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

AUDIT REPORT

JUNE 30, 2017

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

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PORTOLA VALLEY SCHOOL DISTRICT
SAN MATEO COUNTY

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FINANCIAL SECTION

Chavan & Associates, LLP
Certified Public Accountants

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of CalPERS pension contributions, schedule of CalPERS proportionate share of net pension liability, schedule of STRS pension contributions, schedule of STRS proportionate share of net pension liability and schedule of funding progress for the retiree healthcare plan, 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 Portola Valley School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the other information listed in the supplementary section of the table of contents, as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 and other schedules

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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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 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 4, 2017
San Jose, California

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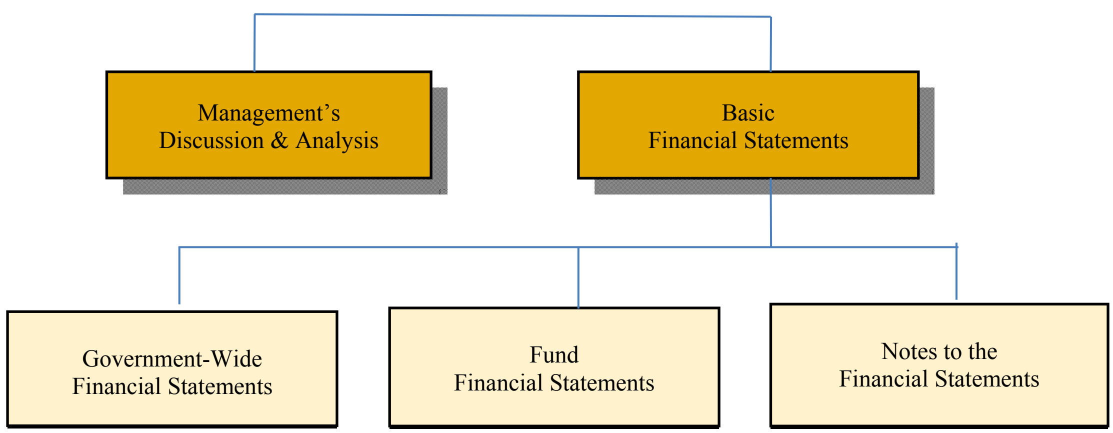
Management's Discussion and Analysis

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, 2017. 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, 2017 were as follows:

- Total net position increased by $178,109, or 5.6%, from June 30, 2016 to June 30, 2017.
- General revenues accounted for $15,180,936 which is 95% of all revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for $769,250 or 4.9% of total revenues of $15,963,325.
- The District had $15,785,216 in expenses, which was directly supported by program specific revenues of $769,250.
- Total fund balances of governmental funds decreased by $366,191, or -9%, from June 30, 2016 to June 30, 2017.
- Among major funds, the General Fund had $14,424,120 in revenues and $14,653,979 in expenditures. The General Fund's fund balance decreased by $667,859 from June 30, 2016 to June 30, 2017.

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 2016 - 2017?" 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, 2017 as compared to June 30, 2016:

Table 1 - Summary of Net Position

	2017	2016	Increase (Decrease)	Percent
Assets				
Current Assets	$ 4,074,177	$ 4,321,044	$ (246,867)	-5.7%
Noncurrent Assets	28,219,356	28,820,609	(601,253)	-2.1%
Total Assets	$ 32,293,533	$ 33,141,653	$ (848,120)	-2.6%
Deferred Outflows of Resources	$ 6,137,390	$ 3,466,049	$ 2,671,341	77.1%
Liabilities				
Current and Other Liabilities	$ 655,073	$ 546,749	$ 108,324	19.8%
Long-Term Liabilities	32,852,060	31,438,351	1,413,709	4.5%
Total Liabilities	$ 33,507,133	$ 31,985,100	$ 1,522,033	4.8%
Deferred Inflows of Resources	$ 1,566,843	$ 1,443,764	$ 123,079	8.5%
Net Position				
Net Investment in Capital Assets	$ 9,628,301	$ 9,083,897	$ 544,404	6.0%
Restricted	410,984	485,315	(74,331)	-15.3%
Unrestricted	(6,682,338)	(6,390,374)	(291,964)	-4.6%
Total Net Position	$ 3,356,947	$ 3,178,838	$ 178,109	5.6%

Net position increased by $178,109 because of the pension adjustments required by GASB 68 which requires all local governments to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. 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 4.6%. There was no impact on fund balance as a result of GASB 68.

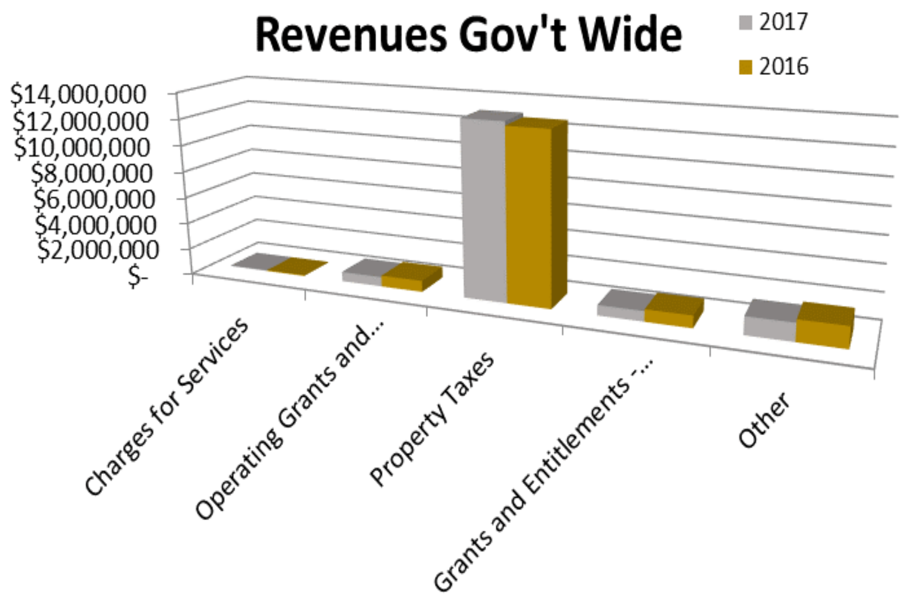
Table 2 shows the changes in net position from fiscal year 2016 to 2017.

Table 2 - Change in Net Position

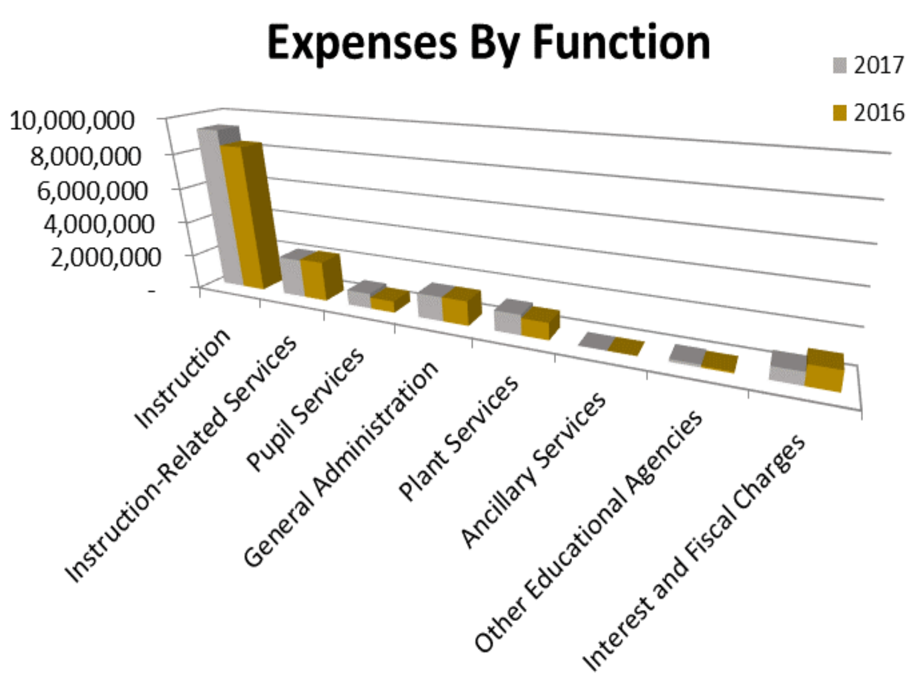
	2017	2016	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	$ 55,986	$ 61,762	$ (5,776)	-9.4%
Operating Grants and Contributions	726,403	834,487	(108,084)	-13.0%
General Revenues:				
Property Taxes	13,081,502	12,779,130	302,372	2.4%
Grants and Entitlements - Unrestricted	769,250	897,525	(128,275)	-14.3%
Other	1,330,184	1,565,491	(235,307)	-15.0%
Total Revenues	15,963,325	16,138,395	(175,070)	-1.1%
Program Expenses				
Instruction	9,287,408	8,441,129	846,279	10.0%
Instruction-Related Services	2,218,528	2,281,025	(62,497)	-2.7%
Pupil Services	874,274	655,373	218,901	33.4%
General Administration	1,393,129	1,394,316	(1,187)	-0.1%
Plant Services	1,149,794	956,611	193,183	20.2%
Other Educational Agencies	158,238	85,488	72,750	85.1%
Interest and Fiscal Charges	703,845	1,096,609	(392,764)	-35.8%
Total Expenses	15,785,216	14,910,551	874,665	5.9%
Change in Net Position	$ 178,109	$ 1,227,844	$ (1,049,735)	85.5%

Property taxes comprised 82% of District revenues and direct instruction costs comprised 73% of District expenses for fiscal year 2017.

The following is a summary of government wide revenues for the fiscal year ended June 30, 2017:



The following is a summary of expenses by function for the fiscal year ended June 30, 2017:



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	2017	2016	Increase (Decrease)	Percent
Instruction	$ 8,812,808	$ 7,908,498	$ 904,310	11.4%
Instruction-Related Services	2,162,214	2,194,019	(31,805)	-1.4%
Pupil Services	805,378	601,762	203,616	33.8%
General Administration	1,384,323	1,383,705	618	0.0%
Plant Services	1,149,753	956,133	193,620	20.3%
Other Educational Agencies	(15,494)	(126,424)	110,930	87.7%
Interest and Fiscal Charges	703,845	1,096,609	(392,764)	-35.8%
Total Net Cost of Services	$ 15,002,827	$ 14,014,302	$ 988,525	7.1%

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	2017	2016	Increase (Decrease)
General Fund	$ 1,897,939	$ 2,565,798	$ (667,859)
Cafeteria Fund	3,016	8,774	(5,758)
Deferred Maintenance Fund	323,690	320	323,370
Capital Facilities Fund	265,947	288,067	(22,120)
Bond Interest & Redemption Fund	1,206,512	1,200,336	6,176
Total Governmental Fund Balances	$ 3,697,104	$ 4,063,295	$ (366,191)

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 2016-17 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 $515,875 from the original to final budget.

For the General Fund, the final budget basis revenue and other financing sources estimate was $14,381,415. The original budgeted estimate was $14,323,112.

CAPITAL ASSETS

Table 5 shows June 30, 2017 balances as compared to June 30, 2016.

Table 5 - Summary of Capital Assets Net of Depreciation

Capital Asset	2017 Net Capital Asset	2016 Net Capital Asset	Percentage Change
Land	$ 770,000	$ 770,000	0%
Buildings and Improvements	26,633,073	27,193,513	-2%
Property and Equipment	389,197	397,119	-2%
Totals	$ 27,792,270	$ 28,360,632	-2%

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	2017	2016	Percentage Change
General obligation bonds	$ 16,688,317	$ 17,577,424	-5.06%
Capital Lease Obligations	1,902,738	2,159,288	-11.88%
Net Pension Obligations	12,769,213	10,375,848	23.07%
Early Retirement Incentives	610,000	606,100	0.64%
Net OPEB obligation	852,781	692,635	23.12%
Compensated absences	29,011	27,056	7.23%
Total Debt	$ 32,852,060	$ 31,438,351	4.50%

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 Jon Barth, 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, 2017

		Governmental Activities
Assets		
Current Assets:		
Cash and investments	$	3,837,413
Accounts receivable		171,193
Prepaid expenses		65,571
Total Current Assets		4,074,177
Noncurrent Assets:		
Unamortized prepaid bond issuance costs - net		427,086
Capital assets - net		27,792,270
Total Noncurrent Assets		28,219,356
Total Assets	$	32,293,533
Deferred Outflows of Resources		
Pension contributions	$	4,685,126
Deferred loss on early retirement of long-term debt		1,452,264
Total Deferred Outflows of Resources	$	6,137,390
Liabilities		
Current Liabilities:		
Accounts payable	$	361,658
Unearned revenue		15,415
Accrued interest		278,000
Total Current Liabilities		655,073
Long-term Liabilities:		
Due within one year:		
General obligation bonds payable		835,000
Capital lease obligations		141,699
Early retirement incentives		125,259
Compensated absences payable		29,011
Total due within one year		1,130,969
Due after one year:		
General obligation bonds payable		15,853,317
Capital lease obligations		1,761,039
Net pension obligations		12,769,213
Net OPEB obligation		852,781
Early retirement incentives		484,741
Total due after one year		31,721,091
Total long-term Liabilities		32,852,060
Total Liabilities	$	33,507,133
Deferred Inflows of Resources		
Adjustments from differences between actual and projected pension plan earnings	$	1,566,843
Total Deferred Inflows of Resources	$	1,566,843
Net Position		
Net investment in capital assets	$	9,628,301
Restricted for:		
Cafeteria programs		3,016
Educational programs		407,968
Total restricted net position		410,984
Unrestricted (deficit)		(6,682,338)
Total Net Position	$	3,356,947

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, 2017

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities				
Instruction	$ 9,287,408	$ 5,084	$ 469,516	$ (8,812,808)
Instruction-related services:				
Supervision of instruction	373,563	245	12,918	(360,400)
Instruction library, media and technology	852,289	1,038	17,646	(833,605)
School site administration	992,676	21	24,446	(968,209)
Pupil services:				
Home-to-school transportation	87,174	-	(17)	(87,191)
Food services	174,983	-	34,025	(140,958)
All other pupil services	612,117	1,602	33,286	(577,229)
General administration:				
Data processing	79,115	-	-	(79,115)
All other general administration	1,314,014	281	8,525	(1,305,208)
Plant services	1,149,794	11	30	(1,149,753)
Other educational agencies	158,238	47,704	126,028	15,494
Interest on long-term debt	703,845	-	-	(703,845)
Total governmental activities	$ 15,785,216	$ 55,986	$ 726,403	(15,002,827)
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				10,611,822
Taxes levied for debt service				1,278,069
Taxes levied for other specific purposes				1,191,611
Federal and state aid not restricted to specific purposes				769,250
Interest and investment earnings				46,239
Interagency revenues				300
Miscellaneous				1,283,645
Total general revenues and special items				15,180,936
Change in net position				178,109
Net position beginning				3,178,838
Net position ending				$ 3,356,947

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

PORTOLA VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	$ 2,011,382	$ 1,203,731	$ 622,300	$ 3,837,413
Accounts receivable	160,021	2,781	8,391	171,193
Due from other funds	600	-	-	600
Prepaid expenditures	65,571	-	-	65,571
Total Assets	$ 2,237,574	$ 1,206,512	$ 630,691	$ 4,074,777
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 324,220	$ -	$ 37,438	$ 361,658
Due to other funds	-	-	600	600
Unearned revenue	15,415	-	-	15,415
Total Liabilities	339,635	-	38,038	377,673
Fund balances:				
Nonspendable:				
Prepaid expenditures	65,571	-	-	65,571
Restricted for:				
Educational programs	407,968	-	-	407,968
Debt service	-	1,206,512	-	1,206,512
Cafeteria programs	-	-	3,016	3,016
Assigned for:				
CalSTRS set-aside	429,222	-	-	429,222
Capital projects	-	-	265,947	265,947
Site repairs	-	-	323,690	323,690
Unassigned:				
Unappropriated	995,178	-	-	995,178
Total Fund Balances	1,897,939	1,206,512	592,653	3,697,104
Total Liabilities and Fund Balances	$ 2,237,574	$ 1,206,512	$ 630,691	$ 4,074,777

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, 2017

Total fund balances - governmental funds		$ 3,697,104
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 $40,823,765 and the accumulated depreciation is $13,031,495.		27,792,270
To recognize accrued interest at year end which is not reported in the governmental funds		(278,000)
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.		427,086
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.		3,118,283
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.		1,452,264
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	$ 16,688,317	
Capital lease obligations	1,902,738	
Net pension obligations	12,769,213	
Net OPEB obligation	852,781	
Early retirement incentives	610,000	
Compensated absences (vacation)	29,011	(32,852,060)
Net position - governmental activities		$ 3,356,947

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, 2017

	General Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
LCFF sources	11,141,153	$ -	$ -	$ 11,141,153
Federal	139,154	-	32,206	171,360
Other state	643,802	2,925	1,819	648,546
Other local	2,500,011	1,287,183	215,068	4,002,262
Total revenues	14,424,120	1,290,108	249,093	15,963,321
Expenditures:				
Instruction	8,862,806	-	-	8,862,806
Instruction-related services:				
Supervision of instruction	330,069	-	-	330,069
Instruction library, media and technology	817,980	-	-	817,980
School site administration	1,009,654	-	-	1,009,654
Pupil services:				
Home-to-school transportation	88,846	-	-	88,846
Food services	-	-	169,425	169,425
All other pupil services	623,861	-	-	623,861
General administration:				
Data processing	80,633	-	-	80,633
All other general administration	1,328,234	-	-	1,328,234
Plant services	925,249	-	115,168	1,040,417
Facility acquisition and construction	-	-	107,008	107,008
Other educational agencies	158,238	-		158,238
Debt service:				
Principal	256,550	830,000	-	1,086,550
Interest and other costs	171,859	453,932	-	625,791
Total expenditures	14,653,979	1,283,932	391,601	16,329,512
Excess (deficiency) of revenues over (under) expenditures	(229,859)	6,176	(142,508)	(366,191)
Other financing sources (uses):				
Transfers in	-	-	438,000	438,000
Transfers out	(438,000)	-	-	(438,000)
Total other financing sources (uses)	(438,000)	-	438,000	-
Net change in fund balances	(667,859)	6,176	295,492	(366,191)
Fund balances beginning	2,565,798	1,200,336	297,161	4,063,295
Fund balances ending	$ 1,897,939	$ 1,206,512	$ 592,653	$ 3,697,104

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

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, 2017

Total net change in fund balances - governmental funds		$ (366,191)
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 was less than depreciation expense of $568,363 in the period.		(568,363)
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	830,000	830,000
The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure.		
Repayment of capital lease principal		256,550
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		270,168
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:		(1,955)
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.		(3,900)
In the statement of activities, the net other postemployment benefits obligation is measured by deducting the amount contributed to the plan from the annual required contribution as actuarially determined. In governmental funds, this obligation is not recorded because it is not paid with current financial resources and only current contributions are expended.		(160,146)
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.		11,000
Changes in net position of governmental activities		$ 178,109

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, 2017

	Student Body Agency Fund
Assets	
Cash on hand and in banks	$ 6,175
Total Assets	$ 6,175
Liabilities	
Accounts payable	$ 6,175
Total Liabilities	$ 6,175

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, 2017, 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. Basis of Accounting

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

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. For example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For example, unearned revenue and advance collections.

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).

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. <u>Budgets and Budgetary Accounting</u>

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.

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. Pensions

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this period, the following time frames were used:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

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. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

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.

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. Net Position

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

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.

J. Implemented New Accounting Pronouncements

GASB Statement No. 77, *Tax Abatement Disclosures* - Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District). This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the District under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. 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.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. 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. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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. 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 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. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement 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 financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

NOTE 2 - CASH AND INVESTMENTS

Summary of Deposits

A summary of deposits as of June 30, 2017, is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash with County	3,524,009	$ 3,520,097	AA
Cash with Fiscal Agent	313,404	313,404	AAA
Total Cash and Investments	$ 3,837,413	$ 3,833,501	
Fiduciary Funds:			
Cash in Banks	$ 6,175	$ 6,175	

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, 2017, the bank balance of the District's accounts with banks was $6,608, 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 $313,404 at June 30, 2017, 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, 2017:

- The cash in the County investment pool of $3,520,097 are valued using Level 2 inputs.

Policies and Practices

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

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

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 $1.479 billion and an amortized book value of $1.480 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, 2017:

Receivables	General Fund	Bond Interest Redemption	Nonmajor Funds	Total
Federal Government	$ 13,462	$ -	$ 5,566	$ 19,028
State	40,986	-	-	40,986
Local	56,652	-	-	56,652
Unrestricted	48,920	2,781	2,826	54,527
Total Accounts Receivable	$ 160,020	$ 2,781	$ 8,392	$ 171,193

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, 2017, the District had a $600 due from General Fund to the Nonmajor Funds.

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 $438,000 transfer in to the Deferred Maintenance Fund from the General Fund.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, is shown below:

Capital Assets	Balance July 01, 2016	Additions	Adjustments & Deletions	Balance June 30, 2017
Land - not depreciable	$ 770,000	$ -	$ -	$ 770,000
Buildings and improvements	39,408,030	-	-	39,408,030
Furniture and equipment	645,735	-	-	645,735
Total capital assets	40,823,765	-	-	40,823,765
Less accumulated depreciation for:				
Buildings and improvements	12,214,517	560,440	-	12,774,957
Furniture and equipment	248,616	7,922	-	256,538
Total accumulated depreciation	12,463,133	568,362	-	13,031,495
Total capital assets - net depreciation	$ 28,360,632	$ (568,362)	$ -	$ 27,792,270

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 6, 2016, the District issued $1,375,000 in Tax Revenue Anticipation Notes (TRANS) maturing on June 30, 2017, with an interest rate of 2%, sold to yield 0.70%. 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, 2017.

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, 2017:

Long-term Debt	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
General Obligation Bonds	$ 17,577,424	$ -	$ 889,107	$ 16,688,317	$ 835,000
Capital Leases	2,159,288	-	256,550	1,902,738	141,699
Annual Net OPEB Obligation	692,635	282,593	122,447	852,781	-
Net Penstion Liabilities	10,375,848	4,204,848	1,811,483	12,769,213	-
Early Retirement Incentives	606,100	114,808	110,908	610,000	125,259
Compensated Absences	27,056	77,187	75,232	29,011	29,011
Total Long-term Debt	$ 31,438,351	$ 4,679,436	$ 3,265,727	$ 32,852,060	$ 1,130,969

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, 2017:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
2009 GORB	2009	2029	2.0-4.0%	$ 4,910,000	$ 1,460,000	$ -	$ 225,000	$ 1,235,000
2010 GORB	2010	2030	2.0-5.0%	9,180,000	2,340,000	-	345,000	1,995,000
2010 GORB, Series B	2010	2032	2.0-5.0%	5,315,000	4,715,000	-	125,000	4,590,000
2016 GORB	2016	2030	1.91%	8,200,000	8,200,000	-	135,000	8,065,000
Subtotal General Obligation Bonds				27,605,000	16,715,000	-	830,000	15,885,000
Unamortized Bond Premiums				1,219,864	862,424	-	59,107	803,317
Total General Obligation Bonds				$ 28,824,864	$ 17,577,424	$ -	$ 889,107	$ 16,688,317

The following is a summary of the District's annual debt service requirements as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	$ 835,000	$ 809,629	$ 1,644,629
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
2023-2027	5,235,000	1,350,374	6,585,374
2028-2032	6,170,000	658,102	6,828,102
Total Debt Service	$ 15,885,000	$ 5,741,767	$ 21,626,767

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. The solar equipment site lease qualifies the District for $2,850,000 in Qualified School Construction Bond Program tax credits. The District is also entitled to federal subsidies over a 15 year period for the solar panel installation. The District was entitled to federal subsidies of $203,984 and $74,250, related to these leases which were offset against the required debt service payments. The present value of future minimum lease payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 141,699	$ 118,541	$ 260,240
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 - 2027	1,098,730	206,324	1,305,054
Present Value of Minimum Lease Payments	$ 1,902,738	$ 705,000	$ 2,607,738

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, 2017, are summarized as follows:

	PERS	
	Tier 1	Tier 2
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	13.888%	6.25%

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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	CalPERS
Contributions - employer	$ 278,872
Contributions - employee	130,223
Total	$ 409,095

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

CalPERS	Proportionate Share of Net Pension Liability
Miscellaneous	$ 2,857,086

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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the

District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	CalPERS
Proportion - June 30, 2015	0.0142%
Proportion - June 30, 2016	0.0145%
Change in Proportions	0.0003%

For the year ended June 30, 2017, the District recognized pension expense of $526,758 for the Plan.

At June 30, 2017, 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
Pension contributions subsequent to measurement date	$ 313,954	$ -
Changes in assumptions	-	(90,786)
Differences between expected and actual experiences	129,965	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(77,456)
Net differences between projected and actual earnings on plan investments	767,293	(298,413)
Total	$ 1,211,212	$ (466,655)

The District reported $313,954 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, 2018.

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:	Deferred Outflows/(inflows) of Resources
2018	$ 51,417
2019	51,751
2020	205,062
2021	122,373
Total	$ 430,603

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
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 7.65 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 di/scount 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. 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	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
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:

1% Decrease		6.65%
Net Pension Liability	$	4,256,965
Current Discount Rate		7.65%
Net Pension Liability	$	2,857,086
1% Increase		8.65%
Net Pension Liability	$	1,691,411

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, 2017, 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	55	55
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	12.580%	12.580%

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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	CalSTRS
Contributions - employer	$ 1,113,828
Contributions - employee	354,840
Total	$ 1,468,668

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

As of June 30, 2017, 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
CalSTRS	$ 9,912,126

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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.0123%
Proportion - June 30, 2016	0.0123%
Change in Proportions	-0.0001%

For the year ended June 30, 2017, the District recognized pension expense of $724,293 for the Plan. At June 30, 2017, 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
Pension contributions subsequent to measurement date	$ 1,207,266	$ -
Differences between expected and actual experiences	-	(236,812)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	631,624	-
Net differences between projected and actual earnings on plan investments	1,635,024	(863,376)
Total	$ 3,473,914	$ (1,100,188)

The District reported $1,207,266 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, 2018.

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:	Deferred Outflows/(inflows) of Resources
2018	$ 78,902
2019	78,902
2020	510,590
2021	351,470
2022	62,051
Thereafter	84,545
Total	$ 1,166,460

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.6% (2)
Mortality	(3)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the 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:

1% Decrease		6.60%
Net Pension Liability	$	14,516,103
Current Discount Rate		7.60%
Net Pension Liability	$	9,912,126
1% Increase		8.60%
Net Pension Liability	$	6,088,331

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

C. Postemployment Healthcare Plan

Plan Description.

The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

	Administrator	Certificated	Classified
Benefits provided	Medical/Dental/Vision	Medical/Dental/Vision	Medical/Dental/Vision
Duration	5 years	5 years	5 years
Required service	10 Years	10 Years	10 Years
Minimum age	56	56	55
Dependent coverage	No	No	No
District contribution	100%	100%	100%
District cap	Active cap	Active cap	Active cap

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

Funding Policy.

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go method).

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$	284,131
Interest on net OPEB obligation		30,467
Adjustment to annual required contribution		(32,005)
Annual OPEB cost (expense)		282,593
Contributions made		(122,447)
Increase in net OPEB obligation		160,146
Net OPEB obligation - beginning of year		692,635
Net OPEB obligation - end of year	$	852,781

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 259,106	39%	$ 528,068
6/30/2016	270,910	39%	692,635
6/30/2017	282,593	43%	852,781

Funded Status and Funding Progress

The most recent actuarial valuation date was July 1, 2012. The following summarizes the funded status of the plan as of June 30, 2017:

Actuarial accrued liability (AAL)	$	2,494,306
Value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	2,494,306
Funded ratio (value of plan assets/AAL)		0%
Projected covered payroll (active Plan members)	$	7,297,627
UAAL as a percentage of covered payroll		34%

Actuarial Methods and Assumptions

The actuarial present value of the benefits which are allocated to the current year is called the Normal Cost. The actuarial present value of the benefits which are allocated to past years, including the full value of benefits for all former employees, is called the Actuarial Accrued Liability, and is amortized over a period of future years. The ARC is the sum of that amortization and the Normal Cost. Under the entry age normal funding method, normal costs are computed as a level percentage of salary. Amortization of unfunded liability is being made as a level percentage of payroll over the 30-year period beginning July 1 2010. The remaining amortization period at June 30, 2017, was twenty-four years.

In the July 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 5 percent per year and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflect the expected investment return on the District's investments.

Required Supplementary Information (OPEB Schedule of Funding Progress)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
10/1/2010	$ -	$ 1,051,036	$ 1,051,036	0.00%	Unkown	Unkown
7/1/2012	-	2,394,796	2,394,796	0.00%	7,297,627	32.82%

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.

The following is summary of the District's ERIP obligations and future estimated payments as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	$ 125,259	$ 42,176	$ 167,435
2019	125,259	33,399	158,658
2020	125,259	24,712	149,971
2021	125,259	16,068	141,327
2022	65,911	10,148	76,059
2023	14,351	3,229	17,580
2024	14,351	2,153	16,504
2025	14,351	1,076	15,427
Total Payments	$ 610,000	$ 132,961	$ 742,961

The following is a summary of the benefits provided as required by the California Education Code:

Position	Teacher	Teacher
Age	70	57
Service Credit	17.63	29.55
Savings Period (Years)	8	8

Description	Amount	Amount
Retiree		
Salary	$ 745,896	$ 968,472
Benefits	66,944	41,520
Total Retiree Salary & Benefits	812,840	1,009,992
Replacement		
Salary	-	-
Benefits	-	-
Total Replacement Salary & Benefits	-	-
Savings Subtotal	812,840	1,009,992
Retirement Costs		
Present Value of Retirement Cost (Plus Interest)	76,679	77,594
2 Years Postretirement Health Care Benefits Cost	15,336	8,628
Total Employee Retirement Costs	92,015	86,222
Net Savings	$ 720,825	$ 923,770

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, 2017

	Budgeted Amounts			Variance with
			Actual	Final Budget Positive -
	Original	Final	(GAAP Basis)	(Negative)
Revenues:				
LCFF sources	$ 10,886,800	$ 10,567,028	$ 11,141,153	$ 574,125
Federal	101,387	100,953	139,154	38,201
Other state	813,417	913,040	643,802	(269,238)
Other local	2,521,508	2,800,394	2,500,011	(300,383)
Total revenues	14,323,112	14,381,415	14,424,120	42,705
Expenditures:				
Certificated salaries	6,387,659	6,741,419	6,737,393	4,026
Classified salaries	1,875,987	1,935,636	1,935,410	226
Employee benefits	2,818,728	3,201,008	3,200,957	51
Books and supplies	768,456	709,590	668,798	40,792
Services and other operating expenditures	1,728,303	1,586,188	1,553,297	32,891
Capital outlay	61,514	23,162	13,181	9,981
Other outgo	585,425	544,944	544,943	1
Total expenditures	14,226,072	14,741,947	14,653,979	87,968
Excess (deficiency) of revenues over (under) expenditures	97,040	(360,532)	(229,859)	130,673
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	(438,000)	(438,000)	-
Total other financing sources (uses)	-	(438,000)	(438,000)	-
Net change in fund balances	97,040	(798,532)	(667,859)	130,673
Fund balance beginning	199,853	199,853	2,565,798	(2,365,945)
Fund balances ending	$ 296,893	$ (598,679)	$ 1,897,939	$ (2,235,272)

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALPERS PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 313,954	$ 224,843	$ 199,975
Contributions in Relation to Actuarially Determined Contributions	313,954	224,843	199,975
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	**$ 1,911,835**	**$ 1,898,322**	**$ 1,699,837**
Contributions as a Percentage of Covered Payroll	**13.89%**	**11.84%**	**11.76%**

Notes to Schedule:

Valuation Date:	June 30, 2015
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	3.7 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 three years are shown.

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALPERS PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.01447%	0.01418%	0.01430%
Proportionate Share of Net Pension Liability	$ 2,857,086	$ 2,090,562	$ 1,623,398
Covered Employee Payroll	$ 1,911,835	$ 1,898,322	$ 1,699,837
Proportionate Share of NPL as a % of Covered Employee Payroll	**149.44%**	**110.13%**	**95.50%**
Plan's Fiduciary Net Position as a % of the TPL	**73.79%**	**79.68%**	**83.38%**

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

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 836,593	$ 678,929	$ 519,681
Contributions in Relation to Actuarially Determined Contributions	836,593	678,929	519,681
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	**$ 6,656,522**	**$ 6,333,952**	**$ 5,853,000**
Contributions as a Percentage of Covered Payroll	**12.58%**	**10.73%**	**8.88%**

Notes to Schedule:

Valuation Date: June 30, 2015

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
7 Year Amortization Period
Inflation Assumed at 3%
Investment Rate of Returns set at 7.6%
STRS mortality table using membership data for all funds

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

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF CALSTRS PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.01226%	0.01231%	0.01300%
Proportionate Share of Net Pension Liability	$ 9,912,126	$ 8,285,286	$ 7,596,810
Covered Employee Payroll	$ 6,656,522	$ 6,333,952	$ 5,853,000
Proportionate Share of NPL as a % of Covered Employee Payroll	**148.91%**	**130.81%**	**129.79%**
Plan's Fiduciary Net Position as a % of the TPL	**71.67%**	**75.41%**	**76.52%**

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

SUPPLEMENTARY INFORMATION

PORTOLA VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Funds		Capital Projects Fund	
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Nonmajor Funds
Assets				
Cash and investments	$ 67	$ 322,825	$ 299,408	$ 622,300
Accounts receivable	5,607	865	1,919	8,391
Total Assets	$ 5,674	$ 323,690	$ 301,327	$ 630,691
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
Accounts payable	$ 2,058	$ -	$ 35,380	$ 37,438
Due to other funds	600	-	-	600
Total Liabilities	2,658	-	35,380	38,038
Fund balances:				
Restricted for cafeteria programs	3,016	-	-	3,016
Assigned for capital projects	-	-	265,947	265,947
Assigned for site repairs	-	323,690	-	323,690
Total Fund Balances	3,016	323,690	265,947	592,653
Total Liabilities, Deferred Inflows and Fund Balances	$ 5,674	$ 323,690	$ 301,327	$ 630,691

PORTOLA VALLEY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue Funds		Capital Projects Fund	
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Nonmajor Funds
Revenues:				
Federal	$ 32,206	$ -	$ -	$ 32,206
Other state	1,819	-	-	1,819
Other local	129,642	538	84,888	215,068
Total revenues	163,667	538	84,888	249,093
Expenditures:				
Pupil services:				
Food services	169,425	-	-	169,425
Plant services	-	115,168	-	115,168
Facility acquisition and construction	-	-	107,008	107,008
Total expenditures	169,425	115,168	107,008	391,601
Excess (deficiency) of revenues over (under) expenditures	(5,758)	(114,630)	(22,120)	(142,508)
Other financing sources (uses):				
Transfers in	-	438,000	-	438,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	438,000	-	438,000
Net change in fund balances	(5,758)	323,370	(22,120)	295,492
Fund balances beginning	8,774	320	288,067	297,161
Fund balances ending	$ 3,016	$ 323,690	$ 265,947	$ 592,653

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COMPLIANCE SECTION

The Portola Valley School District serves approximately 700 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
Caitha Ambler	Trustee	2017
Gulliver LaValle	Clerk	2019
Timothy McAdam	President	2017
Karen Tate	Trustee	2017
Jennifer Youstra	Trustee	2019

Administration

Eric Hartwig
Interim Superintendent

Jonathan Barth
Chief Business Official

Jason Borgan
Director of Learning and Innovation

Minoo Shah
Director of Student Services

Cynci Maijala
Principal of Middle School

Kristen Shima
Dean of Middle School

Lynette Hoveland
Principal of Elementary School

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Second Period Report	Annual Report
Regular ADA:		
Grades TK/K through three	258.02	258.46
Grades four through six	189.88	190.35
Grades seven and eight	154.58	154.58
Regular ADA Totals	602.48	603.39
Extended year special education		
Grades TK/K through three	0.22	0.22
Grades four through six	0.49	0.49
Grades seven and eight	0.13	0.13
ADA Totals	603.32	604.23

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Grade Level	Minutes Requirements	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	44,400	180	0	In compliance
Grade 1	50,400	54,840	180	0	In compliance
Grade 2	50,400	54,840	180	0	In compliance
Grade 3	50,400	54,840	180	0	In compliance
Grade 4	54,000	59,699	180	0	In compliance
Grade 5	54,000	59,699	180	0	In compliance
Grade 6	54,000	60,599	180	0	In compliance
Grade 7	54,000	60,599	180	0	In compliance
Grade 8	54,000	60,599	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
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	(Budget [1]) 2018	2017	2016	2015
General Fund				
Revenues and other financial sources	$ 15,621,002	$ 14,424,120	$ 14,484,765	$ 13,079,908
Expenditures	15,217,706	14,653,979	14,256,362	12,460,530
Other uses and transfers out	899,526	438,000	-	-
Total outgo	16,117,232	15,091,979	14,256,362	12,460,530
Change in fund balance	$ (496,230)	$ (667,859)	$ 228,403	$ 619,378
Beginning fund balance restatement:	$ -	$ -	$ -	$ -
Ending fund balance	$ 1,401,709	$ 1,897,939	$ 2,565,798	$ 2,337,395
Available reserves (2)	$ 959,392	$ 995,178	$ 1,931,740	$ 1,656,022
Unassigned - Reserved for economic uncertainties	$ -	$ -	$ -	$ -
Unassigned fund balance	$ 959,392	$ 995,178	$ 1,931,740	$ 1,656,022
Available reserves as a percentage of total outgo	5.95%	6.59%	13.55%	13.29%
Total long-term debt	$ 31,721,091	$ 32,852,060	$ 31,438,351	$ 29,803,626
Average daily attendance at P-2	569	603	604	607

Average daily attendance has decreased by 4 over the past three years. The district anticipates a decrease of 34 in ADA in 2017-18.

The fund balance in the General Fund has increased by $439,456 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 $3,048,434 over the past three years.

[1] Budget numbers are based on the first adopted budget of the fiscal year 2017/18.

[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, 2017

	General Fund	Bond Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2017 Annual Financial and Budget Report Fund Balances	$ 1,468,717	$ 1,206,512	$ 1,021,875
Adjustments and Reclassifications:			
Special Reserve Fund for Other Than Capital Outlay Projects:			
Cash with County Treasury	428,080	-	(428,080)
Accounts Receivable	1,142	-	(1,142)
June 30, 2017 Audited Financial Statements Fund Balances	$ 1,897,939	$ 1,206,512	$ 592,653

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.

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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, 2017, 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 4, 2017.

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 4, 2017
San Jose, California

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Chavan & Associates, LLP
Certified Public Accountants

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 2016-17 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, 2017

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, *2016-17 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 *2016-17 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	Procedures 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
Mental Health Expenditures	N/A
School Districts, County Offices of Education, and Charter Schools	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	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
Immunization	Yes
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, 2017.

C & A LLP

December 4, 2017
San Jose, California

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FINDINGS AND RECOMMENDATIONS

PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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.