PORTOLA VALLEY
SCHOOL DISTRICT
COUNTY OF SAN MATEO
PORTOLA VALLEY, CALIFORNIA

AUDIT REPORT

JUNE 30, 2018

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

PORTOLA VALLEY SCHOOL DISTRICT
SAN MATEO COUNTY

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Portola Valley School District
Portola Valley, 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 Portola Valley School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Portola Valley School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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 Portola Valley School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of CalPERS pension plan contributions, schedule of CalPERS proportionate share of net pension liability, schedule of STRS pension plan contributions, schedule of STRS proportionate share of net pension liability and schedule of change in total OPEB liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, organization schedule, schedule of average daily attendance, schedule of instructional time offered, schedule of financial trends and analysis, as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards*, and the reconciliation of the Annual Financial Budget report to the audited financial statements, as required by the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements and the reconciliation of the Annual Financial and Budget Report to the audited financial statements, as required by the 2017-18 Guide for Annual Audits.

The combining and individual nonmajor fund financial statements, schedule of average daily attendance, schedule of instructional time offered, and the reconciliation of the Annual Financial and Budget Report to the audited financial statements, are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedule of average daily attendance, schedule of instructional time offered, and the reconciliation of the Annual Financial and Budget Report to the audited financial statements are fairly stated, in all material respects, in relation to the basic financial statements. The combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of Portola Valley 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 Portola Valley School District's internal control over financial reporting and compliance.

C & A LLP

December 13, 2018
San Jose, California

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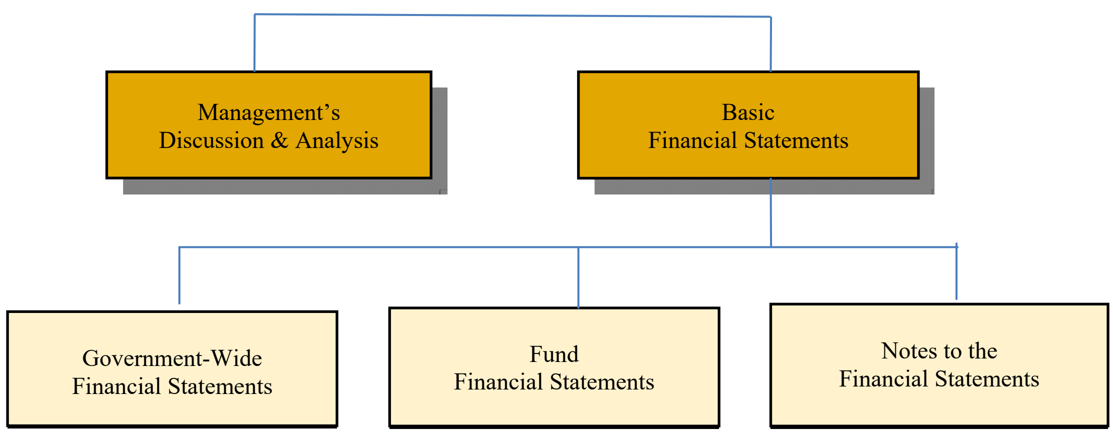
Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

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

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2018 were as follows:

- Total net position decreased by $1,939,801, or 57.8%, from June 30, 2017 to June 30, 2018.
- General revenues accounted for $16,078,392 which is 93.61% of all revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for $741,814 or 6.39% of total revenues of $17,175,112.
- The District had $15,785,216 in expenses, which was directly supported by program specific revenues of $741,814.
- Total fund balances of governmental funds decreased by $15,392, or -.42%, from June 30, 2017 to June 30, 2018.
- Among major funds, the General Fund had $15,560,228 in revenues and $15,025,730 in expenditures. The General Fund's fund balance increased by $480,012 from June 30, 2017 to June 30, 2018.

USING THE ANNUAL REPORT

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.

- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.

- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2017 - 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins with the balance sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, and Bond Interest and Redemption Fund.

Governmental Funds

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

Fiduciary Funds

The district is the trustee, or fiduciary, for student body funds and a foundation trust fund. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district's fund and government-wide financial statements because the district cannot use these assets to finance its operations.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2018 as compared to June 30, 2017:

Table 1 - Summary of Net Position

	2018	2017	Increase (Decrease)	Percent
Assets				
Current Assets	$ 4,241,322	$ 4,074,177	$ 167,145	4.1%
Noncurrent Assets	28,274,156	28,219,356	54,800	0.2%
Total Assets	$ 32,515,478	$ 32,293,533	$ 221,945	0.7%
Deferred Outflows of Resources	$ 6,111,203	$ 6,137,390	$ (26,187)	-0.4%
Liabilities				
Current and Other Liabilities	$ 828,610	$ 655,073	$ 173,537	26.5%
Long-Term Liabilities	35,068,716	32,852,060	2,216,656	6.7%
Total Liabilities	$ 35,897,326	$ 33,507,133	$ 2,390,193	7.1%
Deferred Inflows of Resources	$ 1,312,209	$ 1,566,843	$ (254,634)	-16.3%
Net Position				
Net Investment in Capital Assets	$ 10,718,906	$ 9,628,301	$ 1,090,605	11.3%
Restricted	515,546	410,984	104,562	25.4%
Unrestricted	(9,817,306)	(6,682,338)	(3,134,968)	-46.9%
Total Net Position	$ 1,417,146	$ 3,356,947	$ (1,939,801)	-57.8%

Net position decreased by $1,939,801 because of the pension adjustments required by GASB 68 and GASB 75 which requires all local governments to record its proportionate share of net pension and OPEB liabilities from pension plans in the government-wide financial statements. There were prior period adjustments for the implementation for GASB 75 for $605,273 and for Health and Welfare for $111,060. The unrestricted net position of the District, which is the portion of net position that may be used to finance day-to-day activities without constraints from grants and legal requirements, decreased by 46.9%. There was no impact on fund balance as a result of GASB 68 and GASB 75.

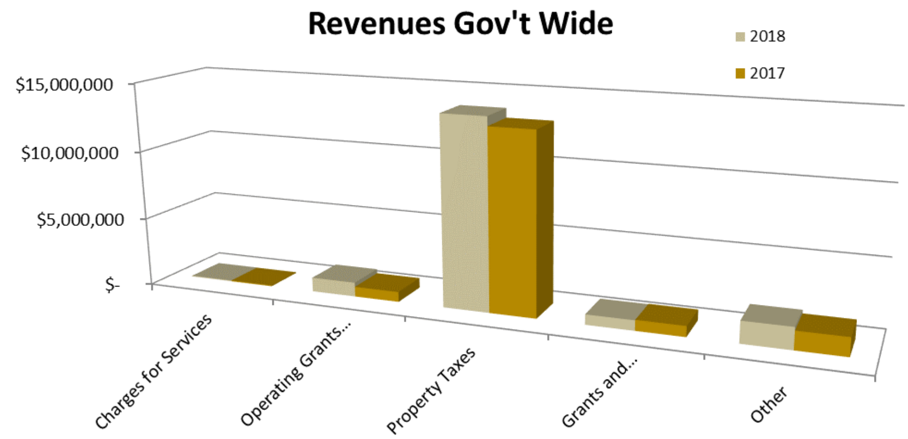
Table 2 shows the changes in net position from fiscal year 2017 to 2018.

Table 2 - Change in Net Position

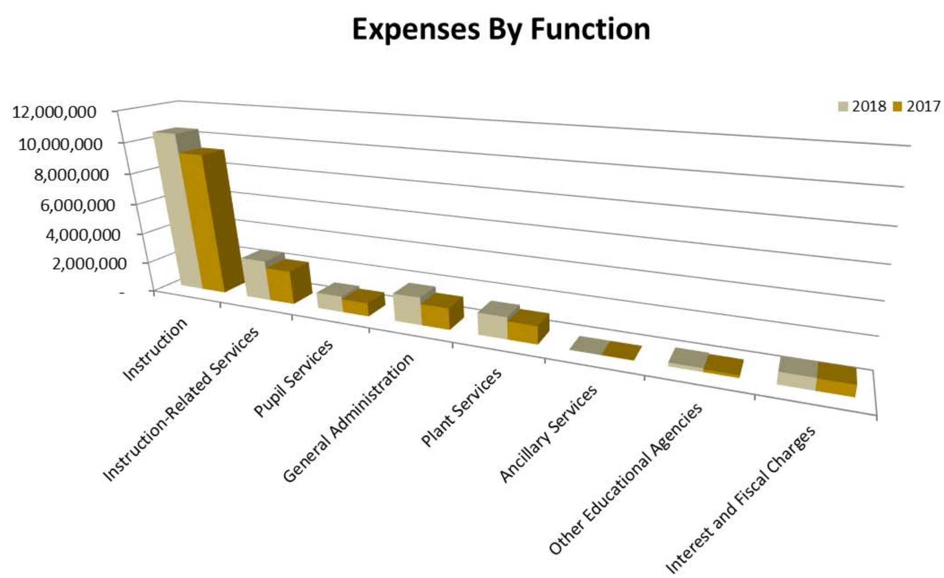
	2018	2017	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	$ 61,181	$ 55,986	$ 5,195	9.3%
Operating Grants and Contributions	1,035,739	726,403	309,336	42.6%
General Revenues:				
Property Taxes	13,758,799	13,081,502	677,297	5.2%
Grants and Entitlements - Unrestricted	741,814	769,250	(27,436)	-3.6%
Other	1,577,579	1,330,184	247,395	18.6%
Total Revenues	17,175,112	15,963,325	1,211,787	7.6%
Program Expenses				
Instruction	10,505,255	9,287,408	1,217,847	13.1%
Instruction-Related Services	2,669,815	2,218,528	451,287	20.3%
Pupil Services	1,052,430	874,274	178,156	20.4%
General Administration	1,798,573	1,393,129	405,444	29.1%
Plant Services	1,411,388	1,149,794	261,594	22.8%
Other Educational Agencies	230,833	158,238	72,595	45.9%
Interest and Fiscal Charges	730,286	703,845	26,441	3.8%
Total Expenses	18,398,580	15,785,216	2,613,364	16.6%
Change in Net Position	(1,223,468)	178,109	(1,401,577)	-786.9%
Prior Period Adjustments	(716,333)	-	(716,333)	-100.0%
Change in Net Position	$ (1,939,801)	$ 178,109	$ (2,117,910)	-1189.1%

Property taxes comprised 80% of District revenues and direct instruction costs comprised 57% of District expenses for fiscal year 2018.

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



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



GOVERNMENTAL ACTIVITIES

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

Table 3 - Net Cost of Services

Function	2018	2017	Increase (Decrease)	Percent
Instruction	$ 9,889,999	$ 8,812,808	$ 1,077,191	12.2%
Instruction-Related Services	2,597,716	2,162,214	435,502	20.1%
Pupil Services	978,046	805,378	172,668	21.4%
General Administration	1,777,506	1,384,323	393,183	28.4%
Plant Services	1,407,291	1,149,753	257,538	22.4%
Other Educational Agencies	(79,184)	(15,494)	(63,690)	-411.1%
Interest and Fiscal Charges	730,286	703,845	26,441	3.8%
Total Net Cost of Services	$ 17,301,660	$ 15,002,827	$ 2,298,833	15.3%

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

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 an effective working condition.

Ancillary Services includes the operation of non-instructional services including the preparation, delivery, and servicing of lunches, snacks and other incidental meals.

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

The dependence upon tax and local revenues is apparent, 94% of the District's activities are supported through taxes and other general revenues. The community, as a whole, is the primary support for the District.

THE DISTRICT'S FUNDS

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

Table 4 - Change in Fund Balances

Funds	2018	2017	Increase (Decrease)
General Fund	$ 2,266,891	$ 1,897,939	$ 368,952
Cafeteria Fund	269	3,016	(2,747)
Deferred Maintenance Fund	96,955	323,690	(226,735)
Building Fund	(45,786)	-	(45,786)
Capital Facilities Fund	117,379	265,947	(148,568)
Bond Interest & Redemption Fund	1,246,004	1,206,512	39,492
Total Governmental Fund Balances	$ 3,681,712	$ 3,697,104	$ (15,392)

GENERAL FUND BUDGETING HIGHLIGHTS

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

During the course of the 2017-18 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim, which resulted in an increase in budgeted expenditures of $96,370 from the original to final budget.

For the General Fund, the final budget basis revenue and other financing sources estimate was $15,452,061. The original budgeted estimate was $14,756,886.

CAPITAL ASSETS

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

Table 5 - Summary of Capital Assets Net of Depreciation

Capital Asset	2018 Net Capital Asset	2017 Net Capital Asset	Percentage Change
Land	$ 770,000	$ 770,000	0.0%
Buildings and Improvements	26,728,686	26,633,073	0.4%
Property and Equipment	381,275	389,197	-2.0%
Totals	$ 27,879,961	$ 27,792,270	0.3%

LONG TERM DEBT

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

Table 6 - Long-term Debt

Type of Debt	2018	2017	Percentage Change
General obligation bonds	$ 15,794,210	$ 16,688,317	-5.36%
Capital Lease Obligations	1,761,040	1,902,738	-7.45%
Net Pension Obligations	15,648,525	12,769,213	22.55%
Early Retirement Incentives	484,741	610,000	-20.53%
Net OPEB obligation	1,367,737	852,781	60.39%
Compensated absences	12,463	29,011	-57.04%
Total Debt	$ 35,068,716	$ 32,852,060	6.75%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's funding scheme for school districts, the Local Control Funding Formula, directs funds to school districts disproportionately in two ways. Weighted grade span allocations recognize that programming costs differ at various points in the K-12 program. Districts will also receive additional dollars for students with limited English language proficiency, students in foster care, and those with limited income as measured by eligibility for free and reduced price meals in the Federal School Nutrition Program.

As a community funded district, the Portola Valley School District will be relatively unaffected by the Local Control Funding Formula. The District has explicitly connected the annual budget to the education program by formally adopting an annual "Local Control Accountability Plan".

Portola Valley School District will also need to monitor the macro-economy to be sure we are reacting to potential threats like those seen in recent years. It appears that property values in the region are on the rise again and the economy as a whole seems headed toward an upward swing. At the same time, the fluctuations in the stock markets may be indicating there are additional threats to stability on the horizon. The District's Board has indicated their intent to act prudently by committing to monitoring actively the multiyear projection and to building a reserve beyond required levels which will be sufficient to ensure solvency and to preserve programming for students.

CONTACTING THE DISTRICT'S FINANCIAL 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 Connie Ngo, Portola Valley School District Business Office, 4575 Alpine Road, Portola Valley, CA 94028, (650) 851-1777, extension 2560.

Basic Financial Statements

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
Assets		
Current Assets:		
Cash and investments	$	3,939,165
Accounts receivable		255,601
Prepaid expenses		46,735
Total Current Assets		4,241,501
Noncurrent Assets:		
Unamortized prepaid bond issuance costs - net		394,195
Capital assets - net		27,879,961
Total Noncurrent Assets		28,274,156
Total Assets	$	32,515,657
Deferred Outflows of Resources		
Pension adjustments	$	4,681,336
OPEB adjustments		92,873
Deferred loss on early retirement of long-term debt		1,336,994
Total Deferred Outflows of Resources	$	6,111,203
Liabilities		
Current Liabilities:		
Accounts payable	$	552,440
Unearned revenue		7,349
Accrued interest		269,000
Total Current Liabilities		828,789
Long-term Liabilities:		
Due within one year:		
General obligation bonds payable		865,000
Capital lease obligations		150,616
Early retirement incentives		125,259
Compensated absences payable		12,463
Total due within one year		1,153,338
Due after one year:		
General obligation bonds payable		14,929,210
Capital lease obligations		1,610,424
Net pension obligations		15,648,525
Net OPEB obligation		1,367,737
Early retirement incentives		359,482
Total due after one year		33,915,378
Total long-term Liabilities		35,068,716
Total Liabilities	$	35,897,505
Deferred Inflows of Resources		
Pension adjustments	$	1,265,055
OPEB adjustments		47,154
Total Deferred Inflows of Resources	$	1,312,209
Net Position		
Net investment in capital assets	$	10,718,906
Restricted for:		
Cafeteria programs		269
Educational programs		515,277
Total restricted net position		515,546
Unrestricted (deficit)		(9,817,306)
Total Net Position	$	1,417,146

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

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities				
Instruction	$ 10,505,235	$ 7,595	$ 607,661	$ (9,889,979)
Instruction-related services:				
Supervision of instruction	351,718	298	15,556	(335,864)
Instruction library, media and technology	1,084,110	353	16,821	(1,066,936)
School site administration	1,233,982	-	39,071	(1,194,911)
Pupil services:				
Home-to-school transportation	144,165	34	-	(144,131)
Food services	173,937	-	30,621	(143,316)
All other pupil services	734,325	1,930	41,799	(690,596)
General administration:				
Data processing	62,778	-	-	(62,778)
All other general administration	1,735,792	294	20,773	(1,714,725)
Plant services	1,411,619	681	3,416	(1,407,522)
Other educational agencies	230,833	49,996	260,021	79,184
Interest on long-term debt	730,286	-	-	(730,286)
Total governmental activities	$ 18,398,780	$ 61,181	$ 1,035,739	(17,301,860)
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				11,236,361
Taxes levied for debt service				1,320,976
Taxes levied for other specific purposes				1,201,462
Federal and state aid not restricted to specific purposes				741,814
Interest and investment earnings				74,534
Miscellaneous				1,503,245
Total general revenues and special items				16,078,392
Change in net position				(1,223,468)
Net position beginning				3,356,947
Prior period adjustments - GASB 75				(605,273)
Prior period adjustments - Health and Welfare				(111,060)
Net position beginning, as adjusted				2,640,614
Net position ending				$ 1,417,146

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

PORTOLA VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	$ 2,461,687	$ 1,241,254	$ 236,224	$ 3,939,165
Accounts receivable	242,158	4,750	8,693	255,601
Due from other funds	50,000	-	9,370	59,370
Prepaid expenditures	46,735	-	-	46,735
Total Assets	$ 2,800,580	$ 1,246,004	$ 254,287	$ 4,300,871
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 524,319	$ -	$ 28,121	$ 552,440
Due to other funds	9,370	-	50,000	59,370
Unearned revenue	-	-	7,349	7,349
Total Liabilities	533,689	-	85,470	619,159
Fund balances:				
Nonspendable:				
Prepaid expenditures	46,735	-	-	46,735
Restricted for:				
Educational programs	515,277	-	-	515,277
Debt service	-	1,246,004	-	1,246,004
Cafeteria programs	-	-	269	269
Assigned for:				
CalSTRS set-aside	994,368	-	-	994,368
Capital projects	-	-	117,379	117,379
Site repairs	-	-	96,955	96,955
Unassigned:				
Economic uncertainties	625,776	-	-	625,776
Unappropriated	84,735	-	(45,786)	38,949
Total Fund Balances	2,266,891	1,246,004	168,817	3,681,712
Total Liabilities and Fund Balances	$ 2,800,580	$ 1,246,004	$ 254,287	$ 4,300,871

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

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - governmental funds		$ 3,681,712
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $41,479,818 and the accumulated depreciation is $13,599,857.		27,879,961
To recognize accrued interest at year end which is not reported in the governmental funds		(269,000)
Discounts and prepaid issuance costs paid when debt is issued are expensed in the fund statements but capitalized and amortized over the life of the bonds in the government-wide statements and not resources currently available for spending.		394,195
The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position, while contrbutions made in the current were reported as deferred outflows of resources because they were not paid as of the plans' valuation dates.		3,416,281
The differences between projected and actual amounts in OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflow or inflow of Resources in the statement of net position as follows:		
Contributions subsequent to the measureement date		92,873
Changes in assumptions		(47,154)
The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred inflow in the government-wide statement of net position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements.		1,336,994
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:		
General obligation bonds	$ 15,794,210	
Capital lease obligations	1,761,040	
Net pension obligations	15,648,525	
Net OPEB obligation	1,367,737	
Early retirement incentives	484,741	
Compensated absences (vacation)	12,463	(35,068,716)
Net position - governmental activities		$ 1,417,146

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

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
LCFF sources	$ 11,774,307	$ -	$ -	$ 11,774,307
Federal	109,868	-	28,872	138,740
Other state	801,565	2,788	1,748	806,101
Other local	2,874,548	1,351,470	230,147	4,456,165
Total revenues	15,560,288	1,354,258	260,767	17,175,313
Expenditures:				
Instruction	8,753,286	-	-	8,753,286
Instruction-related services:				
Supervision of instruction	259,048	-	-	259,048
Instruction library, media and technology	887,250	-	-	887,250
School site administration	1,056,696	-	-	1,056,696
Pupil services:				
Home-to-school transportation	123,656	-	-	123,656
Food services	-	-	141,690	141,690
All other pupil services	629,860	-	-	629,860
General administration:				
Data processing	53,847	-	-	53,847
All other general administration	1,479,465	-	144	1,479,609
Plant services	949,257	-	309,550	1,258,807
Facility acquisition and construction	290,367	-	287,765	578,132
Other educational agencies	230,833	-		230,833
Debt service:				
Principal	141,699	835,000	-	976,699
Interest and other costs	170,466	479,766	-	650,232
Total expenditures	15,025,730	1,314,766	739,149	17,079,645
Excess (deficiency) of revenues over (under) expenditures	534,558	39,492	(478,382)	95,668
Transfers in	-	-	54,546	54,546
Transfers out	(54,546)	-	-	(54,546)
Total other financing sources (uses)	(54,546)	-	54,546	-
Net change in fund balances	480,012	39,492	(423,836)	95,668
Fund balances beginning	1,897,939	1,206,512	592,653	3,697,104
Prior period adjustment - Health and Welfare	(111,060)	-	-	(111,060)
Fund balances beginning, as adjusted	1,786,879	1,206,512	592,653	3,586,044
Fund balances ending	$ 2,266,891	$ 1,246,004	$ 168,817	$ 3,681,712

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Total net change in fund balances - governmental funds		$ 95,668
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities , the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of $656,053 was less than depreciation expense of $568,362 in the period.		87,691
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of bond principal	$ 835,000	835,000
The governmental funds report long-term debt proceeds as an other financing source, while repayment of deb principal is reported as an expenditure.		
Repayment of capital lease principal		141,699
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as note in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		(2,581,315)
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. The difference between premiums or discounts recognized in the current period and amortized over future periods is:		26,216
In governmental funds, deferred loss on early retirement of long-term debt is recognized as other finances uses. In the government-wide statements, the deferred losses on early retirement of long-term debt is amortized over the life of the debt. The difference between other financing uses and amortization is:		(115,270)
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned was less than the amounts used by:		16,548
Payments for early retirement incentive programs are expenditures in the governmental funds and liabilities amortized over over the life of the program in the statement of activities.		125,259
In govenmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the government-wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		136,036
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		9,000
Changes in net position of governmental activities		$ (1,223,468)

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

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Student Body Agency Fund
Assets	
Cash on hand and in banks	$ 6,287
Total Assets	$ 6,287
Liabilities	
Accounts payable	$ 6,287
Total Liabilities	$ 6,287

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

The Portola Valley School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

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

Accordingly, for the year ended June 30, 2018, the District does not have any component units and is not a component unit of any other reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

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

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

D. <u>Basis of Accounting</u>

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value ***without*** directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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. 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.

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.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows of resources. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund and includes transactions accounted for in the Special Reserve Fund for Other Than Capital Outlay Projects and Tax Override Fund.

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

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund. The District maintains two non-major special revenue funds:

- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service programs.

- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains one non-major capital projects fund:

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

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

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

For the fiscal year ended June 30, 2018, expenditures within the General Fund, in two expenditure categories, exceeded budget by $12,711 in total. The overage reflects excess expenditures for Classified salaries and employee benefits, which were not budgeted. Fund balance was more than adequate to cover the excess expenditures.

G. Encumbrances

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

H. Benefit Plans

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System plans (STRS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and STRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB Statement No. 68) requires that the reported results must pertainnto liability and asset information within certain defined time frames. For this period, the following time frames were used:

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

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

I. Assets, Liabilities, and Equity

1. Cash and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

2. Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

3. Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets.

The District’s central warehouse inventory is valued at a moving average cost and consists of expendable supplies held for consumption. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

4. Capital Assets

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

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

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

Assets	Years
Improvement of sites	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

5. Compensated Absences

All vacation pay plus related payroll tax is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period 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 when the employee retires. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

7. Fund Balance Classifications

The District maintains a minimum unassigned fund balance of not less than 4 percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which basic aide districts are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Non-spendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- *Committed* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.

- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and the Assistant Superintendent of Business Services.

- *Unassigned* fund balance includes positive amounts within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

In order to comply with the requirements of GASB 54, the District has combined transactions in the Special Reserve fund for Other than Capital Outlay (Special Reserve Fund) and the Tax Override Fund with the General Fund because those funds do not meet the definition of a special revenue fund as defined by GASB 54.

8. <u>Net Position</u>

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

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

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

9. Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

10. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

11. Accounting Estimates

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

12. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure other than the issuance of 2018-19 Tax and Revenue Anticipation Notes in the amount of $1,375,000 and the Early Retirement Incentive pay off noted in Note 10 part D.

J. Implemented New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the District's total OPEB liability must be recognized. Therefore, the previous total OPEB liability as of June 30, 2017 in the amount of $605,273 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

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

K. Upcoming Accounting and Reporting Changes

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

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

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

GASB issued Statement No. 87, *Leases* - The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* - This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period* - This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

NOTE 2 - CASH AND INVESTMENTS

Summary of Deposits

A summary of deposits as of June 30, 2018, is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash with County	$ 3,899,340	$ 3,881,715	AA
Cash with Fiscal Agent	28,287	28,287	AAA
Total Cash Deposits	3,939,165	3,921,540	
Fiduciary Funds:			
Cash in Banks	$ 6,287	$ 6,287	

Cash in banks and revolving funds

Cash balances in banks and revolving funds are insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2018, the bank balance of the District's accounts with banks was $14,033, which did not exceed FDIC.

Cash in County Treasury

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

Cash with Fiscal Agent

Cash with fiscal agent represents the amount on deposit with Deutsche Bank in two Trust accounts for federally subsidized loan proceeds from which vendor payments are made for the projects. The two escrow accounts had a combined balance of $28,287 at June 30, 2018, invested in US Treasury obligations.

Fair Value Measurements

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

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

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

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

Policies and Practices

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

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

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District keeps cash in the San Mateo County Investment Pool which had a fair value of approximately $1.468 billion and an amortized book value of $1.475 billion.

B. Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is governed by the County's general investment policy. The investment with the San Mateo County Investment Pool is rated at least Aa by Moody's Investor Service.

C. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

D. Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2018:

Receivables	General Fund	Bond Interest Redemption	Nonmajor Funds	Total
Federal Government	$ 35,438	$ -	$ 3,772	$ 39,210
State	48,348	-	-	48,348
Local	95,920	-	-	95,920
Unrestricted	62,452	4,750	4,921	72,123
Total Accounts Receivable	$ 242,158	$ 4,750	$ 8,693	$ 255,601

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2018, the District had a $9,370 due from General Fund to the Cafeteria Fund and a Due from Building Fund to General Fund for $50,000.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. The District had a $35,410 transfer in to the Deferred Maintenance Fund from the General Fund and had a $19,136 transfer in to the Cafeteria Fund from the Deferred Maintenance Fund.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, is shown below:

Capital Assets	Balance July 01, 2017	Additions	Adjustments & Deletions	Balance June 30, 2018
Land - not depreciable	$ 770,000	$ -	$ -	$ 770,000
Buildings and improvements	39,408,030	656,053	-	40,064,083
Furniture and equipment	645,735	-	-	645,735
Total capital assets	40,823,765	656,053	-	41,479,818
Less accumulated depreciation for:				
Buildings and improvements	12,774,957	560,440	-	13,335,397
Furniture and equipment	256,538	7,922	-	264,460
Total accumulated depreciation	13,031,495	568,362	-	13,599,857
Total capital assets - net depreciation	$ 27,792,270	$ 87,691	$ -	$ 27,879,961

Depreciation expense was charge to governmental activities as follows:

Instruction	$ 425,438
Instruction library, media and technology	101,440
Food services	8,747
All other general administration	10,783
Plant services	21,954
Total depreciation expense	$ 568,362

NOTE 6 - TAX REVENUE ANTICIPATION NOTES (TRAN)

On July 1, 2017, the District issued $1,840,000 in Tax Revenue Anticipation Notes (TRANS) maturing on June 29, 2018, with an interest rate of 3%, sold to yield 0.90%. The TRANS are a general obligation of the District and are payable from revenues and cash receipts to be generated by the District. The funds will be used to supplement the District's cash flow and were completely repaid as of June 30, 2018.

NOTE 7 - SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term debt for the year ended June 30, 2018:

Long-term Debt	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds	$ 16,688,317	$ -	$ 894,107	$ 15,794,210	$ 865,000
Capital Leases	1,902,738	-	141,698	1,761,040	150,616
Annual Net OPEB Obligation	852,781	1,587,937	1,072,981	1,367,737	-
Net Penstion Liabilities	12,769,213	9,041,823	6,162,511	15,648,525	-
Early Retirement Incentives	610,000	-	125,259	484,741	125,259
Compensated Absences	29,011	-	16,548	12,463	12,463
Total Long-term Debt	$ 32,852,060	$ 10,629,760	$ 8,413,104	$ 35,068,716	$ 1,153,338

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

NOTE 8 - GENERAL OBLIGATION BONDS

Through elections, the District received authorization to issue general obligation bonds (GOB) that requires the county to levy annual ad valorem taxes for the payment of interest and principal on the bonds. Bond proceeds are used to build additional classrooms and to perform repairs and renovations.

In December 2009, refunding bonds in the amount of $4,910,000 were issued by the Portola Valley School District to defease the Series 1998 General Obligation Bonds. The bonds bear interest rates of 2% to 4% with maturity dates of August 1, 2010 to August 1, 2028. The bonds are issued by the District at a premium sufficient to refund all of the District's General Obligation Bonds, Election of 1998, Series 1998 and to pay costs of issuance of the Bonds. This bond was partially refunded in 2015/16.

In May 2010, refunding bonds in the amount of $9,180,000 were issued by the Portola Valley School District to defease the Series 2001 General Obligation Bonds. The bonds bear interest rates of 2% to 5% with maturity dates of August 1, 2010 to August 1, 2025. The bonds are issued by the District at a premium sufficient to refund all of the District's General Obligation Bonds, Election of 1998, Series 2001 and to pay costs of issuance of the Bonds. This bond was partially refunded in 2015/16.

In November 2010, the District issued $5,315,000 of General Obligation Refunding Bonds. The bonds were issued to refund and fully defease 2002 General Obligation Bonds which were issued to improve schools by financing and modernization projects at Corte Madera and Ormondale Schools. Payments of principal and interest on the bonds will be made payable on February 1 and August 1 of each year commencing February 1, 2003 from the collection of *ad valorem* taxes upon all property subject to taxation by the District. This bond was partially refunded in 2015/16.

On June 2, 2016, the District issued $8,200,000 of 2016 General Obligation Refunding Bonds to partially defease the bonds noted above. The bonds bear interest rates at 1.91% with maturity dates of August 1, 2016 to August 1, 2029.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

The following schedule summarizes District's outstanding General Obligation Bonds as of June 30, 2018:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2017	Issued	Redeemed	Bonds Outstanding June 30, 2018
2009 GORB	2009	2029	2.0-4.0%	$ 4,910,000	$ 1,235,000	$ -	$ 230,000	$ 1,005,000
2010 GORB	2010	2030	2.0-5.0%	9,180,000	1,995,000	-	365,000	1,630,000
2010 GORB, Series B	2010	2032	2.0-5.0%	5,315,000	4,590,000	-	130,000	4,460,000
2016 GORB	2016	2030	1.91%	8,200,000	8,065,000	-	110,000	7,955,000
Subtotal General Obligation Bonds				27,605,000	15,885,000	-	835,000	15,050,000
Unamortized Bond Premiums				1,219,864	803,317	-	59,107	744,210
Total General Obligation Bonds				$28,824,864	$ 16,688,317	$ -	$ 894,107	$ 15,794,210

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

Year Ending June 30,	Principal	Interest	Total
2019	$ 865,000	$ 782,805	$ 1,647,805
2020	890,000	750,405	1,640,405
2021	930,000	714,280	1,644,280
2022	960,000	676,172	1,636,172
2023	1,005,000	315,765	1,320,765
2024-2028	5,350,000	1,185,358	6,535,358
2029-2033	5,050,000	507,352	5,557,352
Total Debt Service	$ 15,050,000	$ 4,932,137	$ 19,982,137

NOTE 9 - CAPITAL LEASE OBLIGATIONS

The District leases property and equipment under various lease agreements, which provide for title to pass upon expiration of the lease periods. In July of 2010, the District entered into a site lease for solar and other equipment, including installation, in the amount of $2,850,000. In January of 2012, the District added a technology and improvement capital lease in the amount of $514,222, which was paid off as of June 30,2017. The solar equipment site lease qualifies the District for $2,850,000 in Qualified School Construction Bond Program tax credits. For the fiscal year ended June 30, 2018, the District is also entitled to federal subsidies over a 15-year period for the solar panel installation. The District was entitled to a federal subsidy of $99,500 adjusted by a sequester reduction related to these leases. Future federal subsidies could be adjusted by sequester reductions.

The annual federal subsidies to be received from the leases outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	Principal
2019	$ 92,019
2020	84,066
2021	75,610
2022	66,617
2023	57,049
2024-2027	113,474
Total	$ 488,834

The present value of future minimum lease payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 150,616	$ 109,713	$ 260,329
2020	160,145	100,329	260,474
2021	170,331	90,352	260,683
2022	181,217	79,741	260,958
2023	192,854	68,451	261,305
2024 - 2027	905,877	206,324	1,112,201
Present Value of Minimum Lease Payments	$ 1,761,040	$ 654,910	$ 2,415,950

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

A. California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

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

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the District's contributions were $269,069.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
CalPERS	$ 3,626,254

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the relative to the projected contributions of all participating employers, actuarially determined.

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

	CalPERS
Proportion - June 30, 2017	0.01530%
Proportion - June 30, 2018	0.01519%
Change - Increase/(Decrease)	-0.00011%

For the year ended June 30, 2018, the District recognized pension expense of $686,005 for the Plan.

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

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 486,977	$ -
Differences between Expected and Actual Experience	129,914	-
Differences between Projected and Actual Investment Earnings	125,444	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	5,846
Change in Employer's Proportion	-	773,789
Pension Contributions Made Subsequent to Measurement Date	292,864	-
Total	$ 1,035,199	$ 779,635

The District reported $292,864 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Outflows/(Inflows) of Resources CalPERS
2019	$ 150,221
2020	(363,396)
2021	244,567
2022	(68,693)
2023	-
Thereafter	-
Total	$ (37,301)

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

		CalPERS
1% Decrease		6.15%
Net Pension Liability	$	5,335,382
Current		7.15%
Net Pension Liability	$	3,626,254
1% Increase		8.15%
Net Pension Liability	$	2,208,389

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

B. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2018, the District's contributions were as follows:

	CalSTRS
Employer Contributions	$ 946,055
State Contributions	559,219
Total	$ 1,505,274

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
District	$ 12,022,270
State	4,468,678
Total	$ 16,490,948

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by and actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The state contributed 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047.

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

	CalSTRS
Proportion - June 30, 2017	0.01200%
Proportion - June 30, 2018	0.01300%
Change - Increase/(Decrease)	0.00100%

For the year ended June 30, 2018, the District recognized pension expense of $853,787 for the Plan.

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

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 2,227,290	$ -
Differences between Expected and Actual Experience	-	165,230
Differences between Projected and Actual Investment Earnings	-	320,190
Differences between Employer's Contributions and Proportionate Share of Contributions	345,859	-
Change in Employer's Proportion	126,934	-
Pension Contributions Made Subsequent to Measurement Date	946,055	-
Total	$ 3,646,138	$ 485,420

The District reported $946,055 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Fiscal Year Ending June 30:	Outflows/(Inflows) of Resources CalSTRS
2019	$ 126,827
2020	594,502
2021	422,122
2022	108,497
2023	419,166
Thereafter	543,549
Total	$ 2,214,663

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

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

(1) Varies by age and service. Approximately 6% average over career including inflation

(2) Net of pension plan investment expenses and administrative expenses, including inflation

(3) Derived using CalSTRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

	CalSTRS
1% Decrease	6.10%
Net Pension Liability	$ 17,652,700
Current	7.10%
Net Pension Liability	$ 12,022,270
1% Increase	8.10%
Net Pension Liability	$ 7,453,030

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

C. Post-Employment Benefits Other Than Pension Benefits

Plan Description - The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the below groups of employees.

Benefits - The following summarizes the benefits in the plan:

	Retirees
Benefits Provided:	Medical, Dental and Vision
Duration of Benefits:	5 years after retirement
Required Services:	10 Years
Minimum Age:	56 (55 if classified)
Dependent Coverage:	No
Contribution Percentage:	100% to cap
Cap:	8,628 per year

Employees Covered by Benefit Terms - At June 30, 2017 (the valuation date), the benefit terms covered the following employees:

Active employees	95
Inactive employees	12
Total employees	107

Contributions - The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were $92,873. Total benefit payments included in the measurement period were $129,883. The actuarially determined contribution for the measurement period was $173,046. The District's contributions were 1.59% of payroll during the measurement period July 1, 2017 (reporting period June 30, 2018). Employees are not required to contribute to the plan.

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

Valuation Date:	July 1, 2017
Measurement Date:	July 1, 2017
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Period:	30 years
Actuarial Assumptions:	
Discount Rate	3.13%
Inflation	2.75%
Payroll Increases	3.00%
Municipal Bond Rate	3.13%
Mortality	2014 CalPERS OPEB Assumptions Model (for classified employees) 2016 valuation of CalSTRS (for certificated employees)
Retirement	2014 CalPERS OPEB Assumptions Model (for classified employees) 2016 valuation of CalSTRS (for certificated employees)
Service Requirement	At least 10 years of service

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

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

Changes in the Total OPEB Liability - The following summarizes the changes in the total OPEB liability during the year ended June 30, 2018:

Fiscal Year Ended July 30, 2018 (Measurement Date July 30, 2017)	**Total OPEB Liability**	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at July 1, 2017	$ 1,458,054	$ -	$ 1,458,054
Service cost	96,645	-	96,645
Interest in Total OPEB Liability	37,168	-	37,168
Employer contributions	-	-	-
Employer implicit subsidy	-	-	-
Employee contributions	-	-	-
Balance of diff between actual and exp experience	-	-	-
Balance of diff between actual and exp earnings	-	-	-
Balance of changes in assumptions	(51,084)	-	(51,084)
Actual investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(173,046)	-	(173,046)
Other	-	-	-
Net changes	(90,317)	-	(90,317)
Balance at June 30, 2018	$ 1,367,737	$ -	$ 1,367,737

Covered Payroll at Measurement Date	$ 6,079,641
Total OPEB Liability as a % of covered payroll	22.50%
Plan Fid. Net Position as a % of Total OPEB Liability	0.00%
Service cost as a % of covered payroll	1.59%
Net OPEB Liability as a % of covered payroll	22.50%

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Difference between actual and expected earnings	-	-
Change in assumptions	-	47,154
OPEB contribution subsequent to measurement date	92,873	-
Totals	$ 92,873	$ 47,154

Of the total amount reported as deferred outflows of resources related to OPEB, $92,873 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2019. The district also had a deferred inflows of resources related to OPEB $47,154 changes in assumptions.

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

Service cost	$ 96,645
Interest in TOL	37,168
Expected investment income	-
Other	-
Employee contributions	-
Difference between actual and expected experience	-
Difference between actual and expected earnings	-
Change in assumptions	(3,930)
Administrative expenses	-
OPEB Expense	**$ 129,883**

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

Total OPEB liability ending	$ 1,367,737
Total OPEB liability beginning	(1,458,054)
Change in total OPEB liability	(90,317)
Changes in deferred outflows	-
Changes in deferred inflows	47,154
Employer contributions	173,046
OPEB Expense	**$ 129,883**

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

	Municipal Bond Rate		
	2.13% (1% Decrease)	**3.13% (Current Rate)**	**4.13% (1% Increase)**
Total OPEB Liability	$ 1,493,934	$ 1,367,737	$ 1,256,006

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

	Trend Rate		
	3.0% to 6.5% (1% Decrease)	**4% to 7.5% (Current Rate)**	**5.0% to 8.5% (1% Increase)**
Total OPEB Liability	$ 1,443,522	$ 1,367,737	$ 1,289,799

D. Early Retirement Incentives

The District has adopted an early retirement incentive program (ERIP), pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District. As of June 30, 2018, the District had a remaining balance of $484,741. As of the date of this report, the District had paid off this balance.

NOTE 11 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in one joint venture under a joint powers agreement (JPA), with the San Mateo County Schools Insurance Group, for Property & Liability, Workers' Compensation and Medical/ Dental. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and/ or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA. Separately issued financial statements can be requested from the JPA

NOTE 12 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

Litigation

The District may be exposed to various claims and litigation. However, District management believes, based on consultation with legal counsel, that the ultimate resolution of these matters would not have a material adverse effect on the District's financial position or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
LCFF sources	$ 11,476,512	$ 11,745,053	$ 11,774,307	$ 29,254
Federal	106,866	106,866	109,868	3,002
Other state	709,726	784,909	801,565	16,656
Other local	2,463,782	2,815,233	2,874,548	59,315
Total revenues	14,756,886	15,452,061	15,560,288	108,227
Expenditures:				
Certificated salaries	6,894,507	6,673,696	6,643,884	29,812
Classified salaries	1,879,999	1,915,572	1,924,916	(9,344)
Employee benefits	3,156,903	3,499,805	3,503,172	(3,367)
Books and supplies	779,501	653,156	574,270	78,886
Services and other operating expenditures	1,787,869	1,777,934	1,622,650	155,284
Capital outlay	283,500	290,367	265,763	24,604
Other outgo	435,427	503,546	491,075	12,471
Total expenditures	15,217,706	15,314,076	15,025,730	288,346
Excess (deficiency) of revenues over (under) expenditures	(460,820)	137,985	534,558	396,573
Other financing sources (uses):				
Transfers out	(54,546)	(54,546)	(54,546)	-
Total other financing sources (uses)	(54,546)	(54,546)	(54,546)	-
Net change in fund balances	(515,366)	83,439	480,012	396,573
Fund balance beginning	88,793	88,793	1,786,879	(1,698,086)
Fund balances ending	$ (426,573)	$ 172,232	$ 2,266,891	$ (1,301,513)

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures can not legally exceed appropriations by maor object. The above excesses were not in accordance with Education Code 42600.

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALPERS PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

CalPERS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 292,864	$ 269,069	$ 218,066	$ 448,503
Contributions in Relation to Actuarially Determined Contributions	292,864	269,069	218,066	448,503
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Employee Payroll	**$ 1,885,674**	**$ 1,937,421**	**$ 1,840,639**	**$ 3,810,237**
Contributions as a Percentage of Covered Payroll	**15.53%**	**13.89%**	**11.85%**	**11.77%**

Notes to Schedule:

Valuation Date: June 30, 2016

Assumptions Used:
Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

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

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALPERS PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

CalPERS	2018	2017	2016	2015
District's Proportion of Net Pension Liability	0.01519%	0.01447%	0.01418%	0.01430%
District's Proportionate Share of Net Pension Liability	$3,626,254	$2,857,086	$2,090,562	$1,623,398
District's Covered Employee Payroll	$1,937,421	$1,840,639	$3,810,237	$1,500,795
District's Proportionate Share of NPL as a % of Covered Employee Payroll	**187.17%**	**155.22%**	**54.87%**	**108.17%**
Plan's Fiduciary Net Position as a % of the TPL	**71.87%**	**73.90%**	**79.43%**	**83.38%**

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

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

STRS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 946,055	$ 838,016	$ 665,848	$ 520,084
Contributions in Relation to Actuarially Determined Contributions	946,055	838,016	665,848	520,084
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Employee Payroll	**$ 6,556,168**	**$ 6,661,494**	**$ 6,205,480**	**$ 5,856,802**
Contributions as a Percentage of Covered Payroll	**14.43%**	**12.58%**	**10.73%**	**8.88%**

Notes to Schedule:

Valuation Date: June 30, 2016

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll
7 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.50%
STRS mortality table using membership data for all funds

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PROPORTIONATE SHARE
FOR THE YEAR ENDED JUNE 30, 2018

STRS	2018	2017	2016	2015
District's Proportion of Net Pension Liability	0.01300%	0.01226%	0.01231%	0.01300%
District's Proportionate Share of Net Pension Liability	$ 12,022,270	$ 9,912,126	$ 8,286,286	$ 7,596,810
District's Covered Employee Payroll	$ 6,661,494	$ 6,205,480	$ 5,856,802	$ 5,922,170
District's Proportionate Share of NPL as a % of Covered Employee Payroll	**180.47%**	**159.73%**	**141.48%**	**128.28%**
Plan's Fiduciary Net Position as a % of the TPL	**69.46%**	**70.04%**	**74.02%**	**76.52%**

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

	Fiscal Year Ended June 30, 2018
Total OPEB liability	
Service cost	$ 96,645
Interest	37,168
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(51,084)
Benefit payments	(173,046)
Net change in Total OPEB Liability	(90,317)
Total OPEB Liability - beginning	1,458,054
Total OPEB Liability - ending	$ 1,367,737
Plan fiduciary net position	
Employer contributions	$ 173,046
Employer implict subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	(173,046)
Other	-
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	$ -
Net OPEB liability	$ 1,367,737
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered employee payroll	$ 6,079,641
Net OPEB Liability as a percentage of covered payroll	22.50%
Total OPEB Liability as a percentage of covered payroll	22.50%

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

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

SUPPLEMENTARY INFORMATION

PORTOLA VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Building Fund	Total Nonmajor Funds
Assets					
Cash and investments	$ 744	$ 96,684	$ 134,403	$ 4,393	$ 236,224
Accounts receivable	3,751	271	4,671	-	8,693
Due from other funds	9,370	-	-	-	9,370
Total Assets	$ 13,865	$ 96,955	$ 139,074	$ 4,393	$ 254,287
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 6,247	$ -	$ 21,695	$ 179	$ 28,121
Due to other funds	-	-	-	50,000	50,000
Deferred revenue	7,349	-	-	-	7,349
Total Liabilities	13,596	-	21,695	50,179	85,470
Fund balances:					
Restricted for cafeteria programs	269	-	-	-	269
Assigned for capital projects	-	-	117,379	-	117,379
Assigned for site repairs	-	96,955	-	-	51,169
Unassigned	-	-	-	(45,786)	-
Total Fund Balances	269	96,955	117,379	(45,786)	168,817
Total Liabilities and Fund Balances	$ 13,865	$ 96,955	$ 139,074	$ 4,393	$ 254,287

PORTOLA VALLEY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Special Revenue Funds		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Building Fund Fund	Total Nonmajor Funds
Revenues:					
Federal	$ 28,872	$ -	$ -	$ -	$ 28,872
Other state	1,748	-	-	-	1,748
Other local	89,187	1,619	139,341	-	230,147
Total revenues	119,807	1,619	139,341	-	260,767
Expenditures:					
Pupil services:					
Food services	141,690	-	-	-	141,690
General administration:					
All other general administration	-	-	144	-	144
Plant services	-	263,764	-	45,786	309,550
Facility acquisition and construction	-	-	287,765	-	287,765
Total expenditures	141,690	263,764	287,909	45,786	739,149
Excess (deficiency) of revenues over (under) expenditures	(21,883)	(262,145)	(148,568)	(45,786)	(478,382)
Other financing sources (uses):					
Transfers in	19,136	35,410	-	-	54,546
Total other financing sources (uses)	19,136	35,410	-	-	54,546
Net change in fund balances	(2,747)	(226,735)	(148,568)	(45,786)	(423,836)
Fund balances beginning	3,016	323,690	265,947	-	592,653
Fund balances ending	$ 269	$ 96,955	$ 117,379	$ (45,786)	$ 168,817

COMPLIANCE SECTION

The Portola Valley School District serves approximately 600 students. The District is located in San Mateo County in Portola Valley, California, and operates one K-3 elementary school and one 4-8 middle school.

Governing Board

Name	Office	Term Expires
Brooke Day	Trustee	2019
Karyn Bechtel	Trustee	2020
Jeff Klugman	Clerk	2020
Gulliver La Valle	President	2019
Mike Maffia	Trustee	2020

Administration

Eric Hartwig
Superintendent

Connie Ngo
Chief Business Official

Jason Borgan
Director of Learning and Innovation

Minoo Shah
Director of Student Services

Cynthia Maijala
Principal of Middle School

Kristen Shima
Assistant Principal

Lynette Hoveland
Principal of Elementary School

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
Regular ADA:		
Grades TK/K through three	228.27	227.09
Grades four through six	184.55	184.37
Grades seven and eight	112.75	111.89
Regular ADA Totals	525.57	523.35
Extended year special education		
Grades TK/K through three	0.34	0.34
Grades four through six	0.12	0.12
Grades seven and eight	2.17	2.15
ADA Totals	528.20	525.96
Court-Ordered Voluntary Pupil Transfer		
Regular ADA:		
Grades TK/K through three	20.76	20.79
Grades four through six	20.15	20.32
Grades seven and eight	10.99	11.06
Court-Ordered Voluntary Pupil Regular ADA Totals	51.90	52.17
Extended year special education		
Grades four through six	0.12	-
Grades seven and eight	0.06	-
Court-Ordered Voluntary Pupil ADA Totals	52.08	52.17
District Regular ADA Totals	580.28	578.13

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Grade Level	Minutes Requirements	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	44,160	180	0	In compliance
Grade 1	50,400	54,720	180	0	In compliance
Grade 2	50,400	54,720	180	0	In compliance
Grade 3	50,400	54,720	180	0	In compliance
Grade 4	54,000	63,312	180	0	In compliance
Grade 5	54,000	63,312	180	0	In compliance
Grade 6	54,000	64,182	180	0	In compliance
Grade 7	54,000	64,182	180	0	In compliance
Grade 8	54,000	64,182	180	0	In compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has not met or exceeded its target funding.

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	(Budget [1]) 2019	2018	2017	2016
General Fund				
Revenues and other financial sources	$15,262,383	$15,560,288	$14,424,120	$14,484,765
Expenditures	15,309,341	15,025,730	14,653,979	14,256,362
Other uses and transfers out	11,660	54,546	438,000	-
Total outgo	15,321,001	15,080,276	15,091,979	14,256,362
Change in fund balance	$ (58,618)	$ 480,012	$ (667,859)	$ 228,403
Beginning fund balance restatement - Health and Welfare:	$ -	$ (111,060)	$ -	$ -
Ending fund balance	$ 2,208,273	$ 2,266,891	$ 1,897,939	$ 2,565,798
Available reserves [(2)]	$ 1,678,173	$ 710,511	$ 995,178	$ 1,931,740
Unassigned - Reserved for economic uncertainties	$ -	$ 625,776	$ -	$ -
Unassigned fund balance	$ 1,678,173	$ 84,735	$ 995,178	$ 1,931,740
Available reserves as a percentage of total outgo	10.95%	4.71%	6.59%	13.55%
Total long-term debt	$33,915,378	$35,068,716	$32,852,060	$31,438,351
Average daily attendance at P-2	554	580	603	604

Average daily attendance has decreased by 24 over the past three years. The district anticipates a decrease of 26 in ADA in 2018-19.

The fund balance in the General Fund has decreased by $298,907 over the past three years. For a district this size, the state recommends available reserves of at least 4% of total general fund expenditures, transfers out, other uses (total outgo).

The district earned an operating surplus in two of the past three years. Total long-term debt has increased by $3,630,356 over the past three years.

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

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

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Bond Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2018 Annual Financial and Budget Report Fund Balances	$ 1,567,523	$ 1,246,004	$ 868,185
Adjustments and Reclassifications:			
Special Reserve Fund for Other Than Capital Outlay Projects:			
Cash with County Treasury	697,447	-	(697,447)
Accounts Receivable	1,921	-	(1,921)
June 30, 2018 Audited Financial Statements Fund Balances	$ 2,266,891	$ 1,246,004	$ 168,817

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 and Longer Instructional Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

D. Reconciliation of Annual Financial and Budget Report to the Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the annual financial and budget report to the audited financial statements.

2. EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

OTHER INDEPENDENT AUDITOR’S REPORTS

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

Board of Trustees
Portola Valley School District
Portola Valley, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portola Valley School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Portola Valley School District's basic financial statements, and have issued our report thereon dated December 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Portola Valley 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 Portola Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Portola Valley 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Portola Valley School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

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providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

December 13, 2018
San Jose, California

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

Board of Education
Portola Valley School District
Portola Valley, California

Report on Compliance for State Programs

We have audited the Portola Valley School District's (the District) compliance with the types of compliance requirements described in *the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2018.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes

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Description	Performed
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Yes
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	N/A
Apprenticeship: Related and Supplemental Instruction	N/A
School Districts, County Offices of Education, and Charter Schools	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Coursed Based	No
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom - Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for Full-time Independent Study programs because the ADA was under the level that requires testing.

Opinion

In our opinion, Portola Valley School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2018.

C & A LLP

December 13, 2018
San Jose, California

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FINDINGS AND RECOMMENDATIONS

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

The District did not spend or incur expenditures of $750,000 or more in federal awards.

State Awards

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

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

Section IV - State Award Findings and Questioned Costs

No findings noted.

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

Section IV - State Award Findings and Questioned Costs

No findings noted.