

MENLO PARK CITY SCHOOL DISTRICT
Atherton, California

FINANCIAL STATEMENTS
June 30, 2013

MENLO PARK CITY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2013

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MENLO PARK CITY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2013

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**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

This section of Menlo Park City School District's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. The intent of the Management Discussion and Analysis (MD & A) is to look at the District's financial performance as a whole. With this in mind, please also refer to the District's financial statements (including notes and supplementary information).

Using the Annual Report

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

The Statement of Net Position and Statement of Activities comprise the District-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of Menlo Park City School District, the General Fund is the most significant fund.

Overview of the Financial Statements

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Menlo Park City School District
Atherton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menlo Park City School District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Menlo Park City School 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, each major fund, and the aggregate remaining fund information of Menlo Park City School District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for Menlo Park City School District's fiscal year ended June 30, 2014, with earlier application being encouraged. Menlo Park City School District has implemented this Statement retroactively for the year ended June 30, 2013 resulting in restated net position at July 1, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 10 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule and Schedule of Other Postemployment Benefits (OPEB) Funding Progress on pages 40 and 41 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Menlo Park City School District's financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information, except for the Schedule of Financial Trends and Analysis, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of Menlo Park 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 Menlo Park City School District's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Crowe Horwath LLP", is positioned above the printed name of the firm.

Crowe Horwath LLP

Sacramento, California
December 6, 2013

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Government-Wide Financial Statements – Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during the fiscal year 2012-13?” The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District’s Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District’s most significant funds. The District’s major governmental funds are the General Fund, the Building Fund, the Capital Facilities Fund, and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position as of June 30, 2013 compared to June 30, 2012:

Table 1 - Summary of the Statement of Net Position				
	2013	2012	Change	Percentage Change
Assets				
Current and Other Assets	\$ 31,964,702	\$ 40,490,973	\$ (8,526,271)	-21%
Capital Assets	117,386,376	108,937,457	8,448,919	8%
Total Assets	149,351,078	149,428,430	(77,352)	0%
Deferred Outflows				
Deferred Loss on Refunding of Debt	2,405,701	-	2,405,701	100%
Liabilities				
Current Liabilities and Other	4,912,085	8,206,425	(3,294,340)	-40%
Long-Term Liabilities	114,779,345	110,713,326	4,066,019	4%
Total Liabilities	119,691,430	118,919,751	771,679	1%
Net Position				
Net Investment in Capital Assets	3,712,021	(1,157,082)	4,869,103	-421%
Restricted	20,369,639	25,771,482	(5,401,843)	-21%
Unrestricted	7,983,689	5,894,279	2,089,410	35%
Total Net Position	\$ 32,065,349	\$ 30,508,679	\$ 1,556,670	5%

The change in Net Position from 2012 to 2013 is \$1.5 million mainly due to the Deferral of loss from Bond Refunding. Assets changed from Current to Capital Assets as cash was spent for Work in Process. Current Liabilities were reduced by payments as facilities were completed. Long-Term Liabilities increased for principal and interest on Bond refunding offset by principal payments.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Table 2 shows the changes in net position during the fiscal year 2012-13:

Table 2 - Summary of Changes in Net Position				
	2013	2012	Change	Percentage Change
Revenues				
Program Revenues				
Charges for services	\$39,030	\$25,072	\$13,958	56%
Operating grants and contributions	1,160,980	1,555,847	(394,867)	-25%
Capital grants and contributions	2,701,738	-	2,701,738	100%
General Revenues:				
Property taxes	33,212,817	30,505,395	2,707,422	9%
Grants and entitlements - unrestricted	1,933,466	931,705	1,001,761	108%
Other	4,963,129	4,714,608	248,521	5%
Total Revenues	44,011,160	37,732,627	6,278,533	17%
Program Expenses				
Instruction	24,584,151	22,888,609	1,695,542	7%
Instruction-related services	4,402,798	4,035,095	367,703	9%
Pupil services	1,648,409	1,467,095	181,314	12%
General administration	2,477,509	3,008,391	(530,882)	-18%
Plant services	3,215,567	2,050,464	1,165,103	57%
Interest and fiscal charges	2,308,645	2,530,367	(221,722)	-9%
Other outgo	3,239,890	2,409,354	830,536	34%
Total Expenses	41,876,969	38,389,375	3,487,594	9%
Change in Net Position	2,134,191	(656,748)	2,790,939	-425%
Beginning Net Position, as previously stated	30,508,679	-	30,508,679	
Cumulative effective of change in accounting principle	(577,521)	-	(577,521)	
Beginning Net Position, restated	29,931,158	31,165,427	(1,234,269)	-4%
Ending Net Position	\$32,065,349	\$30,508,679	\$1,556,670	5%

Financial Highlights:

Overall revenues and transfers-in to the General Fund were \$35.9 million. Total Expenditures were \$34.4 million.

Property taxes accounted for 66% of this Basic Aid District's General Fund revenue. Another 18% was received from Parcel taxes. In addition, the Menlo Park Education Foundation \$3.35 million equates to more than 9% of the District's revenue.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

For the fiscal year 2012-13, the District student enrollment increased by 80 students, which increases ADA and the number of teachers needed without a corresponding increase in revenue, which a revenue limit district would receive.

Instruction and Instruction Related Services make up 69% of the District's Governmental Activities Program Expenses. Pupil Services make up another 4%.

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

Table 3 - Net Cost of Services				
	2013	2012	Change	Percentage Change
Instruction	\$21,052,030	\$21,647,658	\$(595,628)	-3%
Instruction-related services	4,381,299	4,004,090	377,209	9%
Pupil services	1,457,487	1,262,282	195,205	15%
General administration	2,467,579	3,003,902	(536,323)	-18%
Plant services	3,215,567	2,050,464	1,165,103	57%
Interest and fiscal charges	2,308,645	2,530,367	(221,722)	-9%
Other outgo	3,092,614	2,309,693	782,921	34%
Total Net Cost of Services	<u>\$37,975,221</u>	<u>\$36,808,456</u>	<u>\$1,166,765</u>	<u>3%</u>

Net Cost of Services takes into account any charges for services, grants and contributions that reduce the Total Cost of Services.

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

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

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

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

Interest and Fiscal Charges involve the transactions associated with the payment of interest and other related charges to debt of the District.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

District's Fund Balances

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

Table 4 - Summary of Fund Balances

	2013	2012	Change	Percentage Change
General Fund	\$17,094,703	\$16,032,497	\$1,062,206	7%
Cafeteria Fund	80,641	64,240	16,401	26%
Deferred Maintenance Fund	1,015,236	295,904	719,332	243%
Building Fund	4,596,451	11,855,121	(7,258,670)	-61%
Capital Facilities Fund	503,472	636,032	(132,560)	-21%
County School Facilities Fund	136,868	126,844	10,024	8%
Special Reserve for Capital Outlay Projects Fund	743,256	46,601	696,655	1495%
Bond Interest and Redemption Fund	4,238,853	3,905,220	333,633	9%
Total Fund Balances	\$28,409,480	\$32,962,459	\$(4,552,979)	-14%

Building and Capital Facilities Funds are used to complete approved capital projects at the school sites. Decreases in these funds reflect the District's current facilities construction programs. Increases in the Deferred Maintenance and Special Reserve for Capital Outlay Funds reflect one time resources directed to future facilities programs and maintenance.

Capital Assets

At the end of the fiscal year 2012-13, the District had invested \$ 134,036,295 in land, buildings, furniture and equipment, and vehicles.

Table 5 shows June 30, 2013 balances compared to June 30, 2012:

Table 5 - Summary of Capital Assets, Net of Depreciation

	2013	2012	Change	Percentage Change
Land	\$189,638	\$189,638	\$-	0%
Construction in Progress	50,550,568	41,237,639	9,312,929	23%
Site Improvements	663,471	735,593	(72,122)	-10%
Buildings and Improvements	65,670,742	66,488,168	(817,426)	-1%
Equipment	311,957	286,419	25,538	9%
Total Capital Assets - Net	\$ 117,386,376	\$ 108,937,457	\$ 8,448,919	8%

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Long Term Debt

Table 6 reports the balance and changes of long-term liabilities during the fiscal year 2012-13:

Table 6 - Summary of Long-Term Liabilities

	2013	2012	Change	Percentage Change
General obligation bonds	\$108,536,731	\$110,094,539	\$(1,557,808)	-1%
Unamortized bond premium	5,137,624	345,473	4,792,151	1387%
Net OPEB obligation	820,164	545,240	274,924	50%
Compensated absences	284,826	312,776	(27,950)	-9%
Total Long-term Liabilities	\$114,779,345	\$111,298,028	\$ 3,481,317	31%

Factors Bearing on the District's Future

The District's 2013-14 Adopted Budget included an increase in Property Tax of approximately 7.75%. Step & Column costs are budgeted. As a Basic Aid District, student enrollment growth is not welcomed for revenue purposes as in revenue limit districts and so presents a challenge, as does the general State economy. The District maintains economic uncertainty reserves to weather economic adversity.

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Diane White, Chief Business Official, Menlo Park City School District, 181 Encinal Avenue, Atherton, CA 94027.

BASIC FINANCIAL STATEMENTS

MENLO PARK CITY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 30,913,874
Receivables	1,050,828
Non-depreciable capital assets (Note 4)	50,740,206
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>66,646,170</u>
Total assets	<u>149,351,078</u>
DEFERRED OUTFLOWS	
Deferred loss from refunding of debt	<u>2,405,701</u>
LIABILITIES	
Accounts payable	4,899,900
Unearned revenue	12,185
Long-term liabilities (Note 5):	
Due within one year	2,465,413
Due after one year	<u>112,313,932</u>
Total liabilities	<u>119,691,430</u>
NET POSITION	
Net investment in capital assets	3,712,021
Restricted (Note 6)	20,369,639
Unrestricted	<u>7,983,689</u>
Total net position	<u>\$ 32,065,349</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

			<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
	<u>Expenses</u>	<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities (Note 4):					
Instruction	\$ 24,584,151	\$ 2,716	\$ 827,667	\$ 2,701,738	\$ (21,052,030)
Instruction-related services:					
Supervision of instruction	1,787,771	113	19,265	-	(1,768,393)
Instructional library, media and technology	793,235	55	1,263	-	(791,917)
School site administration	1,821,792	-	803	-	(1,820,989)
Pupil services:					
Home-to-school transportation	312,249	22,028	38,535	-	(251,686)
Food services	207,024	6,960	106,627	-	(93,437)
All other pupil services	1,129,136	336	16,436	-	(1,112,364)
General administration:					
Centralized data processing	569,884	255	5,818	-	(563,811)
All other general administration	1,907,625	229	3,628	-	(1,903,768)
Plant services	3,215,567	-	-	-	(3,215,567)
Interest on long-term liabilities	2,308,645	-	-	-	(2,308,645)
Other outgo	<u>3,239,890</u>	<u>6,338</u>	<u>140,938</u>	<u>-</u>	<u>(3,092,614)</u>
Total governmental activities	<u>\$ 41,876,969</u>	<u>\$ 39,030</u>	<u>\$ 1,160,980</u>	<u>\$ 2,701,738</u>	<u>(37,975,221)</u>

General revenues:

Taxes and subventions:

Taxes levied for general purposes	22,388,175
Taxes levied for debt service	4,645,509
Taxes levied for other specific purposes	6,179,133
Federal and state aid not restricted to specific purposes	1,933,466
Interest and investment earnings	575,520
Miscellaneous	<u>4,387,609</u>

Total general revenues 40,109,412

Change in net position 2,134,191

Net position, July 1, 2012, as previously stated 30,508,679

Cumulative effect of change in accounting principle (577,521)

Net position, July 1, 2012, as restated 29,931,158

Net position, June 30, 2013 \$ 32,065,349

See accompanying notes to these financial statements.

MENLO PARK CITY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total Govern- mental Funds</u>
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 17,157,706	\$ 6,987,370	\$ 472,120	\$ 4,233,279	\$ 1,952,996	\$ 30,803,471
Cash in revolving fund	5,000	-	-	-	-	5,000
Investments	105,403	-	-	-	-	105,403
Receivables	944,171	11,311	52,751	5,574	37,021	1,050,828
Due from other funds	<u>177,258</u>	<u>21</u>	<u>159,588</u>	<u>-</u>	<u>-</u>	<u>336,867</u>
Total assets	<u>\$ 18,389,538</u>	<u>\$ 6,998,702</u>	<u>\$ 684,459</u>	<u>\$ 4,238,853</u>	<u>\$ 1,990,017</u>	<u>\$ 32,301,569</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,123,041	\$ 2,397,052	\$ 19,440	\$ -	\$ 3,504	\$ 3,543,037
Due to other funds	159,609	5,199	161,547	-	10,512	336,867
Unearned revenue	<u>12,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,185</u>
Total liabilities	<u>1,294,835</u>	<u>2,402,251</u>	<u>180,987</u>	<u>-</u>	<u>14,016</u>	<u>3,892,089</u>
Fund balances:						
Nonspendable	5,000	-	-	-	-	5,000
Restricted	9,054,862	4,596,451	503,472	4,238,853	1,976,001	20,369,639
Assigned	1,706,127	-	-	-	-	1,706,127
Unassigned	<u>6,328,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,328,714</u>
Total fund balances	<u>17,094,703</u>	<u>4,596,451</u>	<u>503,472</u>	<u>4,238,853</u>	<u>1,976,001</u>	<u>28,409,480</u>
Total liabilities and fund balances	<u>\$ 18,389,538</u>	<u>\$ 6,998,702</u>	<u>\$ 684,459</u>	<u>\$ 4,238,853</u>	<u>\$ 1,990,017</u>	<u>\$ 32,301,569</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2013

Total fund balances - Governmental Funds \$ 28,409,480

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$134,036,295 and the accumulated depreciation is \$16,649,919 (Note 4).

117,386,376

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2013 consisted of (Note 5):

General Obligation Bonds	\$ (95,982,583)	
Accreted interest on General Obligation Bonds	(12,554,148)	
Unamortized bond premiums	(5,137,624)	
Other postemployment benefits (OPEB) (Note 8)	(820,164)	
Compensated absences	<u>(284,826)</u>	(114,779,345)

Losses on refundings of debt are categorized as deferred outflows and are amortized over the life of the related debt.

2,405,701

In governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.

(1,356,863)

Total net position - governmental activities

\$ 32,065,349

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Funds</u>	<u>Bond Interest and Redemption Funds</u>	<u>All Non-Major Funds</u>	<u>Total Govern- mental Funds</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 1,153,957	\$ -	\$ -	\$ -	\$ -	\$ 1,153,957
Local sources	<u>22,388,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,388,174</u>
Total revenue limit	<u>23,542,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,542,131</u>
Federal sources	621,627	-	-	-	111,901	733,528
Other state sources	872,336	-	6,169,133	15,524	2,786,846	9,843,839
Other local sources	<u>4,506,214</u>	<u>563,550</u>	<u>489,566</u>	<u>4,649,936</u>	<u>31,987</u>	<u>10,241,253</u>
Total revenues	<u>29,542,308</u>	<u>563,550</u>	<u>6,658,699</u>	<u>4,665,460</u>	<u>2,930,734</u>	<u>44,360,751</u>
Expenditures:						
Certificated salaries	20,040,998	-	-	-	-	20,040,998
Classified salaries	4,406,544	150,424	-	-	-	4,556,968
Employee benefits	5,516,573	32,840	-	-	-	5,549,413
Books and supplies	1,084,189	673,992	-	-	103,576	1,861,757
Contract services and operating expenditures	2,182,736	373	22,126	-	-	2,205,235
Capital outlay	49,682	9,666,329	600,000	-	-	10,316,011
Other outgo	51,521	-	-	-	-	51,521
Debt service:						
Principal retirement	-	-	-	2,001,177	-	2,001,177
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,741,301</u>	<u>-</u>	<u>4,741,301</u>
Total expenditures	<u>33,332,243</u>	<u>10,523,958</u>	<u>622,126</u>	<u>6,742,478</u>	<u>103,576</u>	<u>51,324,381</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(3,789,935)</u>	<u>(9,960,408)</u>	<u>6,036,573</u>	<u>(2,077,018)</u>	<u>2,827,158</u>	<u>(6,963,630)</u>
Other financing sources (uses):						
Operating transfers in	6,179,645	2,701,738	-	-	1,327,504	10,208,887
Operating transfers out	(1,327,504)	-	(6,169,133)	-	(2,712,250)	(10,208,887)
Refundings of debt	-	-	-	(34,140,000)	-	(34,140,000)
Proceeds from issuance of debt	-	-	-	31,395,000	-	31,395,000
Other financing sources	-	-	-	5,318,008	-	5,318,008
Other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(162,357)</u>	<u>-</u>	<u>(162,357)</u>
Total other financing sources (uses)	<u>4,852,141</u>	<u>2,701,738</u>	<u>(6,169,133)</u>	<u>2,410,651</u>	<u>(1,384,746)</u>	<u>2,410,651</u>
Net change in fund balances	1,062,206	(7,258,670)	(132,560)	333,633	1,442,412	(4,552,979)
Fund balances, July 1, 2012	<u>16,032,497</u>	<u>11,855,121</u>	<u>636,032</u>	<u>3,905,220</u>	<u>533,589</u>	<u>32,962,459</u>
Fund balances, June 30, 2013	<u>\$ 17,094,703</u>	<u>\$ 4,596,451</u>	<u>\$ 503,472</u>	<u>\$ 4,238,853</u>	<u>\$ 1,976,001</u>	<u>\$ 28,409,480</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2013

Net change in fund balances - Total Governmental Funds \$ (4,552,979)

Amounts reported for governmental activities in the statement
of activities are different because:

Acquisition of capital assets is an expenditure in the
governmental funds, but increases capital assets in the
statement of net position (Note 4). 10,066,943

Depreciation of capital assets is an expense that is not
recorded in the governmental funds (Note 4). (1,618,024)

Repayment of principal on long-term liabilities is an
expenditure in the governmental funds, but decreases the
long-term liabilities in the statement of net position (Note 5). 36,141,177

Accreted interest on general obligation bonds is not accrued
in governmental funds, but is recognized over the life of the
debt in government-wide financial statements (Note 5). (3,188,369)

Issuance of long-term liabilities is an other financing source in
the governmental funds, but increases the long-term
liabilities in the statement of net position (Note 5). (31,395,000)

In governmental funds, deferred outflows of resources are not
recognized. In the government-wide statements, deferred
outflows of resources are amortized over the life of the debt. 1,820,999

In governmental funds, premiums associated with the
issuance of debt are recognized as an other financing
source in the period it is incurred. In the government-wide
statements, the premiums are amortized over the life of the
related debt (Note 5). (4,792,151)

Unmatured interest is not recognized until it is due and,
therefore, is not accrued as a payable in governmental
funds. (101,431)

In the statement of activities, expenses related to other
postemployment benefits and compensated absences are
measured by the amounts earned during the year. In the
governmental funds, expenditures are measured by the
amount of financial resources used (Note 5). (246,974) 6,687,170

Change in net position of governmental activities \$ 2,134,191

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
June 30, 2013

	<u>Student Body Funds</u>
ASSETS	
Cash on hand and in bank	\$ <u>55,805</u>
LIABILITIES	
Due to student groups	<u>55,805</u>
NET POSITION	
Restricted	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Menlo Park City School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California 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. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities.

Basis of Presentation - Financial Statements

The financial statements include a Management Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements (Continued)

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, 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 balances, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

A - Major Funds

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. For financial reporting purposes, the current year activity and year end balances of the Special Reserve for Other than Capital Outlay and Special Reserve for Postemployment Benefits (OPEB) Funds are combined with the General Fund.

2 - Building Fund:

The Building Fund is used to account for resources used for the acquisition of capital facilities by the District.

3 - Capital Facilities Fund:

The Capital Facilities Fund is used to account for resources used for the acquisition or construction of major capital facilities and equipment, and primarily includes funds received from fees levied on developers or other agencies as a condition of approving a development project.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Major Funds (Continued)

4 - Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, general long-term debt principal, interest, and related costs.

B - Other Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This includes the Cafeteria and Deferred Maintenance Funds.

Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This includes the County School Facilities and Special Reserve for Capital Outlay Funds.

The Student Body Fund is a Fiduciary Fund for which the District acts as an agent. All cash activity and assets of the various student bodies of the District are accounted for in the Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Budgets and Budgetary Accounting

By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

Receivables

Receivables are made up principally of amounts due from the State of California for Revenue Limit funding and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2013.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 30 years depending on asset types.

Compensated Absences

Compensated absences in the amount of \$284,826 is recorded as a liability of the District. The liability is for earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenditures in the period sick leave is taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for all STRS and CalPERS employees, when the employee retires.

Unearned Revenue

Revenues from federal, state, and local special projects and programs are recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues represents the portion of net position restricted to specific program expenditures. The restrictions for special revenues, capital projects and debt repayment represents the portion of net position restricted for special purposes, capital projects and the retirement of debt. It is the District's policy to use restricted net position first, when allowable expenditures are incurred.

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2013, the District had no committed fund balances.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Fund Balance Classifications (Continued)

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2013, no such designation has occurred.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require Districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. The District has established a minimum fund balance policy requiring a Reserve for Economic Uncertainty of no less than 10% of total expenditures, outgo and other financing uses. At June 30, 2013, the District has not established a stabilization arrangement.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of San Mateo bills and collects taxes for the District. Tax revenues are recognized by the District when received.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Encumbrances

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

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues. This statement was adopted for the District's fiscal year ended June 30, 2013 with no material impact on the District's financial statements.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement was adopted for the District's fiscal year ended June 30, 2013 with no material impact on the District's financial statements.

MENLO PARK CITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. This statement was adopted for the year ended June 30, 2013 with no material impact on the District's financial statements.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for the District’s fiscal year ended June 30, 2014, with earlier application being encouraged. Based on the implementation of Statement No. 65 the District’s net position as of July 1, 2012 was restated by \$577,521 because bond issuance costs were no longer capitalized. The District also established a Deferred Outflow caption to report the deferred losses on refundings of debt from prior and current years, which had previously been reported with long-term liabilities.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

New Accounting Pronouncements (Continued)

In March 2012, the GASB issued Statement No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, Districts should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application encouraged. Management has not determined what impact, if any, this statement will have on the District's financial statements.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This Statement is effective for the District's financial period beginning June 30, 2014. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the District's financial period beginning June 30, 2015. Management has not determined what impact, if any, this statement might have on the District's financial statements.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2013 consisted of the following:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in County Treasury	\$ 30,803,471	\$ -
Deposits:		
Cash on hand and in banks	-	55,805
Cash in revolving fund	5,000	-
Investments:		
Cash in Local Agency Investment Fund	1,971	-
Cash in County Treasury - Investment	<u>103,432</u>	<u>-</u>
Total	<u>\$ 30,913,874</u>	<u>\$ 55,805</u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Mateo County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Pooled Funds (Continued)

In accordance with applicable state laws, the San Mateo County Treasurer may invest in derivative securities. However, at June 30, 2013, the San Mateo County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2013, the carrying amount of the District's accounts were \$60,805, and the bank balances were \$63,125, all of which was insured.

Cash with Fiscal Agent

Cash with Fiscal Agent in the General Fund represents amounts held by a third party in the District's name.

Investments

Menlo Park City School District places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in the pool is reported in the accompanying financial statements 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 monies held in the pooled investments funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours' notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity and yield are not jeopardized.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

The District's investment policy limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2013, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District's investment policy limits its investment choices to those within the limitations of state law.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2013, the District had no concentration of credit risk.

Interfund Activity

Transactions between funds of the District for goods and services are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and from other funds.

3. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 177,258	\$ 159,609
Building	21	5,199
Capital Facilities	159,588	161,547
Non-Major Funds:		
Cafeteria	<u>-</u>	<u>10,512</u>
Totals	<u>\$ 336,867</u>	<u>\$ 336,867</u>

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2012-2013 fiscal year were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund to transfer proceeds from the sale of facilities.	\$ 631,648
Transfer from the General Fund to the Special Reserve for Capital Outlay Fund to cover the rental expenses at the O'Connor school site.	695,856
Transfer from the Cafeteria Fund to the General Fund for the reimbursement of clerical costs for National School Lunch Program.	7,497
Transfer from the Cafeteria Fund to the General Fund for indirect cost support.	3,015
Transfer from the Capital Facilities Fund to the General Fund for parcel tax receipts.	6,169,133
Transfer from the County School Facilities Fund to the Building Fund to pay for facilities construction expense.	<u>2,701,738</u>
	<u><u>\$ 10,208,887</u></u>

MENLO PARK CITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital asset for the year ended June 30, 2013, is shown below:

	Balance July 1, 2012	Transfers and Additions	Transfers and Deductions	Balance June 30, 2013
Non-depreciable:				
Land	\$ 189,638	\$ -	\$ -	\$ 189,638
Work-in-process	41,237,639	9,571,384	258,455	50,550,568
Depreciable:				
Improvement of sites	2,313,423	-	-	2,313,423
Buildings	80,197,811	445,877	133,261	80,510,427
Equipment	<u>434,331</u>	<u>49,682</u>	<u>11,774</u>	<u>472,239</u>
Totals, at cost	<u>124,372,842</u>	<u>10,066,943</u>	<u>403,490</u>	<u>134,036,295</u>
Less accumulated depreciation:				
Improvement of sites	(1,577,830)	(72,122)	-	(1,649,952)
Buildings	(13,709,643)	(1,521,758)	(391,716)	(14,839,685)
Equipment	<u>(147,912)</u>	<u>(24,144)</u>	<u>(11,774)</u>	<u>(160,282)</u>
Total accumulated depreciation	<u>(15,435,385)</u>	<u>(1,618,024)</u>	<u>(403,490)</u>	<u>(16,649,919)</u>
Capital assets, net	<u>\$108,937,457</u>	<u>\$ 8,448,919</u>	<u>\$ -</u>	<u>\$117,386,376</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 1,362,431
Food services	103,448
General administration	148,044
Plant services	<u>4,101</u>
Total depreciation expense	<u>\$ 1,618,024</u>

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES

General Obligation Bonds

In April 2004, the District issued 2004 General Obligation Refunding Bonds totaling \$5,570,000. The proceeds of the Bonds were used to advance refund the District's Series A 1996 General Obligation Bonds. The 2004 General Obligation Bonds bear interest at rates ranging from 1.75% to 3.00%, and mature through July 1, 2021.

In November 2005, the District issued 2005 General Obligation Refunding Bonds totaling \$13,915,000. The proceeds of the Bonds were used to advance refund the District's Series B 1998 General Obligation Bonds. The 2005 General Obligation Refunding Bonds bear interest at rates ranging from 3.0% to 4.3%, and mature through July 1, 2023.

In February 2007, the District issued Election of 2006, Series 2007 General Obligation Bonds totaling \$35,000,000. The Series 2007 General Obligation Bonds bear interest at rates ranging from 3.40% to 4.00%, and mature through July 1, 2031.

In July 2008, the District issued Election of 2006, Series 2008 General Obligation Bonds totaling \$33,264,728. The Bonds comprise of \$9,000,000 in Current Interest Bonds, and \$24,264,728 in Capital Appreciation Bonds. The Current Interest Bonds bear interest at 5.0% and mature through July 1, 2039. The Capital Appreciation Bonds bear interest at rates ranging from 4.15% to 8.00%, and mature through July 1, 2043.

In March 2010, the District issued Election of 2006, Series 2010 General Obligation Bonds totaling \$22,835,271. The Bonds bear interest at rates ranging from 1.10% to 6.37%, and mature through July 1, 2044.

In July 2012, the District issued 2012 General Obligation Refunding Bonds totaling \$31,395,000, for the purpose of refunding the outstanding balance of both the District's 2004 General Obligation Refunding Bonds and the Election of 2006, Series 2007 General Obligation Bonds. The Bonds bear interest at rates ranging from 2.00% to 5.00%, and mature through July 1, 2031. As of June 30, 2013, \$34,140,000 of bonds outstanding are considered defeased.

Although the 2012 refundings resulted in the recognition of an accounting loss of \$2,087,342 for the year ended June 30, 2013, the District in effect reduced its aggregate debt service payments by \$2.3 million over the next nineteen years, and obtained an economic gain of \$1.8 million.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The calculation of difference in cash flow requirements and economic gain follows:

Old debt service cash flows	\$ 51,128,231
New debt service cash flows	<u>48,880,319</u>
Cash flow difference	<u><u>\$ 2,247,912</u></u>
Present value of old debt service cash flows	\$ 40,452,562
Present value of new debt service cash flows	<u>38,680,193</u>
Economic gain	<u><u>\$ 1,772,369</u></u>

Series	Original Issuance	Balance July 1, 2012	Issued Current Year	Redeemed Current Year	Balance June 30, 2013
2004 Refunding	\$ 5,570,000	\$ 3,185,000	\$ -	\$ 3,185,000	\$ -
2005 Refunding	13,915,000	10,310,000	-	620,000	9,690,000
2007	35,000,000	31,830,000	-	31,830,000	-
2008	33,264,728	32,568,489	-	506,177	32,062,312
2010	22,835,271	22,835,271	-	-	22,835,271
2012	<u>31,395,000</u>	<u>-</u>	<u>31,395,000</u>	<u>-</u>	<u>31,395,000</u>
Total	<u><u>\$ 141,979,999</u></u>	<u><u>\$ 100,728,760</u></u>	<u><u>\$ 31,395,000</u></u>	<u><u>\$ 36,141,177</u></u>	<u><u>\$ 95,982,583</u></u>

The General Obligation Bonds are scheduled to mature as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,128,836	\$ 2,446,025	\$ 4,574,861
2015	2,171,124	2,529,700	4,700,824
2016	2,458,346	2,425,178	4,883,524
2017	2,703,331	2,378,393	5,081,724
2018	2,954,352	2,264,139	5,218,491
2019-2023	17,204,951	12,407,203	29,612,154
2024-2028	16,562,979	15,253,787	31,816,766
2029-2033	15,316,076	24,418,124	39,734,200
2034-2038	8,811,279	44,576,847	53,388,126
2039-2043	14,713,961	54,643,664	69,357,625
2044-2045	<u>10,957,348</u>	<u>22,202,962</u>	<u>33,160,310</u>
	<u><u>\$ 95,982,583</u></u>	<u><u>\$ 185,546,022</u></u>	<u><u>\$ 281,528,605</u></u>

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amounts Due Within One Year
General Obligation Bonds	\$ 100,728,760	\$ 31,395,000	\$ 36,141,177	\$ 95,982,583	\$ 2,128,836
Accreted interest	9,365,779	3,355,379	167,010	12,554,148	336,577
Unamortized bond premiums	345,473	5,318,008	525,857	5,137,624	-
Net OPEB obligation (Note 8)	545,240	701,663	426,739	820,164	-
Compensated absences	312,776	-	27,950	284,826	-
	<u>\$ 111,298,028</u>	<u>\$ 40,770,050</u>	<u>\$ 37,288,733</u>	<u>\$ 114,779,345</u>	<u>\$ 2,465,413</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the net OPEB obligation and compensated absences are made from the fund for which the employee worked.

6. NET POSITION / FUND BALANCES

The restricted net position as of June 30, 2013 consisted of the following:

	<u>Governmental Activities</u>
Restricted for:	
Routine restricted maintenance	\$ 847,583
Measures A, B and C Parcel Tax	6,690,740
Restricted lottery	236,939
Local grants	266,164
ELAP	2,495
Postemployment benefits	1,010,941
Special revenue programs	1,095,877
Capital projects	5,980,047
Debt repayment	<u>4,238,853</u>
	<u>\$ 20,369,639</u>

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. NET POSITION / FUND BALANCES (Continued)

Fund balances, by category, at June 30, 2013 consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:						
Revolving cash fund	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Restricted:						
Routine restricted maintenance	847,583	-	-	-	-	847,583
Measures A, B and C Parcel Tax	6,690,740	-	-	-	-	6,690,740
Restricted Lottery	236,939	-	-	-	-	236,939
Local Grants	266,164	-	-	-	-	266,164
ELAP	2,495	-	-	-	-	2,495
Postemployment benefits	1,010,941	-	-	-	-	1,010,941
Food service operations	-	-	-	-	80,641	80,641
Deferred maintenance	-	-	-	-	1,015,236	1,015,236
Capital projects	-	4,596,451	503,472	-	880,124	5,980,047
Debt service	-	-	-	4,238,853	-	4,238,853
Subtotal restricted	9,054,862	4,596,451	503,472	4,238,853	1,976,001	20,369,639
Assigned:						
Property Tax reassessments	330,000	-	-	-	-	330,000
Instructional materials	255,594	-	-	-	-	255,594
Unrestricted lottery	346,459	-	-	-	-	346,459
Foundation	390,972	-	-	-	-	390,972
Unsecured taxes	175,555	-	-	-	-	175,555
Equipment reserve	25,000	-	-	-	-	25,000
Redevelopment Agency	25,000	-	-	-	-	25,000
Site grants	157,547	-	-	-	-	157,547
Subtotal assigned	1,706,127	-	-	-	-	1,706,127
Unassigned:						
Designated for economic uncertainty	6,328,714	-	-	-	-	6,328,714
Total fund balances	\$ 17,094,703	\$ 4,596,451	\$ 503,472	\$ 4,238,853	\$ 1,976,001	\$ 28,409,480

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (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 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, 400 Q Street, Sacramento, California 95811.

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, 2011, 2012 and 2013 were \$406,533, \$397,085 and \$449,222, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (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 by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. 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 years ending June 30, 2011, 2012 and 2013 were \$1,432,371, \$1,495,402 and \$1,650,971, respectively, and equal 100% of the required contributions for each year.

8. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits discussed in Note 7, the Board of Education has adopted a retirement benefit program. The District has agreed to pay health care benefits, including medical, dental and vision benefits to certain eligible employees based on age and length of service. Certificated and classified employees are eligible to receive a maximum of twelve years and five years, respectively.

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 Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 677,913
Interest on net OPEB obligation	27,262
Adjustment to annual required contribution	<u>(3,513)</u>
Annual OPEB cost (expense)	701,662
Contributions made	<u>(426,738)</u>
Increase in net OPEB obligation	274,924
Net OPEB obligation - beginning of year	<u>545,240</u>
Net OPEB obligation - end of year	<u><u>\$ 820,164</u></u>

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013 and preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 566,112	72.14%	\$ 355,505
June 30, 2012	\$ 582,570	67.43%	\$ 545,240
June 30, 2013	\$ 701,662	60.80%	\$ 820,164

As of November 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were \$7,034,481. The covered payroll (annual payroll of active employees covered by the Plan) was \$24,083,150, and the ratio of the UAAL to the covered payroll was 29.2 percent.

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 is reported as Required Supplementary Information.

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 November 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 7.0 percent. Both rates included a 3.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, is 30 years.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9. JOINT POWERS AGREEMENT

The District is a member of a Joint Powers Authority, San Mateo County Schools Insurance Group (SMCSIG), for the operation of a common risk management and insurance program. The program covers property, workers' compensation, medical, dental, liability insurance for its member districts. The membership includes the school districts in San Mateo County and the County Office. SMCSIG is governed by an Executive Board consisting of representatives from each member district. The Executive Board controls the operations of SMCSIG, including the selection of management and approval of operating budgets.

The following is a summary of financial information for SMCSIG at June 30, 2012:

Total assets	\$ 13,574,062
Total liabilities	\$ 5,726,683
Net assets	\$ 7,847,379
Total revenues	\$ 32,776,103
Total expenses	\$ 31,500,384
Change in net assets	\$ 1,275,719

The relationship between the District and SMCSIG is such that SMCSIG is not a component unit of the District for financial reporting purposes.

10. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

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

REQUIRED SUPPLEMENTARY INFORMATION

MENLO PARK CITY SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2013

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Revenue limit sources:				
State apportionment	\$ -	\$ 1,109,000	\$ 1,153,957	\$ 44,957
Local sources	<u>21,195,882</u>	<u>22,256,695</u>	<u>22,388,174</u>	<u>131,479</u>
Total revenue limit	<u>21,195,882</u>	<u>23,365,695</u>	<u>23,542,131</u>	<u>176,436</u>
Federal sources	555,333	584,559	621,627	37,068
Other state sources	616,458	792,458	872,336	79,878
Other local sources	<u>4,046,430</u>	<u>4,176,430</u>	<u>4,506,214</u>	<u>329,784</u>
Total revenues	<u>26,414,103</u>	<u>28,919,142</u>	<u>29,542,308</u>	<u>623,166</u>
Expenditures:				
Certificated salaries	18,980,544	20,040,998	20,040,998	-
Classified salaries	4,299,165	4,422,795	4,406,544	16,251
Employee benefits	5,652,859	5,516,573	5,516,573	-
Books and supplies	1,208,966	1,084,189	1,084,189	-
Contract services and operating expenditures	2,138,395	2,182,736	2,182,736	-
Capital outlay	-	49,700	49,682	18
Other outgo	<u>187,375</u>	<u>87,375</u>	<u>51,521</u>	<u>35,854</u>
Total expenditures	<u>32,467,304</u>	<u>33,384,366</u>	<u>33,332,243</u>	<u>52,123</u>
Deficiency of revenues under expenditures	<u>(6,053,201)</u>	<u>(4,465,224)</u>	<u>(3,789,935)</u>	<u>675,289</u>
Other financing sources (uses):				
Operating transfers in	6,137,000	6,137,000	6,179,645	42,645
Operating transfers out	<u>-</u>	<u>(1,327,504)</u>	<u>(1,327,504)</u>	<u>-</u>
Total other financing sources (uses)	<u>6,137,000</u>	<u>4,809,496</u>	<u>4,852,141</u>	<u>42,645</u>
Net change in fund balance	83,799	344,272	1,062,206	717,934
Fund balance, July 1, 2012	<u>16,032,497</u>	<u>16,032,497</u>	<u>16,032,497</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ 16,116,296</u>	<u>\$ 16,376,769</u>	<u>\$ 17,094,703</u>	<u>\$ 717,934</u>

See accompanying notes to required supplementary information.

MENLO PARK CITY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS**

For the Year Ended June 30, 2013

Schedule of Funding Progress							
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2010	October 1, 2010	\$ -	\$ 6,983,617	\$ 6,983,617	0%	\$ 19,181,397	36.4%
6/30/2011	October 1, 2010	\$ -	\$ 6,983,617	\$ 6,983,617	0%	\$ 19,181,397	36.4%
6/30/2012	October 1, 2010	\$ -	\$ 6,983,617	\$ 6,983,617	0%	\$ 19,181,397	36.4%
6/30/2013	November 1, 2012	\$ -	\$ 7,034,481	\$ 7,034,481	0%	\$ 24,083,150	29.2%

See accompanying notes to required supplementary information.

MENLO PARK CITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

B - Schedule of Other Postemployment Benefits Funding Progress

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

SUPPLEMENTARY INFORMATION

MENLO PARK CITY SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2013

	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Fund</u>	<u>Total</u>
ASSETS					
Cash in County Treasury	\$ 58,944	\$ 1,014,441	\$ 136,660	\$ 742,951	\$ 1,952,996
Receivables	<u>35,713</u>	<u>795</u>	<u>208</u>	<u>305</u>	<u>37,021</u>
Total assets	<u>\$ 94,657</u>	<u>\$ 1,015,236</u>	<u>\$ 136,868</u>	<u>\$ 743,256</u>	<u>\$ 1,990,017</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,504	\$ -	\$ -	\$ -	\$ 3,504
Due to other funds	<u>10,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,512</u>
Total liabilities	<u>14,016</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,016</u>
Fund balances:					
Restricted	<u>80,641</u>	<u>1,015,236</u>	<u>136,868</u>	<u>743,256</u>	<u>1,976,001</u>
Total liabilities and fund balances	<u>\$ 94,657</u>	<u>\$ 1,015,236</u>	<u>\$ 136,868</u>	<u>\$ 743,256</u>	<u>\$ 1,990,017</u>

MENLO PARK CITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2013

	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Fund</u>	<u>Total</u>
Revenues:					
Federal sources	\$ 111,901	\$ -	\$ -	\$ -	\$ 111,901
Other state sources	6,102	79,006	2,701,738	-	2,786,846
Other local sources	<u>12,486</u>	<u>8,678</u>	<u>10,024</u>	<u>799</u>	<u>31,987</u>
Total revenues	<u>130,489</u>	<u>87,684</u>	<u>2,711,762</u>	<u>799</u>	<u>2,930,734</u>
Expenditures:					
Books and supplies	<u>103,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,576</u>
Excess of revenues over expenditures	26,913	87,684	2,711,762	799	2,827,158
Other financing (uses) sources:					
Operating transfers in	-	631,648	-	695,856	1,327,504
Operating transfers out	<u>(10,512)</u>	<u>-</u>	<u>(2,701,738)</u>	<u>-</u>	<u>(2,712,250)</u>
Total other financing (uses) sources	<u>(10,512)</u>	<u>631,648</u>	<u>(2,701,738)</u>	<u>695,856</u>	<u>(1,384,746)</u>
Net change in fund balances	16,401	719,332	10,024	696,655	1,442,412
Fund balances, July 1, 2012	<u>64,240</u>	<u>295,904</u>	<u>126,844</u>	<u>46,601</u>	<u>533,589</u>
Fund balances, June 30, 2013	<u>\$ 80,641</u>	<u>\$ 1,015,236</u>	<u>\$ 136,868</u>	<u>\$ 743,256</u>	<u>\$ 1,976,001</u>

MENLO PARK CITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended June 30, 2013

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<u>Student Body</u>				
Assets:				
Cash on hand and in banks	\$ 48,344	\$ 87,458	\$ 79,997	\$ 55,805
Liabilities:				
Due to student groups	\$ 48,344	\$ 87,458	\$ 79,997	\$ 55,805

MENLO PARK CITY SCHOOL DISTRICT

ORGANIZATION

June 30, 2013

Menlo Park City School District, a political subdivision of the State of California, was established in 1880, and is comprised of an area of approximately 5.7 square miles in San Mateo County. There were no changes in the District's boundaries in the current year. The District is currently operating three elementary schools and one intermediate school.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Terry Thygesen	President	December 2014
Joan Lambert	Vice President/Clerk	December 2014
Jeff Child	Member	December 2016
Maria Hilton	Member	December 2016
Laura Rich	Member	December 2014

ADMINISTRATION

Dr. Maurice Ghysels
Superintendent

Diane White
Chief Business Official

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2013

	Second Period Report	Annual Report
Kindergarten	310	311
First through Third	914	917
Fourth through Sixth	805	808
Seventh and Eighth	461	462
Special Education	31	32
	<u> </u>	<u> </u>
Totals	<u><u>2,521</u></u>	<u><u>2,530</u></u>

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2013

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Statutory 1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>2012-2013 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	31,500	29,400	38,280	180	In Compliance
Grade 1	50,400	49,000	49,875	48,490	54,105	180	In Compliance
Grade 2	50,400	49,000	49,875	48,490	54,105	180	In Compliance
Grade 3	50,400	49,000	49,875	48,490	57,550	180	In Compliance
Grade 4	54,000	52,500	55,125	53,594	57,550	180	In Compliance
Grade 5	54,000	52,500	55,125	53,594	57,550	180	In Compliance
Grade 6	54,000	52,500	55,125	53,594	60,033	180	In Compliance
Grade 7	54,000	52,500	57,750	56,146	60,033	180	In Compliance
Grade 8	54,000	52,500	57,750	56,146	60,033	180	In Compliance

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	IDEA Basic Local Assistance Entitlement, Part B	13379	\$ 447,477
84.027	IDEA Preschool Local Entitlement, Part B, Sec 611	13682	31,571
84.027	IDEA Local Assistance, Part B, Sec 611	13682	34,107
84.173	IDEA Preschool Grants, Part B, Section 619	13430	16,573
84.173A	IDEA Preschool Staff Development Part B, Section 619	13431	<u>185</u>
	Subtotal Special Education Cluster		<u>529,913</u>
84.010	NCLB: Title I, Part A, Basic Grants to Low-Income and Neglected	14329	53,364
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	<u>38,350</u>
	Total U.S. Department of Education		<u>621,627</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Program (NSL Sec 11)	13524	<u>111,901</u>
	Total Federal Programs		<u>\$ 733,528</u>

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

There were no audit adjustments proposed to any funds of the District.

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2013
(UNAUDITED)

	(Budget) 2014	2013	2012	2011
<u>General Fund</u>				
Revenues and other financing sources	\$ 36,931,549	\$ 35,721,953	\$ 31,975,544	\$ 38,407,418
Expenditures	36,298,824	33,332,243	30,823,132	29,639,729
Other uses and transfers out	810,016	1,327,504		6,550,842
Total outgo	37,108,840	34,659,747	30,823,132	36,190,571
Change in fund balance	\$ (177,291)	\$ 1,062,206	\$ 1,152,412	\$ 2,216,847
Ending fund balance	\$ 16,917,412	\$ 17,094,703	\$ 16,032,497	\$ 14,880,085
Available reserves	\$ 8,538,378	\$ 6,328,714	\$ 5,447,676	\$ 6,462,068
Designated for economic uncertainties	\$ 8,538,378	\$ 6,328,714	\$ 5,447,676	\$ 4,787,478
Undesignated fund balance	\$ -	\$ -	\$ -	\$ 1,674,590
Available reserves as a percentage of total outgo	23.00%	18.26%	17.67%	17.86%
<u>All Funds</u>				
Total long-term liabilities	\$ 112,313,932	\$ 114,779,345	\$ 111,298,028	\$ 109,888,725
Average daily attendance at P-2	2,604	2,521	2,444	2,377

The General Fund, including the Special Reserve for Other than Capital Outlay Fund and the Special Reserve for Other Post Employment Benefits Fund, fund balance has increased by \$4,431,465 over the past three fiscal years. The District projects a decrease of \$177,291 for the year ending June 30, 2014. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses be maintained. For the year ended June 30, 2013, the District has met this requirement.

The amount designated for economic uncertainties and undesignated fund balance consists of the fund balance of the General Fund, Special Reserve for Other than Capital Outlay and Special Reserve for Other Post Employment Benefits Funds.

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the 2013-2014 fiscal year.

Total long-term liabilities have increased by \$4,890,620 over the past two years.

Average daily attendance has increased by 144 over the past two years. The District anticipates an increase of 83 ADA during the fiscal year ending June 30, 2014.

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2013

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
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Currently, there are no charter schools operating under the District.

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has 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.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements, and is presented on the accrual basis of accounting.

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

E - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2013-2014 fiscal year, as required by the State Controller's Office. The information on this schedule has been derived from audited information.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosures in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2013, the District did not adopt this program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATION

Board of Trustees
 Menlo Park City School District
 Atherton, California

Report on Compliance with State Laws and Regulations

We have audited Menlo Park City School District's compliance with the types of compliance requirements described in the State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2013.

<u>Description</u>	<u>Audit Guide Procedures</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	No, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	No, see below
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	No, see below
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program:		
General requirements	4	No, see below
After school	5	No, see below
Before school	6	No, see below
Contemporaneous Records of Attendance, for charter schools	1	No, see below
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	4	No, see below

We did not perform any procedures related to Independent Study because the ADA generated by the District was not material.

We did not perform any procedures related to Continuation Education because the District does not offer this program.

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Instructional Materials - General Requirements, because the District did not receive funding for this program in the current year.

We did not perform any procedures related to Early Retirement Incentive Program because the District did not offer the program in the current year.

We did not perform any procedures related to Juvenile Court Schools because the District is not a County Office of Education, and does not offer this program.

We did not perform any procedures related to Class Size Reduction Program - Option Two Classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

We did not perform any procedures related to After School Education and Safety Program, because the District does not offer this program.

We did not perform any procedures related to Contemporaneous Records of Attendance, Nonclassroom-Based Instruction/Independent Study, Additional Nonclassroom-Based Instruction, Determination of Funding for Nonclassroom-Based Instruction, and Annual Instructional Minutes - Classroom based, for charter schools because the District had no charter schools in the current year.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with state laws and regulations of Menlo Park City School District. 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 State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Menlo Park 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 with state laws and regulations. However, our audit does not provide a legal determination of Menlo Park City School District's compliance.

Opinion with State Laws and Regulations

In our opinion, Menlo Park City School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2013. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Menlo Park City School District had not complied with the state laws and regulations.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Accordingly, this report is not suitable for any other purpose.

The logo for Crowe Horwath LLP, featuring the company name in a stylized, cursive script.

Crowe Horwath LLP

Sacramento, California
December 6, 2013

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

Board of Trustees
Menlo Park City School District
Atherton, 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, each major fund, and the aggregate remaining fund information of Menlo Park City School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Menlo Park City School District's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

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

We did identify a certain matter in internal control that we have communicated to management as described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Menlo Park City School District's financial statements are free of 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*.

Other Matter

Menlo Park City School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



Crowe Horwath LLP

Sacramento, California
December 6, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Menlo Park City School District
Atherton, California

Report on Compliance for Each Major Federal Program

We have audited Menlo Park 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 Menlo Park City School District's major federal programs for the year ended June 30, 2013. Menlo Park 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 Menlo Park 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 Menlo Park 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 Menlo Park City School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Menlo Park 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 Menlo Park 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 Menlo Park 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 Menlo Park 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.

Purpose of this Report

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.



Crowe Horwath LLP

Sacramento, California
December 6, 2013

FINDINGS AND RECOMMENDATIONS

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported

Noncompliance material to financial statements noted?

	_____ Yes	<u> X </u> No
--	-----------	-----------------

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

	_____ Yes	<u> X </u> No
--	-----------	-----------------

Identification of major programs:

_____ CFDA Number(s)	_____ Name of Federal Program or Cluster
84.027, 84.173, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

STATE AWARDS

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

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-01 DEFICIENCY - ASSOCIATED STUDENT BODY (ASB) ACCOUNTING (30000)

Criteria

Management review of transaction is an essential element of an effective system of internal control over financial report.

Condition

- The Hillview Middle School ASB does not issue receipts or keep receipt books for sales.
- Supporting documentation for cash deposits with records of receipts was not maintained.
- The ASB checking account is reconciled by the site accountant with no documented review by an individual separate from the function of check disbursements. The site accountant is an authorized signer on the account, and dual signatures are not required by the bank for checks written from the account.

Effect

There exists a risk that errors or mistakes could be made and not detected by management in the normal course of duties.

Cause

Adequate internal control procedures have not been properly implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

The District should enforce procedures to provide for adequate review of transactions and documents related to Hillview ASB records:

- The site accountant or other individual with responsibility over ASB funds should issue receipts for every sale and supporting documentation of receipts should be maintained for each cash deposit.
- The Principal should be reviewing the site accountant's monthly bank reconciliation, and the review should be documented with a signature or initials, and date.

Corrective Action Plan

District management has reviewed policies and procedures for associated student body with site personnel to ensure adequate controls are in place and are operating effectively.

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MENLO PARK CITY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2013

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MENLO PARK CITY SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2013

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2012-01 Construction contract retentions payable were not accrued at June 30, 2012. The District should establish a year-end closing checklist to be used by District personnel in the year-end closing process.	Implemented.	
2012-02 The District currently does not have procedures in place to provide for adequate review of transactions and documents that are prepared by District Office management and staff: <ul style="list-style-type: none">• The Revenue Limit Calculation is not substantively reviewed by a person other than the preparer.• Cash balance statements from the County Treasury are received annually and are not reconciled to amounts in the District's General Ledger.• There is no sufficient review/approval performed by the accounting department on cash reconciliations to amounts on bank statements for non-county treasury cash accounts.• There is no proper segregation of duties between approving and posting manual JE's. The District should develop procedures to provide for adequate review of transactions and documents that are prepared by District Office management and staff.	Implemented.	

MENLO PARK CITY SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2013

Finding/Recommendation	Current Status	District Explanation If Not Implemented
<p>2012-03</p> <ul style="list-style-type: none"> The Hillview Middle School ASB does not issue receipts or keep receipt books for sales. The ASB does not back up deposits with records of receipts. The ASB checking account is reconciled by the ASB Bookkeeper with no review by someone separate from the function of disbursing checks. The ASB Bookkeeper is an authorized signer and dual signatures are not required by the bank on checks. <p>The District should develop procedures to provide for adequate review of transactions and documents related to Hillview ASB records:</p> <ul style="list-style-type: none"> The ASB should issue receipts for every sale and supporting documentation of receipts should be turned in with cash deposits to the ASB Bookkeeper. The site principal should be reviewing the ASB Bookkeeper's bank reconciliation. 	<p>Not Implemented.</p>	<p>See Finding 2013-01</p>
<p>2012-04</p> <p>The District has not performed quarterly calculations for Federal program funds received in the prior year to determine whether interest should be remitted to the California Department of Education.</p> <p>The District should perform quarterly interest calculations for all federal programs to determine whether interest is due to California Department of Education as required by Federal Circulars.</p>	<p>Implemented.</p>	