accounts 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, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The fund types and funds utilized by the District are described below:

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Major Governmental Funds:

The *General Fund* serves as the general operating fund. It is used to account for all financial resources of the District except for those required to be accounted for in another fund.

Deferred maintenance fund and retiree benefits fund do not meet the definition of special revenue fund under GASB Statement No. 54. Thus, these funds have been combined with the general fund for presentation in these audited financial statements.

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

The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The debt service fund is maintained by the County Treasurer for the District use.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains following nonmajor special revenue funds:

- The *Child Development Fund* is used to account separately for federal, state, and local revenues to operate child development programs.
- The *Cafeteria Fund* is used to account separately for federal, state, and local resources to operate the food service program.
- The *Special Reserve Fund for Other than Capital Outlay Projects* is used to account for the accumulation of funds for the capital equipment replacement such as school buses.
- The *Foundation Fund* is used to account for the activity of the Foundation Trust.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following nonmajor capital projects funds:

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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 Capital Outlay Fund* is used to provide for the accumulation of money for capital projects.

Proprietary Funds:

Proprietary Funds focus on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. Proprietary Funds are classified as enterprise or internal service. The District has the following proprietary fund:

Enterprise Fund accounts revenue and expenditures for the District's before and after school child care and enrichment programs. Bayside Theatre Fund accounts for revenue and expenditures for the operation of the Bayside Theatre on the Bayside Middle School campus.

Fiduciary Fund:

Fiduciary Funds focus on the net position and changes in net position. The Fiduciary Funds are categorized into four classifications: Pension Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. The District only had an Agency Fund.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency Fund accounts for student body activities (ASB).

D. Accounting Policies

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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

E. 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 modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after the year-end. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one-year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, 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 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 expenditures 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
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

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

Prepaid Expenses/Expenditures

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Balances

On 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.

Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not been paid. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term, obligations payable from the enterprise fund are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Balance

Governmental funds report fund balances in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form—such as inventory, prepaid amounts or long-term notes receivable, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity. The “not in spendable form” criterion includes items that are expected to be converted to cash.
- *Restricted Fund Balance* – constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restriction may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – amounts that can be used only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the Board. Commitments may be changed or lifted by the District taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance* – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the District’s Board or (b) the Superintendent or designee whom the District’s Board has delegated the authority to assign, modify, rescind amounts to be used for specific purposes. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.
- *Unassigned Fund Balance* – the residual classification for the General Fund. It is also used to report negative fund balance in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

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

Operating Revenues 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.

Interfund Activity

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

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

Estimates

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the Board of Trustees board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The Board of Trustees satisfied this requirement. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

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. Local property tax revenues are recorded when received.

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.

F. Subsequent Events

Management has evaluated subsequent events through November 8, 2013.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 2. CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2013 financial statements are as follows:

Governmental activities	\$110,201,501
Business-type activities	5,296,029
Fiduciary funds	<u>17,898</u>
Total cash and investments	<u>\$115,515,428</u>

Cash and investments as of June 30, 2013 consists of the following:

Cash on hand and in banks	\$ 3,415,754
Cash in revolving accounts	75,000
Cash with fiscal agents	15,581,489
Investments	<u>111,945,600</u>
Total cash and investments	<u>\$115,515,428</u>

Cash in banks and revolving accounts

Custodial Credit Risk

This 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. As of June 30, 2013, the District had bank balances of \$3,415,754 that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Cash with fiscal agent

Cash with fiscal agent includes \$79,074 which was maintained with the bond trustees.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 2. CASH AND INVESTMENTS - Continued

Investments

The District's investments consist of the following at June 30, 2013:

Cash with county treasury	\$111,944,345
State investment pool (LAIF)	<u>1,255</u>
Total investments	<u>\$111,945,600</u>

Cash with 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 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. Information regarding the characteristics of the entire investment pool can be found in the County's June 30, 2013 basic financial statements. A copy of that report may be obtained by contacting the Controller's Office, County of San Mateo, 555 County Center, Redwood City 94063.

Investment in the State Investment Pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

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.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 2. CASH AND INVESTMENTS - Continued

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local agency bonds, notes, warrants	5 years	None	None
Registered state bonds, notes, warrants	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
Banker's acceptance	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20% of base	None
Medium-term notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through funds	5 years	20%	None
County pooled investment funds	N/A	None	None
Local agency investment fund (LAIF)	N/A	None	None
Joint powers authority pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity of the District's investment in County Pool is 1.5 years.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 2. CASH AND INVESTMENTS - Continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Mateo County Pool and the State Investment Pool are not rated.

NOTE 3. RECEIVABLES

Receivables (accounts and due from grantor government) as of June 30, 2013, consists of the following:

	General Funds	Building Fund	Bond Interest and Redemption Fund	All Other Govern- mental Funds	Govern- mental Funds	Business- type / Proprietary Funds
Federal sources:						
Categorical aid program	\$1,112,052	\$ - .	\$ - .	\$405,411	\$1,517,463	\$ - .
State sources:						
Apportionment	2,451,322	- .	- .	- .	2,451,322	- .
Categorical aid program	45,253	- .	- .	31,961	77,214	- .
Lottery	906,005	- .	- .	- .	906,005	- .
Other	- .	- .	- .	92,139	92,139	- .
Local sources:						
Interest	113,071	38,353	17,759	4,001	173,184	7,294
Other	<u>697,295</u>	<u>326</u>	<u>- .</u>	<u>241,633</u>	<u>939,254</u>	<u>23,095</u>
Total Receivables	<u>\$5,324,998</u>	<u>\$38,679</u>	<u>\$17,759</u>	<u>\$775,145</u>	<u>\$6,156,581</u>	<u>\$30,389</u>

NOTE 4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either 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 or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 4. INTERFUND TRANSACTIONS - Continued

A. Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2013, interfund receivables and payables were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General funds	\$1,912,529	\$1,809,286
Building fund	849	114
Nonmajor Governmental funds:		
Special Revenue funds:		
Child development fund	455	48,132
Cafeteria fund	205,574	62,918
Capital Projects funds:		
Capital Facilities fund	14	-
Business-type/Proprietary funds	<u>2,839</u>	<u>201,810</u>
Total	<u>\$2,122,260</u>	<u>\$2,122,260</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2012-2013 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$1,799,555	\$1,652,930
Bond Interest and Redemption	556,711	556,711
Nonmajor Governmental fund:		
Special Revenue fund:		
Special Reserve fund	53,375	-
Business-type/Proprietary funds	<u>-</u>	<u>200,000</u>
Total	<u>\$2,409,641</u>	<u>\$2,409,641</u>

Transfer from the General fund to the Special Revenue-Special Reserve fund of \$53,375 was for reserve for property insurance deductibles.

Transfer from the Proprietary fund to the General fund of \$200,000 was for Children Annex contribution in lieu of indirect costs.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, is shown below:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 10,269,460	\$ -	\$ -	\$ 10,269,460
Work in progress	<u>65,677,373</u>	<u>20,985,223</u>	<u>3,392,988</u>	<u>83,269,608</u>
Total capital assets, not being depreciated	<u>75,946,833</u>	<u>20,985,223</u>	<u>3,392,988</u>	<u>93,539,068</u>
Capital assets, being depreciated:				
Improvements	14,969,746	-	-	14,969,746
Buildings	172,732,639	3,904,215	-	176,636,854
Equipment	<u>4,179,710</u>	<u>307,824</u>	<u>-</u>	<u>4,487,534</u>
Total capital assets, being depreciated	<u>191,882,095</u>	<u>4,212,039</u>	<u>-</u>	<u>196,094,134</u>
Less accumulated depreciation for:				
Improvements	8,379,157	623,016	-	9,002,173
Buildings	56,948,931	4,148,646	-	61,097,577
Equipment	<u>3,071,124</u>	<u>268,568</u>	<u>-</u>	<u>3,339,692</u>
Total accumulated depreciation	<u>68,399,212</u>	<u>5,040,230</u>	<u>-</u>	<u>73,439,442</u>
Total capital assets, being depreciated, net	<u>123,482,883</u>	<u>(828,191)</u>	<u>-</u>	<u>122,654,692</u>
Governmental activities capital assets, net	<u>\$199,429,716</u>	<u>\$20,157,032</u>	<u>\$3,392,988</u>	<u>\$216,193,760</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Instruction	\$3,827,055
Pupil Services	85,114
All Other General Administration	531,796
Plant Services	<u>596,265</u>
Total depreciation expense – governmental activities	<u>\$5,040,230</u>

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2013, is shown below:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Deductions/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>one year</u>	<u>Due beyond</u> <u>one year</u>
2003 General Obligation						
Refunding Bonds	\$ 16,740,000	\$ -	\$16,740,000	\$ -	\$ -	\$ -
Bond premium	436,091	-	436,091	-	-	-
Revenue Bonds, Series 2005	66,650,000	-	2,950,000	63,700,000	3,240,000	60,460,000
Bond premium	2,120,369	-	192,761	1,927,608	192,761	1,734,847
Refunding charge	(2,210,649)	-	(200,968)	(2,009,681)	(200,968)	(1,808,713)
General Obligation Bonds,						
Election 2008, Series A	54,999,413	-	-	54,999,413	-	54,999,413
Accreted interest	7,286,081	4,174,559	-	11,460,640	-	11,460,640
Bond premium	1,150,787	-	38,360	1,112,427	38,360	1,074,067
General Obligation Bonds,						
Election 2008, Series Q	25,000,000	-	-	25,000,000	-	25,000,000
Bond discount	(98,438)	-	(7,031)	(91,407)	(7,031)	(84,376)
2012 General Obligation						
Refunding Bonds	14,700,000	-	-	14,700,000	1,635,000	13,065,000
Bond premium	1,088,496	-	133,285	955,211	133,285	821,926
General Obligation Bonds,						
Election 2008, Series C	-	35,000,000	-	35,000,000	-	35,000,000
Bond premium	-	<u>3,412,876</u>	<u>71,958</u>	<u>3,340,918</u>	<u>123,357</u>	<u>3,217,561</u>
subtotal	<u>187,862,150</u>	<u>42,587,435</u>	<u>20,354,456</u>	<u>210,095,129</u>	<u>5,154,764</u>	<u>204,940,365</u>
Capital lease	391,162	-	168,947	222,215	176,762	45,453
Compensated absences	403,613	-	47,581	356,032	356,032	-
Early retirement incentive	63,750	-	63,750	-	-	-
Net OPEB Obligation	<u>3,864,952</u>	<u>776,479</u>	<u>-</u>	<u>4,641,431</u>	<u>-</u>	<u>4,641,431</u>
Totals	<u>\$192,585,627</u>	<u>\$43,363,914</u>	<u>\$20,634,734</u>	<u>\$215,314,807</u>	<u>\$5,687,558</u>	<u>\$209,627,249</u>

Payments on the general obligation bonds and bond anticipation notes are made by the Bond Interest and Redemption fund with local resources. The other liabilities are typically liquidated by the General Fund.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

1. General Obligation Bonds Payable

The outstanding general obligation bonds payable of the District as of June 30, 2013, is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2012</u>	<u>Outstanding June 30, 2013</u>
10/13/05	3.0-5.5%	8/15/23	\$ 79,975,000	\$ 66,650,000	\$ 63,700,000
	Premium		3,469,696	2,120,369	1,927,608
	Refunding charge		(3,617,425)	(2,210,649)	(2,009,681)
2/11/10	2.95-6.625%	8/1/42	54,999,413	54,999,413	54,999,413
	Accreted Interest		-	7,286,081	11,460,640
	Premium		1,265,866	1,150,787	1,112,427
7/14/10	6%	8/1/26	25,000,000	25,000,000	25,000,000
	Discount		(112,500)	(98,438)	(91,407)
6/5/12	2.0-5.0%	9/1/20	14,700,000	14,700,000	14,700,000
	Premium		1,088,496	1,088,496	955,211
11/6/12	2.0-5.0%	8/1/39	35,000,000	-	35,000,000
	Premium		<u>3,412,876</u>	<u>-</u>	<u>3,340,918</u>
Totals			<u>\$215,181,422</u>	<u>\$170,686,059</u>	<u>\$210,095,129</u>

A. 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. The annual requirements to amortize the bonds outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,240,000	\$ 2,958,400	\$ 6,198,400
2015	3,540,000	2,824,800	6,364,800
2016	3,855,000	2,661,163	6,516,163
2017	4,220,000	2,484,750	6,704,750
2018	4,590,000	2,274,588	6,864,588
2019-2023	34,465,000	7,007,862	41,472,862
2024	<u>9,790,000</u>	<u>232,512</u>	<u>10,022,512</u>
Totals	63,700,000	<u>\$20,444,075</u>	<u>\$84,144,075</u>
Bond Premium as of June 30, 2013	1,927,608		
Refunding Charge as of June 30, 2013	<u>(2,009,681)</u>		
Book Balance	<u>\$63,617,927</u>		

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

B. 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.

The annual requirements to amortize the bonds outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 17,195	\$ 12,805	\$ 30,000
2017	41,392	38,608	80,000
2018	60,719	69,281	130,000
2019-2023	506,513	1,018,487	1,525,000
2024-2028	2,132,542	22,411,255	24,543,797
2029-2033	8,358,742	55,939,555	64,298,297
2034-2038	15,168,767	64,356,508	79,525,275
2039-2043	<u>28,713,543</u>	<u>69,421,232</u>	<u>98,134,775</u>
Totals	54,999,413	<u>\$213,267,731</u>	<u>\$268,267,144</u>
Accreted interest	<u>11,460,640</u>		
Total	66,460,053		
Bond Premium as of June 30, 2013	<u>1,112,427</u>		
Book Balance	<u>\$67,572,480</u>		

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

C. General Obligation Bonds, Election 2008, Series Q

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

The annual requirements to amortize the bonds outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ - .	\$ 1,500,000	\$ 1,500,000
2015	- .	1,500,000	1,500,000
2016	65,000	1,498,050	1,563,050
2017	170,000	1,491,000	1,661,000
2018	280,000	1,477,500	1,757,500
2019-2023	3,365,000	6,292,950	9,657,950
2024-2027	<u>21,120,000</u>	<u>-</u>	<u>21,120,000</u>
Totals	25,000,000	<u>\$13,759,500</u>	<u>\$38,759,500</u>
Bond Discount as of June 30, 2013	(91,407)		
Book Balance	<u>\$24,908,593</u>		

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

D. 2012 General Obligation Refunding Bonds

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

The annual requirements to amortize the bonds outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,635,000	\$ 526,800	\$ 2,161,800
2015	1,680,000	485,250	2,165,250
2016	1,730,000	434,100	2,164,100
2017	1,775,000	372,650	2,147,650
2018	1,840,000	300,350	2,140,350
2019-2021	<u>6,040,000</u>	<u>429,675</u>	<u>6,469,675</u>
Totals	14,700,000	<u>\$2,548,825</u>	<u>\$17,248,825</u>
Bond Premium as of June 30, 2013	<u>955,211</u>		
Book Balance	<u>\$15,655,211</u>		

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

E. 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.

The annual requirements to amortize the bonds outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 1,094,491	\$ 1,094,491
2015	3,365,000	1,256,094	4,621,094
2016	2,490,000	1,172,644	3,662,644
2017	1,550,000	1,091,844	2,641,844
2018	1,685,000	1,027,144	2,712,144
2019-2023	10,870,000	3,936,319	14,806,319
2024-2028	5,280,000	2,006,443	7,286,443
2029-2033	2,685,000	1,458,034	4,143,034
2034-2038	4,525,000	875,087	5,400,087
2040	<u>2,550,000</u>	<u>91,350</u>	<u>2,641,350</u>
Totals	35,000,000	<u>\$14,009,450</u>	<u>\$49,009,450</u>
Bond Premium as of June 30, 2013	<u>3,340,918</u>		
Book Balance	<u>\$38,340,918</u>		

2. Capital Lease

The District has a telephone system under a capital lease agreement. As of June 30, 2013, the District's minimum lease payments are as follows:

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2014	\$176,763
2015	<u>45,452</u>
Total	<u>\$222,215</u>

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 6. LONG-TERM DEBT - Continued

3. Compensated Absence

The accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$356,032.

4. Net OPEB Obligation

The District's annual required contribution for the year ended June 30, 2013 was \$2,415,398 and contributions made by the District during the year were \$1,638,919, which resulted in a net OPEB obligation of \$4,641,431. See Note 8 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS

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

STRS

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 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. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy: Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2013, 2012, and 2011 were \$3,567,795, \$3,500,248, and \$3,130,035, respectively, and equal to 100% of the required contributions for each year.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS - Continued

CalPERS

Plan Description: The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011 were \$2,713,129, \$2,405,496, and \$1,621,950, respectively, and equal to 100% of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security to cover these employees. Contributions made by the District and an employee vest immediately.

On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been recorded in these financial statements.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 8. NET OPEB OBLIGATION

Plan Description

The District administers a single-employer defined benefit healthcare plan. It provides lifetime postemployment health care benefits, in accordance with District's employment contracts, to most employees who retire from the District. Managers, who retire from the District, are eligible for full lifetime medical, vision, and dental premiums for the employee only. There is a cap on SMETA and CSEA payments up to the age of 65 and after the age of 65. Membership of the Plan consists of 626 retirees currently receiving benefits, and 1738 active plan members.

Funding policy

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. For fiscal year 2012-2013, the District contributed \$1,638,919 to the plan, all of which was used for current premiums of health and medical benefits for retired employees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual OPEB Cost (based on latest actuarial report, as of 7/1/13)	\$2,415,398
Contributions during the year	<u>(1,638,919)</u>
Increase in Net OPEB Obligation	776,479
Net OPEB Obligation – beginning of year	<u>3,864,952</u>
 Net OPEB Obligation – end of year	 <u>\$4,641,431</u>

Fiscal Year Ended	Annual OPEB Cost	Contributions during the year	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$2,415,398	\$1,466,750	61%	\$2,518,686
6/30/12	2,604,000	1,257,734	48%	3,864,952
6/30/13	2,415,398	1,638,919	68%	4,641,431

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 8. NET OPEB OBLIGATION – Continued

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent investment rate of return. The UAAL is being amortized at a level percentage of payroll method over a period of 30 years.

NOTE 9. 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.

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.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 9. RISK MANAGEMENT – Continued

Coverage provided by San Mateo-County Schools Insurance Group for property and liability workers' compensation is as follows:

<u>Type of Coverage</u>	<u>Limits</u>
Workers' compensation	State of California Statutory Limits
Property	\$250,000 - \$1,000,000,000 per occurrence
Liability	\$250,000 - \$25,000,000 per occurrence

NOTE 10. 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.

- A. Entity San Mateo County Schools Insurance Group
- B. Purpose Provide property and liability, casualty, workers' compensation, dental and vision coverage.
- C. Participants Local educational agencies
- D. Governing Board Representatives from member agencies

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 11. COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

B. Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

C. Construction Commitments

As of June 30, 2013, the District had various commitments with respect to unfinished capital projects.

NOTE 12. PRIOR PERIOD ADJUSTMENT

The government-wide statements reflect a prior period adjustment to write off the unamortized issue cost of the Bonds Payable to comply with GASB 63/65 where issue costs are expensed when incurred. This has no effect on the fund financial statements nor the current year's activities.

Required Supplementary Information
(other than MD&A)

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Funds
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive - (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Revenue limit sources	\$ 60,267,585	\$ 67,210,970	\$ 69,251,315	\$ 69,251,315
Federal	4,511,968	4,678,788	4,222,015	(456,773)
Other state	7,406,583	8,611,710	7,003,501	(1,608,209)
Other local	<u>11,938,698</u>	<u>16,062,216</u>	<u>17,170,119</u>	<u>1,107,903</u>
Total Revenues	<u>84,124,834</u>	<u>96,563,684</u>	<u>97,646,950</u>	<u>68,294,236</u>
Expenditures				
Certificated salaries	42,691,600	44,124,561	44,124,561	-
Classified salaries	10,522,486	11,141,006	11,141,006	-
Employee benefits	16,465,414	16,344,439	16,344,439	-
Books and supplies	4,461,999	7,586,735	2,519,417	5,067,318
Services and other operating expenditures	13,756,037	17,165,328	13,827,101	3,338,227
Capital outlay	320,376	924,783	611,211	313,572
Other outgo	2,167,211	2,014,037	1,810,124	203,913
Indirect costs	<u>(95,000)</u>	<u>(95,000)</u>	<u>(110,845)</u>	<u>15,845</u>
Total Expenditures	<u>90,290,123</u>	<u>99,205,889</u>	<u>90,267,014</u>	<u>8,938,875</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,165,289)</u>	<u>(2,642,205)</u>	<u>7,379,936</u>	<u>77,233,111</u>
Other Financing Sources (Uses)				
Operating transfers in	250,000	605,469	1,799,555	1,194,086
Operating transfers out	<u>-</u>	<u>(1,652,930)</u>	<u>(1,652,930)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>250,000</u>	<u>(1,047,461)</u>	<u>146,625</u>	<u>1,194,086</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>(5,915,289)</u>	<u>(3,689,666)</u>	<u>7,526,561</u>	<u>11,216,227</u>
Fund Balances, Beginning	<u>55,334,826</u>	<u>55,334,826</u>	<u>55,334,826</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 49,419,537</u>	<u>\$ 51,645,160</u>	<u>\$ 62,861,387</u>	<u>\$ 11,216,227</u>

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Funding Progress
June 30, 2013

	(a)	(b)	(a)-(b)	(b) / (a)	(c)	[(a)-(b)]/(c)
Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Liability (UAAL)	Funded Ratios	Annual Covered Payroll	UAAL as a % of Payroll
<u>Other Postemployment Benefits:</u>						
1/1/2009	\$24,624,000	\$ -	\$24,624,000	0%	\$57,385,225	43%
1/1/2011	\$27,969,800	\$ -	\$27,969,800	0%	\$55,201,100	51%
7/1/2013	\$41,206,314	\$ -	\$41,206,314	0%	\$63,661,227	65%

Combining Fund Statements

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2013

	Special Revenue					Capital Projects					Nonmajor Governmental Funds Total	
	Child Development Fund	Cafeteria Fund	Special Reserve Fund	Foundation Fund	Total	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund	Total			
Assets												
Cash in county treasury	\$ 384,292	\$ 214,040	\$ 53,432	\$ 144,661	\$ 796,425	\$ 1,540,823	\$ 22,832	\$ 385,008	\$ 1,948,663	\$ 2,745,088		
Cash on hand and in bank	-	3,083,194	-	-	3,083,194	-	-	-	-	3,083,194		
Investments	-	-	-	-	-	1,255	-	-	1,255	1,255		
Accounts receivable	1,910	137	82	225	2,354	242,659	35	586	243,280	245,634		
Due from grantor government	92,139	437,372	-	-	529,511	-	-	-	-	529,511		
Due from other funds	455	205,574	-	-	206,029	14	-	-	14	206,043		
Inventory	-	38,882	-	-	38,882	-	-	-	-	38,882		
Total Assets	\$ 478,796	\$ 3,979,199	\$ 53,514	\$ 144,886	\$ 4,656,395	\$ 1,784,751	\$ 22,867	\$ 385,594	\$ 2,193,212	\$ 6,849,607		
Liabilities and Fund Balances												
Liabilities												
Accounts payable and accrued liabilities	\$ 59,991	\$ 107,783	\$ -	\$ -	\$ 167,774	\$ 32,581	\$ -	\$ -	\$ 32,581	\$ 200,355		
Due to other funds	48,132	62,918	-	-	111,050	-	-	-	-	111,050		
Total Liabilities	108,123	170,701	-	-	278,824	32,581	-	-	32,581	311,405		
Fund Balances												
Nonspendable	-	-	-	-	-	-	-	-	-	-		
Stores	-	38,882	-	-	38,882	-	-	-	-	38,882		
Restricted	93,853	3,276,732	-	-	3,370,585	-	-	-	-	3,370,585		
Legally Restricted Balance Assigned	276,820	492,884	53,514	144,886	968,104	1,752,170	22,867	385,594	2,160,631	3,128,735		
Other Assignments	370,673	3,808,498	53,514	144,886	4,377,571	1,752,170	22,867	385,594	2,160,631	6,538,202		
Total Fund Balances	\$ 478,796	\$ 3,979,199	\$ 53,514	\$ 144,886	\$ 4,656,395	\$ 1,784,751	\$ 22,867	\$ 385,594	\$ 2,193,212	\$ 6,849,607		
Total Liabilities and Fund Balances												

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013

	Special Revenue							Capital Projects				Nonmajor Governmental Funds Total
	Child Development Fund	Cafeteria Fund	Special Reserve Fund	Foundation Fund	Total	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund	Total			
										County School Facilities Fund	Special Reserve Fund	
Revenues												
Revenue limit sources												
Revenue limit transfers												
Federal	\$ 228,780	\$ 1,303,215	\$ -	\$ -	\$ 205,113	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,113
Other state	1,105,184	98,770	-	-	1,531,995	-	-	-	-	-	-	1,531,995
Other local	213,116	788,379	139	9,450	1,011,084	1,195,736	274	7,231	1,203,241			1,203,954
Total Revenues	1,547,080	2,395,477	139	9,450	3,952,146	1,195,736	274	7,231	1,203,241			5,155,387
Expenditures												
Instruction	959,771	-	-	-	959,771	-	-	-	-	-	-	959,771
Instruction-related services	309,915	-	-	-	309,915	-	-	-	-	-	-	309,915
Pupil services	7,313	1,784,745	-	-	1,792,058	-	-	-	-	-	-	1,792,058
General administration	48,022	62,823	-	-	110,845	-	-	-	-	-	-	110,845
Plant services	27,189	-	-	11,522	38,711	404,502	-	307,824	712,326			751,037
Other outgo	62,490	-	-	-	62,490	-	-	-	-	-	-	62,490
Total Expenditures	1,414,700	1,847,568	-	11,522	3,273,790	404,502	-	307,824	712,326			3,986,116
Excess (Deficiency) of Revenues Over (Under) Expenditures	132,380	547,909	139	(2,072)	678,356	791,234	274	(300,593)	490,915			1,169,271
Other Financing Sources (Uses)												
Operating transfers in	-	-	53,375	-	53,375	-	-	-	-	-	-	53,375
Total Other Financing Sources (Uses)	-	-	53,375	-	53,375	-	-	-	-	-	-	53,375
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	132,380	547,909	53,514	(2,072)	731,731	791,234	274	(300,593)	490,915			1,222,646
Fund Balances, Beginning	238,293	3,260,589	-	146,958	3,645,840	960,936	22,593	686,187	1,669,716			5,315,556
Fund Balances, Ending	\$ 370,673	\$ 3,808,498	\$ 53,514	\$ 144,886	\$ 4,377,571	\$ 1,752,170	\$ 22,867	\$ 385,594	\$ 2,160,631			\$ 6,538,202

**Supplementary
Information Section**

SAN MATEO-FOSTER CITY SCHOOL DISTRICT

Organization

June 30, 2013

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 - 8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools, four middle schools, one K-8 school and one Before and After School Children Annex.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Lory Lorimer Lawson	President	November, 2013
Julie S. Chan	Vice President	November, 2013
Ellen Mallory Ulrich	Clerk	November, 2013
Colleen Sullivan	Trustee	November, 2015
Audrey Ng	Trustee	November, 2015

Administration

Cynthia Simms
Superintendent

Mary Kay Going
Assistant Superintendent for Educational Services

Molly Barton
Assistant Superintendent for Student Services

Donna Lewis
Assistant Superintendent for Human Resources

Laura Phan
Chief Business Official

Steve Mak
Director of Fiscal Services

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2013

	Second Period <u>Report</u>	Annual <u>Report</u>
Elementary:		
Kindergarten	1,429	1,448
Grade 1 through 3	3,969	3,976
Grade 4 through 6	3,380	3,380
Grade 7 through 8	2,022	2,021
Home and Hospital	2	2
Special education	241	241
Extended year program	<u>12</u>	<u>12</u>
ADA Totals*	<u>11,055</u>	<u>11,080</u>

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 the state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

* Excludes County Supplement.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2013

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Reqmt</u>	<u>2012-13 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	30,976	36,000	38,545	180	-	Complied
Grade 1	47,520	50,400	50,550	180	-	Complied
Grade 2	47,520	50,400	50,550	180	-	Complied
Grade 3	47,520	50,400	50,550	180	-	Complied
Grade 4	52,200	54,000	54,072	180	-	Complied
Grade 5	52,200	54,000	54,072	180	-	Complied
Grade 6	52,200	54,000	56,067	180	-	Complied
Grade 7	52,200	54,000	56,067	180	-	Complied
Grade 8	52,200	54,000	56,067	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201. This schedule is required for all districts, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Charter Schools
Year Ended June 30, 2013

**Charter Schools chartered
by the School District**

None

**Included in the
School District Audit**

Not Applicable

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2013

	(Budget)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>General Fund</u>				
Revenues and other financial sources	\$ <u>92,746,968</u>	\$ <u>99,446,505</u>	\$ <u>92,821,453</u>	\$ <u>90,556,225</u>
Expenditures	94,539,556	90,267,014	79,110,255	78,968,816
Other uses and transfers out	<u>441,160</u>	<u>1,652,930</u>	<u>441,622</u>	<u>-</u>
Total outgo	<u>94,980,716</u>	<u>91,919,944</u>	<u>79,551,877</u>	<u>78,968,816</u>
Change in fund balance (deficit)	(<u>2,233,748</u>)	<u>7,526,561</u>	<u>13,269,576</u>	<u>11,587,409</u>
Ending fund balance	\$ <u>60,627,639</u>	\$ <u>62,861,387</u>	\$ <u>55,334,826</u>	\$ <u>42,065,250</u>
Available reserves*	\$ <u>44,282,132</u>	\$ <u>47,518,528</u>	\$ <u>40,187,673</u>	\$ <u>30,732,619</u>
Available reserves as a percentage of total outgo	<u>46.62%</u>	<u>51.70%</u>	<u>50.52%</u>	<u>38.92%</u>
Total long-term debt	\$ <u>209,627,249</u>	\$ <u>215,314,807</u>	\$ <u>192,585,627</u>	\$ <u>177,736,754</u>
Average daily attendance at P-2	<u>11,178</u>	<u>11,055</u>	<u>10,813</u>	<u>10,517</u>

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.

The General Fund balance has increased by \$37,578,053 over the past two years. This fiscal year 2013-2014 budget projects a decrease of \$2,233,748 (4%). For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in each of the past three years, and anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term debt has increased by \$37,578,053 over the past two years.

Average daily attendance has increased by 250 over the past two years. ADA is anticipated to increase by 177 in the fiscal year 2013-2014.

Starting fiscal year 2010-2011, this table includes General Fund (Fund 01), Deferred Maintenance (Fund 14) and Retiree Benefit Fund (Fund 71).

* Available reserve balances (funds designated for economic uncertainty, and any other remaining undesignated fund balance) within the General Fund or Special Reserve Fund.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Program Name	Federal Catalog Number	PCA	Total Program Expenditures
U.S. Department of Education			
Direct Grant:			
Foreign Language Assistance Program	84.293A	N/A	\$ 85,673
Passed through the California Department of Education:			
Special Education - IDEA Basic Local Assistance	* 84.027	13379	1,911,028
Special Education - IDEA Preschool Grants	* 84.173	13430	73,722
Special Education - IDEA Preschool Local Entitlement Part B	* 84.027A	13682	140,438
Special Education - IDEA Preschool Staff Development	* 84.173A	13431	1,319
Special Education - IDEA Local Assistance, Part B, Sec 611, Private School ISPs	* 84.027A	10115	32,306
Title I, Part A, Basic Grants Low Income & Neglected	* 84.010	14329	739,461
Title I, Part A, Program Improvement LEA Corrective Action, Moderate Performance Problems	* 84.010	14956	472,307
Title II - Part A Teacher Quality	* 84.367	14341	380,502
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	<u>246,677</u>
Total U.S. Department of Education			4,083,433
U.S. Department of Health and Human Services			
Passed through the California Department of Education:			
Medi-Cal Billing Option	93.778	10013	93,020
U.S. Department of Agriculture			
Passed through the California Department of Education:			
Child Nutrition	* 10.555	13396	<u>1,303,215</u>
Total Federal Awards			<u>\$ 5,479,668</u>

* Identified as major programs.

Note 1. Basis of Presentation

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 accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report (SACS)
with Audited Basic Financial Statements
Year Ended June 30, 2013

	<u>General Funds</u>					
	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Retiree Benefit Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Nonmajor Governmental Funds</u>
June 30, 2013, Annual Financial and Budget Report (SACS) Fund Balances	\$ 56,008,302	\$ 1,610,810	\$ 5,242,275	\$ 22,739,646	\$ 12,679,465	\$ 6,538,202
Adjustments and reclassifications increasing (decreasing) the Fund Balances:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2013, Audited Basic Financial Statements Fund Balances	<u>\$ 56,008,302</u>	<u>\$ 1,610,810</u>	<u>\$ 5,242,275</u>	<u>\$ 22,739,646</u>	<u>\$ 12,679,465</u>	<u>\$ 6,538,202</u>

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

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Notes to Supplementary Information
Year Ended June 30, 2013

NOTE 1. BASIS OF PRESENTATION

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 accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of financial statements.

NOTE 2. SUBRECIPIENTS

Of the federal awards presented in the schedule, San Mateo-Foster City School District provided no federal awards to subrecipients.

**Other Independent Auditors'
Report Section**



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2013, and the related notes to the financial statements, which collectively comprise San Mateo-Foster City School District's basic financial statements, and have issued our report thereon dated November 8, 2013.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Vargas and Company
San Jose, California
November 8, 2013



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees of
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 the *OMB Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, 2013.


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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Vargas and Company
San Jose, California
November 8, 2013



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited San Mateo-Foster City School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* that could have a direct and material effect on each of San Mateo-Foster City School District's government programs, as listed below, for the year ended June 30, 2013. Compliance with the applicable compliance requirements is the responsibility of the San Mateo-Foster City School District's management. Our responsibility is to express an opinion on San Mateo-Foster City School District's compliance with the applicable compliance requirements based on the compliance audit.

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 governmental audit requirement described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*. Those standards require that we plan and perform the compliance 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 the government program occurred. A compliance audit included examining, on a test basis, evidence about the 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 compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination of the San Mateo-Foster City School District's compliance with those requirements.


<u>Compliance requirement on:</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No (see below)
Continuation education	10	Not applicable
Instructional time for:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Yes
School accountability report card	3	Yes

<u>Compliance requirement on:</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Court Schools	8	Not applicable
Class size reduction (including charter schools):		
General requirements	7	Yes
Option one	3	Yes
Option two	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
For Charter Schools:		
Contemporaneous records of attendance	1	Not applicable
Mode of instruction	1	Not applicable
Nonclassroom-based instruction/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – Classroom based	4	Not applicable

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

In our opinion, San Mateo-Foster City School District complied, in all material respects, with the applicable compliance requirements referred to above that could have a direct and material effect on each of its government program for the year ended June 30, 2013.

This report is intended solely for the information and use of the management, the Board of Trustees, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


Vargas and Company
San Jose, California
November 8, 2013

**Findings and
Recommendations Section**

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? No.
- Significant deficiency(ies) identified? None reported.

Noncompliance material to financial statements noted? No.

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No.
- Significant deficiency(ies) identified? None reported.

Type of auditors' report issued on compliance for major programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027 & 84.173	Special Education (Cluster)
84.010	Title I, Part A (Cluster)
84.367	Title II - Part A Teacher Quality
10.555	Child Nutrition (Cluster)

Dollar threshold used to distinguish between type A and type B programs \$300,000.

Auditee qualified as low-risk auditee? Yes.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013

State Awards

Type of auditors' report issued on compliance for
state programs:

Unqualified.

Section II - Financial Statement Findings

Our audit of the accompanying basic financial statements of San Mateo-Foster City School District as of and for the year ended June 30, 2013, disclosed no findings and questioned costs.

Our report on San Mateo-Foster City School District's 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*, as of and for the year ended June 30, 2013, disclosed no findings nor questioned costs.

Section III - Federal Award Findings and Questioned Costs

Our report on San Mateo-Foster City School District's compliance for each major program and on internal control over compliance required by *OMB Circular A-133*, as of and for the year ended June 30, 2013, disclosed no findings nor questioned costs.

Section IV - State Award Findings and Questioned Costs

Our report on San Mateo-Foster City School District's compliance with state compliance requirements, as of and for the year ended June 30, 2013, disclosed no findings nor questioned costs.

SAN MATEO-FOSTER CITY SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Section I – Financial Statement Findings

Our audit of the basic financial statements of San Mateo-Foster City School District as of and for the year ended June 30, 2012, disclosed no findings and questioned costs.

Our report on San Mateo-Foster City School District's internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2012, disclosed no findings nor questioned costs.

Section II – Federal Award Findings and Questioned Costs

Our report on San Mateo-Foster City School District's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with *OMB Circular A-133*, as of and for the year ended June 30, 2012, disclosed no findings nor questioned costs.

Section III - State Award Findings and Questioned Costs

Our report on San Mateo-Foster City School District's compliance with state compliance requirements, as of and for the year ended June 30, 2012, disclosed no findings nor questioned costs.