

MENLO PARK CITY SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

MENLO PARK CITY SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016
(Continued)

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WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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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, 2016 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, 2016, 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.

(Continued)

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 General Fund Budgetary Comparison Schedule, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 44 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Menlo Park City School District's basic financial statements. The accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, and other supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 basic 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 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.


Crowe Horwath LLP

Sacramento, California
December 9, 2016

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 2015-16? The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net position and changes in 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, and the Bond Interest and Redemption Fund. The Deferred Maintenance Fund and Capital Facilities Fund are not considered major funds in fiscal year 2015-16.

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, 2016**

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, 2016 compared to June 30, 2015:

Table 1 - Summary of the Statement of Net Position

	2016	2015	Change	Percentage Change
Assets				
Current and Other Assets	\$ 35,881,762	\$ 53,903,911	\$(18,022,149)	(33)%
Capital Assets	133,524,411	115,539,499	17,984,912	16%
Total Assets	<u>\$ 169,406,173</u>	<u>\$ 169,443,410</u>	<u>\$ (37,237)</u>	<u>(0.02)%</u>
Deferred Outflows				
Deferred Outflows of Resources –				
Pensions	\$ 4,534,195	\$ 2,712,573	\$ 1,821,622	67%
Deferred Loss on Refunding of Debt	18,242,610	8,166,646	10,075,964	123%
Total Deferred Outflows	<u>\$ 22,776,805</u>	<u>\$ 10,879,219</u>	<u>\$ 11,897,586</u>	<u>109%</u>
Liabilities				
Current Liabilities and Other	\$ 8,960,355	\$ 7,972,935	\$ 987,420	12%
Long-Term Liabilities	187,441,878	174,927,234	12,514,644	7%
Total Liabilities	<u>\$ 196,402,233</u>	<u>\$ 182,900,169</u>	<u>\$ 13,502,064</u>	<u>7%</u>
Deferred Inflows				
Deferred Inflows of Resources –				
Pensions	<u>\$ 3,831,000</u>	<u>\$ 8,509,000</u>	<u>\$ (4,678,000)</u>	<u>(55)%</u>
Net Position				
Net Investment in Capital Assets	\$ 13,206,237	\$ 3,652,992	\$ 9,553,245	262%
Restricted	12,907,001	12,992,787	(85,786)	(0.7)%
Unrestricted	<u>(34,163,493)</u>	<u>(27,732,319)</u>	<u>(6,431,174)</u>	<u>(23)%</u>
Total Net Position	<u>\$ (8,050,255)</u>	<u>\$ (11,086,540)</u>	<u>\$ 3,036,285</u>	<u>27%</u>

The change in Net Position from 2015 to 2016 is an increase of \$3 million. It is important to note the District received an unprecedented \$1.9 million in one-time State funds in fiscal year 2015-16, of which almost \$1 million was set aside, or assigned, for future expenditures. Also, negotiations for fiscal year 2015-16 with the District's bargaining units for compensation increases spanned year-end and the impact is not included in this year's financials. (Negotiations effective July 1, 2015, were finalized and compensation paid in fiscal year 2016-17.)

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Table 2 - Summary of Changes in Net Position

	2016	2015	Change	Percentage Change
Revenues				
Program Revenues				
Charges for services	\$ -	\$ 4,925	\$ (4,925)	(100)%
Operating grants and contributions	3,506,730	2,556,534	950,196	37%
Capital grants and contributions	-	-		
General Revenues:				
Property taxes	39,682,673	38,080,279	1,602,394	4%
Grants and entitlements - unrestricted	3,891,200	2,358,655	1,532,545	65%
Other	4,899,848	5,132,367	(232,519)	(5)%
Total Revenues	\$ 51,980,451	\$ 48,132,760	\$ 3,847,691	8%
Program Expenses				
Instruction	\$ 31,544,634	\$ 31,007,384	\$ 537,250	2%
Instruction-related services	5,649,735	5,691,765	(42,030)	(1)%
Pupil services	2,435,093	2,221,155	213,938	10%
General administration	3,427,028	2,738,537	688,491	25%
Plant services	3,052,601	2,896,210	156,391	5%
Interest and fiscal charges	2,469,633	6,593,939	(4,124,306)	(63)%
Other outgo	365,442	437,792	(72,350)	(17)%
Total Expenses	\$ 48,944,166	\$ 51,586,782	\$ (2,642,616)	(5)%
Change in Net Position	\$ 3,036,285	\$ (3,454,022)	\$ 6,490,307	188%
Beginning Net Position	(11,086,540)	(7,632,518)	(3,454,022)	(45)%
Ending Net Position	\$ (8,050,255)	\$ (11,086,540)	\$ 3,036,285	27%

Financial Highlights:

Overall revenues in the General Fund, excluding transfers-in from Special Reserves for Other than Capital Outlay (parcel tax balances), was \$44.6 million. Total expenditures, excluding transfers-out from Special Reserves for Other than Capital Outlay (parcel tax balances), were \$43.4 million. Expenditures do not include impact of bargaining agreement. Unrestricted local property taxes levied for general purposes accounted for \$26.6 million, or 60% of total revenues excluding transfers-in. Another 26% was received from local parcel taxes and the Menlo Park Education Foundation (15% and 8% of General Fund revenue excluding transfers-in, respectively).

The District is community funded and does not receive additional revenue for enrollment growth. Enrollment grew 39 students, or 1.3%, in fiscal year 2015-16.

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Instruction and Instruction Related Services make up 76% of the District's total Governmental Activities Program Expenses. Pupil Services make up another 5%.

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

Table 3 - Net Cost of Services

	2016	2015	Change	Percentage Change
Instruction	\$ 29,032,102	\$ 29,317,541	\$ (285,439)	(1)%
Instruction-related services	5,325,675	5,443,407	(117,732)	(2)%
Pupil services	2,191,187	2,016,246	174,941	9%
General administration	3,379,189	2,702,171	677,018	25%
Plant services	2,958,143	2,795,622	162,521	6%
Interest and fiscal charges	2,469,633	6,593,939	(4,124,306)	(63)%
Other outgo	81,507	156,397	(74,890)	(48)%
Total Net Cost of Services	\$ 45,437,436	\$ 49,025,323	\$ (3,587,887)	(7)%

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, 2016**

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

	2016	2015	Change	Percentage Change
General Fund	\$ 15,405,953	\$ 14,165,843	\$ 1,240,110	9%
Cafeteria Fund	53,893	58,440	(4,547)	(8)%
Deferred Maintenance Fund	806,344	2,345,940	(1,539,596)	(66)%
Building Fund	5,900,590	25,430,316	(19,529,726)	(77)%
Capital Facilities Fund	1,452,133	1,016,449	435,684	43%
County School Facilities Fund	0	147	(147)	(100)%
Special Reserve for Capital Outlay Projects Fund	2,973,949	1,878,702	1,095,246	58%
Bond Interest and Redemption Fund	5,879,424	6,612,107	(732,683)	(11)%
Total Fund Balances	<u>\$ 32,472,286</u>	<u>\$ 51,507,944</u>	<u>\$ (19,035,659)</u>	<u>(37)%</u>

For purposes of the Audit Report, the General Fund includes balances in the Special Reserve Funds for Other than Capital Outlay (parcel taxes) and Postemployment Benefits. 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. The District also maintains a CalPERS CERBT irrevocable trust to fund employee retiree benefits with an ending balance of \$1,512,580.

Capital Assets

At the end of the fiscal year 2015-16, the District had invested \$ 158,351,976 in land, buildings, furniture and equipment, and vehicles.

Table 5 shows June 30, 2016 balances compared to June 30, 2015:

Table 5 - Summary of Capital Assets, Net of Depreciation

	2016	2015	Change	Percentage Change
Land	\$ 189,638	\$ 189,638	\$ 0	0%
Construction in Progress	21,739,272	3,079,259	18,660,013	606%
Site Improvements	613,754	685,876	(72,122)	(11)%
Buildings and Improvements	110,515,353	111,274,871	(759,518)	(1)%
Equipment	466,394	309,855	156,539	51%
Total Capital Assets - Net	<u>\$ 133,524,411</u>	<u>\$ 115,539,499</u>	<u>\$ 17,984,912</u>	<u>16%</u>

**MENLO PARK CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Long Term Debt

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

Table 6 - Summary of Long-Term Liabilities

	2016	2015	Change	Percentage Change
General obligation bonds	\$143,822,122	\$138,556,260	\$ 5,265,862	4%
Unamortized bond premium	7,503,956	6,927,209	576,747	8%
Net OPEB obligation	-	-		
Net pension liability	39,167,000	32,722,000	6,445,000	20%
Compensated absences	233,800	200,656	33,144	17%
Total Long-term Liabilities	<u>\$190,726,878</u>	<u>\$178,406,125</u>	<u>\$12,320,753</u>	<u>7%</u>

Factors Bearing on the District's Future

The District is a community-funded district, deriving a majority of its revenue from local property taxes and very little funding from the State. As a community-funded district, student enrollment growth does not provide additional revenues as in State-funded districts and so presents a challenge, as does the general economy. The District's 2016-17 Adopted Budget included an increase in secured property tax, that portion of property tax generated from assessed values of land and structures, of approximately 6.25%. While this reflects a healthy economy, it should be noted that property taxes are difficult to predict. The District relies on community support with generous contributions from its foundation and four parcel taxes. Three of these parcel taxes are evergreen. However, the fourth parcel tax sunsets June 30, 2017. The District has been engaged in possible renewal and/or budget reductions to address the \$1.6 million loss of revenue this parcel tax generates. The District maintains healthy economic uncertainty reserves to weather economic adversity and to provide the fiscal flexibility to address such issues as they arise.

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 Menlo Park City School District Business Office, 181 Encinal Avenue, Atherton, CA 94027.

BASIC FINANCIAL STATEMENTS

MENLO PARK CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 34,377,906
Receivables	1,328,907
Prepaid expenses	3,220
Non-depreciable capital assets (Note 4)	21,928,910
Depreciable capital assets, net of accumulated depreciation (Note 4)	111,595,501
Net OPEB asset (Note 9)	<u>171,729</u>
Total assets	<u>169,406,173</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 7 and 8)	4,534,195
Deferred loss from refunding of debt (Note 5)	<u>18,242,610</u>
Total deferred outflows of resources	<u>22,776,805</u>
LIABILITIES	
Accounts payable	5,651,879
Unearned revenue	23,476
Long-term liabilities (Note 5):	
Due within one year	3,285,000
Due after one year	<u>187,441,878</u>
Total liabilities	<u>196,402,233</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 7 and 8)	<u>3,831,000</u>
NET POSITION	
Net investment in capital assets	13,206,237
Restricted:	
Legally restricted programs	2,601,496
Capital projects	4,426,082
Debt service	5,879,423
Unrestricted	<u>(34,163,493)</u>
Total net position	<u>\$ (8,050,255)</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction	\$ 31,544,634	\$ -	\$ 2,512,532	\$ -	\$ (29,032,102)
Instruction-related services:					
Supervision of instruction	2,193,531	-	113,759	-	(2,079,772)
Instructional library, media and technology	1,199,693	-	49,017	-	(1,150,676)
School site administration	2,256,511	-	161,284	-	(2,095,227)
Pupil services:					
Home-to-school transportation	411,393	-	-	-	(411,393)
Food services	277,871	-	104,709	-	(173,162)
All other pupil services	1,745,829	-	139,197	-	(1,606,632)
General administration:					
Centralized data processing	908,827	-	24,144	-	(884,683)
All other general administration	2,518,201	-	23,695	-	(2,494,506)
Plant services	3,052,601	-	94,458	-	(2,958,143)
Interest on long-term liabilities	2,469,633	-	-	-	(2,469,633)
Other outgo	365,442	-	283,935	-	(81,507)
	<u>\$ 48,944,166</u>	<u>\$ -</u>	<u>\$ 3,506,730</u>	<u>\$ -</u>	<u>(45,437,436)</u>
Total governmental activities	<u>\$ 48,944,166</u>	<u>\$ -</u>	<u>\$ 3,506,730</u>	<u>\$ -</u>	<u>(45,437,436)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					27,185,947
Taxes levied for debt service					5,756,168
Taxes levied for other specific purposes					6,740,558
Federal and state aid not restricted to specific purposes					3,891,200
Interest and investment earnings					319,702
Miscellaneous					4,580,146
Total general revenues					48,473,721
Change in net position					3,036,285
Net position, July 1, 2015					(11,086,540)
Net position, June 30, 2016					\$ (8,050,255)

See accompanying notes to these financial statements.

MENLO PARK CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Govern- mental Funds
ASSETS					
Cash and investments:					
Cash in County Treasury	\$ 15,721,312	\$ 7,563,232	\$ 5,867,889	\$ 5,218,346	\$ 34,370,779
Cash in revolving fund	5,000	-	-	-	5,000
Cash with Fiscal Agent	151	-	-	-	151
Investments	1,976	-	-	-	1,976
Receivables	1,208,101	23,623	11,535	85,648	1,328,907
Due from other funds	20,362	-	-	-	20,362
Prepaid expenses	3,220	-	-	-	3,220
	<u>16,960,122</u>	<u>7,586,855</u>	<u>5,879,424</u>	<u>5,303,994</u>	<u>35,730,395</u>
Total assets	<u>\$ 16,960,122</u>	<u>\$ 7,586,855</u>	<u>\$ 5,879,424</u>	<u>\$ 5,303,994</u>	<u>\$ 35,730,395</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,530,693	\$ 1,677,771	\$ -	\$ 5,808	\$ 3,214,272
Due to other funds	-	8,494	-	11,868	20,362
Unearned revenue	23,476	-	-	-	23,476
	<u>1,554,169</u>	<u>1,686,265</u>	<u>-</u>	<u>17,676</u>	<u>3,258,110</u>
Total liabilities	<u>1,554,169</u>	<u>1,686,265</u>	<u>-</u>	<u>17,676</u>	<u>3,258,110</u>
Fund balances:					
Nonspendable	8,220	-	-	-	8,220
Restricted	1,741,257	5,900,590	5,879,424	5,286,318	18,807,589
Assigned	6,719,480	-	-	-	6,719,480
Unassigned	6,936,996	-	-	-	6,936,996
	<u>15,405,953</u>	<u>5,900,590</u>	<u>5,879,424</u>	<u>5,286,318</u>	<u>32,472,285</u>
Total fund balances	<u>15,405,953</u>	<u>5,900,590</u>	<u>5,879,424</u>	<u>5,286,318</u>	<u>32,472,285</u>
Total liabilities and fund balances	<u>\$ 16,960,122</u>	<u>\$ 7,586,855</u>	<u>\$ 5,879,424</u>	<u>\$ 5,303,994</u>	<u>\$ 35,730,395</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, 2016

Total fund balances - Governmental Funds \$ 32,472,285

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 \$158,351,976 and the accumulated depreciation is \$24,827,565 (Note 4). 133,524,411

Losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding debt. 18,242,610

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, 2016 consisted of (Note 5):

General Obligation Bonds	\$ (136,957,419)	
Accreted interest on General Obligation Bonds	(6,864,703)	
Unamortized bond premiums	(7,503,956)	
Net pension liability (Notes 7 and 8)	(39,167,000)	
Compensated absences	<u>(233,800)</u>	
		(190,726,878)

Other postemployment benefits assets are recognized in the government-wide statements but are not recognized in the governmental funds (Note 9). 171,729

In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 7 and 8).

Deferred outflows of resources relating to pensions	\$ 4,534,195	
Deferred inflows of resources relating to pensions	<u>(3,831,000)</u>	
		703,195

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. (2,437,607)

Total net position - governmental activities \$ (8,050,255)

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, 2016

	General Fund	Building Fund	Bond Interest and Redemption Funds	All Non-Major Funds	Total Govern- mental Funds
Revenues:					
Local Control					
Funding Formula (LCFF):					
State apportionment	\$ 1,817,574	\$ -	\$ -	\$ 625,000	\$ 2,442,574
Local sources	<u>26,560,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,560,947</u>
Total LCFF	<u>28,378,521</u>	<u>-</u>	<u>-</u>	<u>625,000</u>	<u>29,003,521</u>
Federal sources	577,493	-	-	109,913	687,406
Other state sources	4,164,254	-	14,443	6,933	4,185,630
Other local sources	<u>11,504,196</u>	<u>143,438</u>	<u>5,789,862</u>	<u>478,128</u>	<u>17,915,624</u>
Total revenues	<u>44,624,464</u>	<u>143,438</u>	<u>5,804,305</u>	<u>1,219,974</u>	<u>51,792,181</u>
Expenditures:					
Current:					
Certificated salaries	23,141,472	-	-	-	23,141,472
Classified salaries	5,783,600	81,447	-	-	5,865,047
Employee benefits	8,518,849	19,970	-	-	8,538,819
Books and supplies	1,744,357	-	-	108,810	1,853,167
Contract services and operating expenditures	3,645,616	279,648	-	121,300	4,046,564
Other outgo	363,167	-	-	-	363,167
Capital outlay	199,161	19,572,736	-	990,367	20,762,264
Debt service:					
Principal retirement	-	-	3,318,346	-	3,318,346
Interest	<u>-</u>	<u>-</u>	<u>3,218,642</u>	<u>-</u>	<u>3,218,642</u>
Total expenditures	<u>43,396,222</u>	<u>19,953,801</u>	<u>6,536,988</u>	<u>1,220,477</u>	<u>71,107,488</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,228,242</u>	<u>(19,810,363)</u>	<u>(732,683)</u>	<u>(503)</u>	<u>(19,315,307)</u>
Other financing sources (uses):					
Transfers in	11,868	989	-	1,100,000	1,112,857
Transfers out	-	-	-	(1,112,857)	(1,112,857)
Proceeds from the issuance of long-term liabilities	-	31,944,341	-	-	31,944,341
Debt issuance premiums	-	893,491	-	-	893,491
Payment to refunding escrow	<u>-</u>	<u>(32,558,184)</u>	<u>-</u>	<u>-</u>	<u>(32,558,184)</u>
Total other financing sources (uses)	<u>11,868</u>	<u>280,637</u>	<u>-</u>	<u>(12,857)</u>	<u>279,648</u>
Net change in fund balances	1,240,110	(19,529,726)	(732,683)	(13,360)	(19,035,659)
Fund balances, July 1, 2015	<u>14,165,843</u>	<u>25,430,316</u>	<u>6,612,107</u>	<u>5,299,678</u>	<u>51,507,944</u>
Fund balances, June 30, 2016	<u>\$ 15,405,953</u>	<u>\$ 5,900,590</u>	<u>\$ 5,879,424</u>	<u>\$ 5,286,318</u>	<u>\$ 32,472,285</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, 2016

Net change in fund balances - Total Governmental Funds	\$ (19,035,659)
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).	20,728,915
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(2,744,003)
In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred outflows of resources are amortized over the shortened life of the refunded or refunding debt. The amount deferred as a result of the current year refunding was \$10,998,421 and the current year amortization was \$922,457.	10,075,964
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).	(31,944,341)
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).	3,318,346
Payments made to the refunding escrow associated with the refunded GO Bonds are reported as other financing uses in the governmental funds, but decreases to long-term liabilities in the statement of net position (Note 5).	22,822,530
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).	537,603
In governmental funds, premiums associated with the issuance of debt are recognized as other financing sources in the period it is incurred. In the government-wide statements, premiums are amortized over the life of the related debt (Note 5).	(576,747)
In the statement of activities, expenses related to 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).	(33,144)
Unmatured interest is not recognized until it is due and is not accrued as a payable in governmental funds.	(166,000)

(Continued)

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, 2016

In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	\$ 54,622
In the statement of activities, expenses related to other postemployment benefits are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 9).	<u>(1,801)</u>
Change in net position of governmental activities	<u>\$ 3,036,285</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
June 30, 2016

	<u>Agency Fund</u>
	Student Body <u>Funds</u>
ASSETS	
Cash on hand and in banks (Note 2)	\$ <u>39,055</u>
Total assets	<u>39,055</u>
LIABILITIES	
Due to student groups	<u>39,055</u>
Total liabilities	<u>\$ 39,055</u>

See accompanying notes to financial statements.

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 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.

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, 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.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - Major Funds

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.

Building Fund:

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

Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund is a debt service fund 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 Capital Facilities, County School Facilities and Special Reserve for Capital Outlay Funds.

The Agency Fund is a Fiduciary Fund for which the District acts as an agent. This classification includes the Student Body Funds. 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.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The District has determined that no allowance for doubtful accounts was necessary at June 30, 2016.

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 acquisition value for the contributed asset. 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.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding which is reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Amortization for the year ended June 30, 2016, net of deferred losses incurred for the current year, totaled \$10,075,964. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position. Amortization of the deferred outflow associated with the net pension liability for the year ended June 30, 2016 totaled \$124,000.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$1,077,667.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of pension amounts in aggregate as of June 30, 2016:

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 2,748,355</u>	<u>\$ 1,785,840</u>	<u>\$ 4,534,195</u>
Deferred inflows of resources	<u>\$ 3,209,000</u>	<u>\$ 622,000</u>	<u>\$ 3,831,000</u>
Net pension liability	<u>\$ 32,668,000</u>	<u>\$ 6,499,000</u>	<u>\$ 39,167,000</u>
Pension expense	<u>\$ 4,297,343</u>	<u>\$ 768,590</u>	<u>\$ 5,065,933</u>

Compensated Absences: Compensated absences in the amount of \$233,800 is recorded as a liability of the District. The liability is for earned but unused benefits. The amount to be provided by future operations represents the total amount that would be required to be provided from the general operating revenues of the District if all the benefits were to be paid.

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 STRP and PERF B 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.

Net Position: Net position is displayed in three components:

1 - Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2 - Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted for specific program expenditures. The restriction for debt service represents the portion of net position available for the retirement of debt. The restriction for capital projects represents the portion of net position restricted for capital projects. It is the District's policy to use restricted net position first when allowable expenditures are incurred.

3 - Unrestricted Net Position - All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

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.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, the District had no committed fund balances.

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.

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 General Fund total expenditures, outgo and other financing uses. At June 30, 2015, the District was in compliance with this policy. At June 30, 2016, the District was in compliance with this policy, and has not established any stabilization arrangement.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2016 consisted of the following:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
<u>Pooled Funds:</u>		
Cash in County Treasury	\$ 34,370,779	\$ -
Local Agency Investment Fund	1,976	-
 <u>Deposits:</u>		
Cash on hand and in banks	-	39,055
Cash in revolving fund	5,000	-
 <u>Investments:</u>		
Cash with Fiscal Agent	151	-
Total	\$ 34,377,906	\$ 39,055

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing San Mateo County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's prorata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund (LAIF): 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 amortized cost 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 amortized cost as provided by LAIF, as a percentage of the entire LAIF portfolio. The funds maintained 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 may be withdrawn at any time up to the total amount on deposit with LAIF. Most withdrawals are accessible and transferable to Menlo Park City School District's master account on the same day as the request, except for amounts greater than \$10,000,000, which require at least twenty-four hours' advance 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. As of June 30, 2016, this fund was yielding approximately .55% interest annually. 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.

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, 2016, the carrying amount and the bank balance of the District's accounts was \$44,055, all of which was insured by the FDIC.

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

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, 2016, 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, 2016, the District had no concentration of credit risk.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3 - INTERFUND TRANSACTIONS

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.

Interfund Receivables/Payables: Interfund receivable and payable balances at June 30, 2016 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 20,362	\$ -
Building	-	8,494
Non-Major Fund:		
Cafeteria	<u>-</u>	<u>11,868</u>
Totals	<u>\$ 20,362</u>	<u>\$ 20,362</u>

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

Transfers for the 2015-2016 fiscal year were as follows:

Transfer from the Deferred Maintenance to the Special Reserve for Capital Outlay Fund to provide additional support for construction of the new school.	\$ 1,100,000
Transfer from the Cafeteria Fund to the General Fund to transfer operational costs.	7,422
Transfer from the Cafeteria Fund to the General Fund for indirect cost support.	4,446
Transfer from the County School Facilities Fund to the Building Fund in support of Measure W Bond projects.	<u>989</u>
	<u>\$ 1,112,857</u>

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital asset for the year ended June 30, 2016, is shown below:

	Balance July 1, 2015	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2016
Non-depreciable:				
Land	\$ 189,638	\$ -	\$ -	\$ 189,638
Work-in-process	3,079,259	19,259,005	(598,992)	21,739,272
Depreciable:				
Improvement of sites	2,480,072	-	-	2,480,072
Buildings	131,377,426	1,270,749	598,992	133,247,167
Equipment	<u>496,666</u>	<u>199,161</u>	<u>-</u>	<u>695,827</u>
Totals, at cost	<u>137,623,061</u>	<u>20,728,915</u>	<u>-</u>	<u>158,351,976</u>
Less accumulated depreciation:				
Improvement of sites	(1,794,196)	(72,122)	-	(1,866,318)
Buildings	(20,102,555)	(2,629,259)	-	(22,731,814)
Equipment	<u>(186,811)</u>	<u>(42,622)</u>	<u>-</u>	<u>(229,433)</u>
Total accumulated depreciation	<u>(22,083,562)</u>	<u>(2,744,003)</u>	<u>-</u>	<u>(24,827,565)</u>
Capital assets, net	<u>\$115,539,499</u>	<u>\$ 17,984,912</u>	<u>\$ -</u>	<u>\$133,524,411</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 2,326,298
Food services	169,061
General administration	241,942
Plant services	<u>6,702</u>
Total depreciation expense	<u>\$ 2,744,003</u>

NOTE 5 - LONG-TERM LIABILITIES

General Obligation Bonds: 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 August 2014, the District issued 2015 and 2018 Crossover Refunding Bonds for the purpose of refunding certain maturities of the Series 2008 GO Bonds. In November 2015, the District issued 2015 GO Refunding Bonds for the purpose of refunding certain additional maturities of the outstanding Series 2008 GO Bonds.

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.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (Continued)

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.

In March 2014, the District issued Election of 2013, Series 2014 General Obligation Bonds totaling \$23,000,000. The Bonds bear interest at rates ranging from 2.0% to 5.0% and mature through January 1, 2039. The proceeds of the Bonds are being used to renovate and expand educational facilities.

In August 2014, the District issued 2014 General Obligation Refunding Bonds totaling \$39,010,000. The Bonds were comprised two issuances, which include the 2015 Crossover Refunding Bonds of \$8,295,000, the proceeds of which are being used to advance refund the outstanding balance of the Election of 2006, Series 2008 Current Interest Bonds, and 2018 Crossover Refunding Bonds of \$30,715,000, the proceeds of which are being used to refund a portion of the outstanding balance of the Election of 2006, Series 2008 Capital Appreciation Bonds. The 2014 General Obligation Refunding Bonds bear interest at rates ranging from 3.0% to 4.0% and mature through July 1, 2043. As of June 30, 2016, all the refunded Series 2008 Current Interest Bonds had been fully repaid. As of June 30, 2016, \$15,629,735 of the refunded Series 2008 Capital Appreciation Bonds (excluding compounded interest) were still outstanding and scheduled to be paid on July 1, 2018.

In November 2015, the District issued 2015 General Obligation Refunding Bonds totaling \$31,944,341. Of the total issued amount of \$6,725,000 were issued as Current Interest Bonds, and \$25,219,341 were issued as Capital Appreciation Bonds. The proceeds of the 2015 GO Refunding Bonds were used to currently refund all of the outstanding 2005 GO Refunding Bonds, advance refund certain remaining maturities of the Election of 2006, Series 2008 Capital Appreciation Bonds, and advance refund certain remaining maturities of the Election of 2006, Series 2010 GO Bonds. The 2015 GO Refunding Bonds bear interest at rates ranging from 3.20% to 4.35% and mature through July 1, 2042. As of June 30, 2016, \$5,127,601 of the refunded Series 2008 Capital Appreciation Bonds (excluding compounded interest) were still outstanding and scheduled to be paid on July 1, 2018. As of June 30, 2016, \$8,973,863 of the refunded Series 2010 GO Bonds (excluding compounded interest) were still outstanding and scheduled to be paid on July 1, 2020.

Although the refunding bonds resulted in the recognition of an accounting loss of \$10,998,421, for the year ended June 30, 2016, the District in effect reduced its aggregate debt service payments by \$12.5 million over the next 26 years and obtained an economic gain of \$6.2 million.

Calculation of the difference in cash flow requirements and economic gain are as follows:

Old debt service cash flows	\$ 80,895,144
New debt service cash flows	<u>68,426,676</u>
Cash flow difference	<u>\$ 12,468,468</u>
Present value of old debt service cash flows	\$ 39,008,912
Present value of new debt service cash flows	<u>32,834,299</u>
Economic gain	<u>\$ 6,174,613</u>

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds activity for the current year is as follows:

<u>Series</u>	<u>Original Issuance</u>	<u>Balance July 1, 2015</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Balance June 30, 2016</u>
2005 Refunding	\$ 13,915,000	\$ 8,220,000	\$ -	\$ 8,220,000	\$ -
2008	33,264,728	8,778,073	-	6,932,558	1,845,515
2010	22,835,271	22,475,881	-	9,163,318	13,312,563
2012 Refunding	31,395,000	29,670,000	-	965,000	28,705,000
2014	23,000,000	23,000,000	-	860,000	22,140,000
2014 Refunding	39,010,000	39,010,000	-	-	39,010,000
2015 Refunding	<u>31,944,341</u>	<u>-</u>	<u>31,944,341</u>	<u>-</u>	<u>31,944,341</u>
Total	<u>\$ 195,364,340</u>	<u>\$ 131,153,954</u>	<u>\$ 31,944,341</u>	<u>\$ 26,140,876</u>	<u>\$ 136,957,419</u>

The General Obligation Bonds are scheduled to mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,923,331	\$ 4,159,069	\$ 7,082,400
2018	3,014,352	4,138,823	7,153,175
2019	3,243,388	4,200,738	7,444,126
2020	2,786,272	3,804,078	6,590,350
2021	2,998,081	3,777,769	6,775,850
2022-2026	15,969,552	17,916,323	33,885,875
2027-2031	20,964,540	19,549,187	40,513,727
2032-2036	20,356,646	17,751,625	38,108,271
2037-2041	36,207,606	13,874,375	50,081,981
2042-2044	<u>28,493,651</u>	<u>23,165,385</u>	<u>51,659,036</u>
	<u>\$ 136,957,419</u>	<u>\$ 112,337,372</u>	<u>\$ 249,294,791</u>

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2016, is shown below:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds	\$ 131,153,954	\$ 31,944,341	\$ 26,140,876	\$ 136,957,419	\$ 2,923,331
Accreted interest	7,402,306	3,400,722	3,938,325	6,864,703	361,669
Unamortized bond premiums	6,927,209	893,491	316,744	7,503,956	-
Net pension liability (Note 7 and 8)	32,722,000	6,445,000	-	39,167,000	-
Compensated absences	<u>200,656</u>	<u>33,144</u>	<u>-</u>	<u>233,800</u>	<u>-</u>
	<u>\$ 178,406,125</u>	<u>\$ 42,716,698</u>	<u>\$ 30,395,945</u>	<u>\$ 190,726,878</u>	<u>\$ 3,285,000</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments for compensated absences and the net pension liability are made from the respective fund from which the employee was paid.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - FUND BALANCES

Fund balances, by category, at June 30, 2016 consisted of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:					
Revolving cash fund	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Prepaid expenditures	<u>3,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,220</u>
Subtotal nonspendable	<u>8,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,220</u>
Restricted:					
Legally restricted programs	1,741,257	-	-	860,236	2,601,493
Capital projects	-	5,900,590	-	4,426,082	10,326,672
Debt service	<u>-</u>	<u>-</u>	<u>5,879,424</u>	<u>-</u>	<u>5,879,424</u>
Subtotal restricted	<u>1,741,257</u>	<u>5,900,590</u>	<u>5,879,424</u>	<u>5,286,318</u>	<u>18,807,589</u>
Assigned:					
Parcel taxes revenues	4,315,813	-	-	-	4,315,813
Strategic directions	198,000	-	-	-	198,000
Facilities and transportation	150,000	-	-	-	150,000
Instructional materials	821,045	-	-	-	821,045
Technology reserves	300,000	-	-	-	300,000
Reserve for negotiated salary increase	647,000	-	-	-	647,000
Foundation and site grants	<u>287,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>287,622</u>
Subtotal assigned	<u>6,719,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,719,480</u>
Unassigned:					
Designated for economic uncertainty	<u>6,936,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,936,996</u>
Total fund balances	<u>\$ 15,405,953</u>	<u>\$ 5,900,590</u>	<u>\$ 5,879,424</u>	<u>\$ 5,286,318</u>	<u>\$ 32,472,285</u>

(Continued)

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.56 percent of applicable member earnings for fiscal year 2015-16.

In general, member contributions cannot increase unless members are provided with some type of “comparable advantage” in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this “comparable advantage,” the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 10.73 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The District contributed \$2,458,355 to the plan for the fiscal year ended June 30, 2016.

State - 7.391 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below:

<u>Total State Appropriation Effective Date</u>	<u>Rate</u>	<u>Base Structure</u>	<u>AB 1469 Increase For 1990 Benefit Funding</u>	<u>SBMA to DB Program</u>
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to zero percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the net pension liability	\$ 32,668,000
State’s proportionate share of the net pension liability associated with the District	<u>17,278,000</u>
Total	<u><u>\$ 49,946,000</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2015, the District’s proportion was 0.049 percent, which was an increase of .001 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the District recognized pension expense of \$4,297,343 and revenue of \$1,711,360 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 546,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	2,663,000
Changes in proportion and differences between District contributions and proportionate share of contributions	290,000	-
Contributions made subsequent to measurement date	<u>2,458,355</u>	<u>-</u>
Total	<u><u>\$ 2,748,355</u></u>	<u><u>\$ 3,209,000</u></u>

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

\$2,458,355 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2017	\$ (1,144,800)
2018	\$ (1,144,800)
2019	\$ (1,144,800)
2020	\$ 600,733
2021	\$ (42,667)
2022	\$ (42,667)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

* 10-year geometric average

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

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease <u>(6.60%)</u>	Current Discount Rate <u>(7.60%)</u>	1% Increase <u>(8.60%)</u>
District’s proportionate share of the net pension liability	<u>\$ 49,327,000</u>	<u>\$ 32,668,000</u>	<u>\$ 18,824,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

(Continued)

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B

General Information about the Public Employer’s Retirement Fund B

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained by going to the following website address: <https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf>.

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2016 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2015-16.

Employers - The employer contribution rate was 11.847 percent of applicable member earnings.

The District contributed \$950,840 to the plan for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of \$6,499,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school districts. At June 30, 2015, the District’s proportion was 0.044 percent, which was an increase of 0.003 from its proportion measured as of June 30, 2014.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$768,590. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 371,000	\$ -
Changes of assumptions	-	399,000
Net differences between projected and actual earnings on investments	-	223,000
Changes in proportion and differences between District contributions and proportionate share of contributions	464,000	-
Contributions made subsequent to measurement date	<u>950,840</u>	<u>-</u>
Total	<u>\$ 1,785,840</u>	<u>\$ 622,000</u>

\$950,840 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2017	\$ 104,917
2018	\$ 104,917
2019	\$ 58,916
2020	\$ (55,750)

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

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

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease <u>(6.65%)</u>	Current Discount Rate <u>(7.65%)</u>	1% Increase <u>(8.65%)</u>
District’s proportionate share of the net pension liability	<u>\$ 10,578,000</u>	<u>\$ 6,499,000</u>	<u>\$ 3,107,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits discussed in Notes 7 and 8, the District provides other postemployment benefits (OPEB) to certain employees through a single-employer defined benefit healthcare plan. The District established an irrevocable trust under the California Employer’s Retiree Benefit Trust Program (CERBT) to prefund the costs of other postemployment benefits. The funds in the CERBT are held in trust and will be administered by the California Public Employees’ Retirement System (CalPERS) as an agent multiple-employer plan. Benefit provisions are established and may be amended by District labor agreements which are approved by the Board of Education. The District’s contributions to the irrevocable trust is included in the CERBT, which is included in the CalPERS CAFR. Copies of the CalPERS’ CAFR may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

The CERBT fund, which is an Internal Revenue Code (IRC) Section 115 Trust, is set up for the purpose of (i) receiving employer contributions to prefund health and other post-employment benefits for retirees and their beneficiaries, (ii) invest contributed amounts and income therein, and (iii) disburse contributed amounts and income therein, if any, to pay for costs of administration of the fund and to pay for health care costs or other post-employment benefits in accordance with the terms of the District’s OPEB plan.

For the year ended June 30, 2016 the District’s contribution to the CERBT investment trust fund totaled \$137,479. At June 30, 2016 the balance of the CERBT investment fund was \$1,392,549. During the fiscal year ended June 30, 2016 the District elected to remove \$1,392,549 of fiduciary activity related to the CERBT from the financial statements as this activity is already included in the CalPERS financial statements noted above.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's annual other postemployment benefit 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	\$ 595,959
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>1,801</u>
Annual OPEB cost (expense)	<u>597,760</u>
Benefit payments made	
Discretionary contributions made	<u>(595,959)</u>
Total payments	<u>(595,959)</u>
Decrease in net OPEB obligation	1,801
Net OPEB asset - beginning of year	<u>(173,530)</u>
Net OPEB asset - end of year	<u><u>\$ (171,729)</u></u>

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, 2016 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2014	\$ 612,111	234.5%	\$ (3,258)
June 30, 2015	\$ 597,760	129.2%	\$ (171,729)
June 30, 2016	\$ 597,760	99.7%	\$ (171,729)

As of June 30, 2015, the most recent actuarial valuation date, the plan was partially funded through the District's participation in CERBT, discussed above. The actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were \$5,445,056. The covered payroll (annual payroll of active employees covered by the Plan) was \$27,661,577, and the ratio of the UAAL to the covered payroll was 14.7 percent.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, shown as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 June 30, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7 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 4.0 percent. Both rates included a 2.75 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, 2016 is 25 years.

NOTE 10 - JOINT POWERS AUTHORITY

The District is a member with other school districts in San Mateo County and the San Mateo County Office of Education in 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. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from the prior year.

The following is a summary of financial information for SMCSIG at June 30, 2016:

Total assets	\$ 22,030,490
Total deferred outflows	\$ 443,058
Total liabilities	\$ 10,785,422
Total deferred inflows	\$ 282,729
Net position	\$ 11,405,397
Total revenues	\$ 40,626,795
Total expenses	\$ 39,473,157
Change in net position	\$ 1,153,638

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

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 - COMMITMENTS AND 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.

At June 30, 2016, the District had commitments for capital construction projects totaling approximately \$7.6 million.

REQUIRED SUPPLEMENTARY INFORMATION

MENLO PARK CITY SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 1,717,027	\$ 1,717,027	\$ 1,817,574	\$ 100,547
Local sources	<u>26,318,256</u>	<u>26,606,047</u>	<u>26,560,947</u>	<u>(45,100)</u>
Total LCFF	<u>28,035,283</u>	<u>28,323,074</u>	<u>28,378,521</u>	<u>55,447</u>
Federal sources	610,726	691,287	577,493	(113,794)
Other state sources	1,159,100	4,090,671	4,164,254	73,583
Other local sources	<u>10,977,948</u>	<u>11,387,757</u>	<u>11,504,196</u>	<u>116,439</u>
Total revenues	<u>40,783,057</u>	<u>44,492,789</u>	<u>44,624,464</u>	<u>131,675</u>
Expenditures:				
Current:				
Certificated salaries	23,523,749	23,229,103	23,141,472	87,631
Classified salaries	5,707,334	5,784,603	5,783,600	1,003
Employee benefits	7,252,578	8,579,215	8,518,849	60,366
Books and supplies	1,917,067	1,814,754	1,744,357	70,397
Contract services and operating expenditures	3,029,477	3,843,023	3,645,616	197,407
Other outgo	265,000	357,350	363,167	(5,817)
Capital outlay	<u>-</u>	<u>199,161</u>	<u>199,161</u>	<u>-</u>
Total expenditures	<u>41,695,205</u>	<u>43,807,209</u>	<u>43,396,222</u>	<u>410,987</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(912,148)</u>	<u>685,580</u>	<u>1,228,242</u>	<u>542,662</u>
Other financing sources (uses):				
Transfers in	20,000	20,000	11,868	(8,132)
Net change in fund balance	(892,148)	705,580	1,240,110	534,530
Fund balance, July 1, 2015	<u>14,165,843</u>	<u>14,165,843</u>	<u>14,165,843</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 13,273,695</u>	<u>\$ 14,871,423</u>	<u>\$ 15,405,953</u>	<u>\$ 534,530</u>

Refer to Note to Required Supplementary Information.

MENLO PARK CITY SCHOOL DISTRICT
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Schedule of Funding Progress				UAAL as a Percentage of Covered Payroll
		Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	
October 1, 2010	\$ -	\$ 6,983,617	\$ 6,983,617	0%	\$19,181,397	36.4%
November 1, 2012	\$ -	\$ 7,034,481	\$ 7,034,481	0%	\$24,083,150	29.2%
June 30, 2013	\$ -	\$ 6,494,004	\$ 6,494,004	0%	\$24,597,966	26.4%
June 30, 2015	\$ 1,392,549	\$ 5,445,056	\$ 4,052,507	0%	\$27,661,577	14.7%

Refer to Note to Required Supplementary Information.

MENLO PARK CITY SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2016

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.048%	0.049%
District's proportionate share of the net pension liability	\$ 28,085,000	\$ 32,668,000
State's proportionate share of the net pension liability associated with the District	<u>16,959,000</u>	<u>17,278,000</u>
Total net pension liability	<u>\$ 45,044,000</u>	<u>\$ 49,946,000</u>
District's covered-employee payroll	\$ 21,406,000	\$ 22,522,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.20%	145.05%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

The amounts represented for each fiscal year were determined as of the year end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2016

Public Employer's Retirement Fund B
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.041%	0.044%
District's proportionate share of the net pension liability	\$ 4,637,000	\$ 6,499,000
District's covered-employee payroll	\$ 4,287,000	\$ 4,881,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.16%	133.15%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%

The amounts represented for each fiscal year were determined as of the year end that occurred one year prior.

All years prior to 2015 are not available.

Refer to Note to Required Supplementary Information.

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2016

State Teachers' Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 1,999,983	\$ 2,458,355
Contributions in relation to the contractually required contribution	\$ 1,999,983	\$ 2,458,355
District's covered-employee payroll	\$ 22,522,000	\$ 22,911,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2016

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 574,590	\$ 950,840
Contributions in relation to the contractually required contribution	\$ 574,590	\$ 950,840
District's covered-employee payroll	\$ 4,881,000	\$ 8,026,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

All years prior to 2015 are not available.

Refer to Note to Required Supplementary Information.

MENLO PARK CITY SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 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 and Deferred Maintenance 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.

C - Schedule of the District's Proportionate Share of the Net Pension Liability

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Schedule of the District's Contributions

The Schedule of the District's Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E - Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan..

SUPPLEMENTARY INFORMATION

MENLO PARK CITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2016

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total
ASSETS						
Cash in County Treasury	\$ 39,514	\$ 803,660	\$ 1,405,742	\$ -	\$ 2,969,430	\$ 5,218,346
Receivables	<u>32,054</u>	<u>2,684</u>	<u>46,391</u>	<u>-</u>	<u>4,519</u>	<u>85,648</u>
Total assets	<u>\$ 71,568</u>	<u>\$ 806,344</u>	<u>\$ 1,452,133</u>	<u>\$ -</u>	<u>\$ 2,973,949</u>	<u>\$ 5,303,994</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 5,808	\$ -	\$ -	\$ -	\$ -	\$ 5,808
Due to other funds	<u>11,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,868</u>
Total liabilities	<u>17,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,676</u>
Fund balances:						
Restricted	53,892	-	1,452,133	-	2,973,949	4,479,974
Unassigned	<u>-</u>	<u>806,344</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>806,344</u>
Total fund balances	<u>53,892</u>	<u>806,344</u>	<u>1,452,133</u>	<u>-</u>	<u>2,973,949</u>	<u>5,286,318</u>
Total liabilities and fund balances	<u>\$ 71,568</u>	<u>\$ 806,344</u>	<u>\$ 1,452,133</u>	<u>\$ -</u>	<u>\$ 2,973,949</u>	<u>\$ 5,303,994</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, 2016

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total
Revenues:						
Federal sources	\$ 109,913	-	\$ -	\$ -	\$ -	\$ 109,913
State apportionment	-	\$ 625,000	-	-	-	625,000
Other state sources	6,091	-	-	842	-	6,933
Other local sources	<u>126</u>	<u>12,261</u>	<u>450,394</u>	<u>-</u>	<u>15,347</u>	<u>478,128</u>
Total revenues	<u>116,130</u>	<u>637,261</u>	<u>450,394</u>	<u>842</u>	<u>15,347</u>	<u>1,219,974</u>
Expenditures:						
Current:						
Books and supplies	108,810	-	-	-	-	108,810
Contract services and other operating expenditures	-	86,490	14,710	-	20,100	121,300
Capital outlay	<u>-</u>	<u>990,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>990,367</u>
Total expenditures	<u>108,810</u>	<u>1,076,857</u>	<u>14,710</u>	<u>-</u>	<u>20,100</u>	<u>1,220,477</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,320</u>	<u>(439,596)</u>	<u>435,684</u>	<u>842</u>	<u>(4,753)</u>	<u>(503)</u>
Other financing (uses) sources:						
Transfers in	-	-	-	-	1,100,000	1,100,000
Transfers out	<u>(11,868)</u>	<u>(1,100,000)</u>	<u>-</u>	<u>(989)</u>	<u>-</u>	<u>(1,112,857)</u>
Total other financing (uses) sources	<u>(11,868)</u>	<u>(1,100,000)</u>	<u>-</u>	<u>(989)</u>	<u>1,100,000</u>	<u>(12,857)</u>
Net change in fund balances	(4,548)	(1,539,596)	435,684	(147)	1,095,247	(13,360)
Fund balances, July 1, 2015	<u>58,440</u>	<u>2,345,940</u>	<u>1,016,449</u>	<u>147</u>	<u>1,878,702</u>	<u>5,299,678</u>
Fund balances, June 30, 2016	<u>\$ 53,892</u>	<u>\$ 806,344</u>	<u>\$ 1,452,133</u>	<u>\$ -</u>	<u>\$ 2,973,949</u>	<u>\$ 5,286,318</u>

MENLO PARK CITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Year Ended June 30, 2016

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>
<u>Student Body</u>				
Assets:				
Cash on hand and in banks	\$ <u>27,518</u>	\$ <u>213,192</u>	\$ <u>201,655</u>	\$ <u>39,055</u>
Liabilities:				
Due to student groups	\$ <u>27,518</u>	\$ <u>213,192</u>	\$ <u>201,655</u>	\$ <u>39,055</u>

MENLO PARK CITY SCHOOL DISTRICT
ORGANIZATION
June 30, 2016

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>
Maria Hilton	President	December 2016
Jeff Child	Vice President/Clerk	December 2016
Stacy Jones	Member	December 2018
Terry Thygesen	Member	December 2018
Joan Lambert	Member	December 2018

ADMINISTRATION

Dr. Maurice Ghysels
Superintendent

Ahmad Sheikholeslami
Chief Business and Operations Officer

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>DISTRICT</u>		
Transitional Kindergarten through Third	1,237	1,239
Fourth through Sixth	915	917
Seventh and Eighth	517	518
Special Education	<u>4</u>	<u>4</u>
Totals	<u><u>2,673</u></u>	<u><u>2,678</u></u>

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	52,350	180	In Compliance
Grade 1	50,400	54,180	180	In Compliance
Grade 2	50,400	54,180	180	In Compliance
Grade 3	50,400	54,750	180	In Compliance
Grade 4	54,000	54,750	180	In Compliance
Grade 5	54,000	55,770	180	In Compliance
Grade 6	54,000	56,160	180	In Compliance
Grade 7	54,000	56,160	180	In Compliance
Grade 8	54,000	56,160	180	In Compliance

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, 2016

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, 2016
 (UNAUDITED)

<u>General Fund</u>	(Budget) <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues and other financing sources	\$ 45,391,452	\$ 44,636,332	\$ 39,911,608	\$ 38,762,914
Expenditures	45,396,340	43,396,222	41,515,551	38,057,754
Other uses and transfers out	<u>-</u>	<u>-</u>	685,000	1,345,077
Total outgo	<u>45,396,340</u>	<u>43,396,222</u>	<u>42,200,551</u>	<u>39,402,831</u>
Change in fund balance	<u>\$ (4,888)</u>	<u>\$ 1,240,110</u>	<u>\$ (2,288,943)</u>	<u>\$ (639,917)</u>
Ending fund balance	<u>\$ 15,401,065</u>	<u>\$ 15,405,953</u>	<u>\$ 14,165,843</u>	<u>\$ 16,454,786</u>
Available reserves	<u>\$ 8,057,910</u>	<u>\$ 6,936,994</u>	<u>\$ 6,760,105</u>	<u>\$ 6,771,006</u>
Designated for economic uncertainties	<u>\$ 8,057,910</u>	<u>\$ 6,936,994</u>	<u>\$ 6,760,105</u>	<u>\$ -</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,771,006</u>
Available reserves as a percentage of total outgo	<u>17.75%</u>	<u>15.99%</u>	<u>16.02%</u>	<u>17.18%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 187,441,878</u>	<u>\$ 190,726,878</u>	<u>\$ 178,406,125</u>	<u>\$ 138,973,244</u>
Average daily attendance at P-2	<u>2,765</u>	<u>2,673</u>	<u>2,726</u>	<u>2,637</u>

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 decreased by \$1,688,750 over the past three fiscal years. The District projects a decrease of \$4,888 for the year ending June 30, 2016. 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, 2016, the District has met this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates incurring an operating deficit during the 2016-2017 fiscal year.

Total long-term liabilities have increased by \$51,753,634 over the past two years, primarily due to the issuance of general obligation bonds and the implementation of GASB Statement No. 68.

Average daily attendance has increased by 36 over the past two years. The District anticipates an increase of 92 ADA during the fiscal year ending June 30, 2017.

See accompanying notes to supplementary information.

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2016

Charter Schools Chartered by District

Included in District
Financial Statements, or
Separate Report

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
June 30, 2016

NOTE 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. The District neither met nor exceeded its target funding. 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 - 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.

D - 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 2016-2017 fiscal year, as required by the State Controller's Office. The information on this schedule has been derived from audited information.

E - Schedule of Charter Schools

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

NOTE 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, 2014, 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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* to the state laws and regulations listed below for the year ended June 30, 2016.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	No, see below
After school	No, see below
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	No, see below
Mode of Instruction, for charter schools	No, see below
NonclassroomBased Instruction/Independent Study, for charter schools	No, see below
Determination of Funding for NonclassroomBased Instruction, for charter schools	No, see below
Annual Instructional Minutes ClassroomBased, for charter schools	No, see below
Charter School Facility Grant Program	No, see below

(Continued)

We did not perform any procedure 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 Early Retirement Incentive Program because the District does not offer the program in the current year.

We did not perform any procedures related to Juvenile Court Schools or Middle or Early College High Schools because the District does not offer these programs.

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

The District did not offer an Independent Study-Course Based program; therefore, we did not perform any procedures related to this program.

The District submitted all required immunization assessment reports to the California Department of Public Health; therefore, we did not perform any procedures related to this requirement.

We did not perform any procedures related to Contemporaneous Records of Attendance, Mode of Instruction, Nonclassroom - Based Instruction / Independent Study, Determination of Funding for Nonclassroom-Based Instruction, Annual Instructional Minutes - Classroom Based, or Charter School Facility Grant Program, 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, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on Menlo Park City School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Menlo Park City School District's compliance 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.

Basis for Qualified Opinion with State Laws and Regulations

As described in Finding 2016-002 in the accompanying Schedule of Audit Findings and Questioned Costs, Menlo Park City School District did not comply with the requirements regarding School Accountability Report Card. Compliance with such requirements is necessary, in our opinion, for Menlo Park City School District to comply with state laws and regulations applicable to this program.

(Continued)

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Menlo Park City School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2016. 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.

Other Matters

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

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 2015-16 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.


Crowe Horwath LLP

Sacramento, California
December 9, 2016

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, 2016, 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 9, 2016.

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 identified a deficiency involving internal control that was communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2016-001.

(Continued)

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*.

Menlo Park City School District's Response to Finding

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 basic financial statements and, accordingly, 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 9, 2016

FINDINGS AND RECOMMENDATIONS

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material 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	

STATE AWARDS

Type of auditor's report issued on compliance for state programs:	Qualified
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(Continued)

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-001 DEFICIENCY - INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)

Criteria

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

At Hillview Middle School:

- Formal approval for revenue-producing activities could not be identified.
- The student store inventory count was not formally documented as having been completed. Inventory counts should be regularly prepared and reviewed.
- Bank reconciliations did not explicitly show segregation of duties between the preparer and the reviewer.

Effect

Associated Student Body (ASB) account funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

- Revenue-producing activities should be approved by the Principal, student council/advisor, where applicable, and in accordance with District policy.
- A formalized inventory count should take place relating to the student store that shows preparer and reviewer.
- Bank reconciliations should be reviewed and signed by the preparer and reviewer.

Corrective Action Plan

Management will work to ensure that site personnel are following established internal control policies for the District's ASB Accounts.

(Continued)

MENLO PARK CITY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2016-002 DEFICIENCY - SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria

Education Code Section 35186 (a) A school district shall use the uniform complaint process it has adopted as required by Chapter 5.1 (commencing with Section 4600) of Title 5 of the California Code of Regulations, with modifications, as necessary, to help identify and resolve any deficiencies related to instructional materials, emergency or urgent facilities conditions that pose a threat to the health and safety of pupils or staff, teacher vacancy or misassignment, and intensive instruction and services provided pursuant to Section 37254 to pupils who have not passed one or both parts of the high school exit examination after the completion of grade 12.

Condition

At Oak Knoll Elementary, the School Accountability Report Card was not consistent with information provided in the facility conditions evaluation instrument with respect to interior surfaces and restrooms/fountains.

At Hillview Middle School, no facility conditions evaluation instrument was prepared. The School Accountability Report Card was prepared based on first-hand knowledge of the site conditions.

Effect

The information reported in the School Accountability Report Card may not accurately reflect the conditions of the sites reported.

Cause

For Oak Knoll Elementary, the District facilities personnel addressed the deficient areas identified, and a revised School Accountability Report Card was prepared. The facility conditions evaluation instrument was not revisited to reflect the improvements made to the site.

For Hillview Middle School, the site was recently renovated and as a result District facilities personnel did not prepare a formal facility conditions evaluation instrument.

Fiscal Impact

Not determinable.

Recommendation

The District should establish a policy for preparing the School Accountability Report Card and ensure that responsible individuals adhere to the established internal control process.

Corrective Action Plan

The District will revise their School Accountability Report Cards and/or facility inspection tool for the noted sites, and will ensure that future School Accountability Report Cards are consistent with the facility inspection results.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MENLO PARK CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
No matters were reported.		