

MILLBRAE SCHOOL DISTRICT
COUNTY OF SAN MATEO
MILLBRAE, CALIFORNIA

AUDIT REPORT

June 30, 2019



Chavan & Associates, LLP
Certified Public Accountants
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Millbrae School District
San Mateo County

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FINANCIAL
SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Millbrae School District
Millbrae, 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 Millbrae School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Millbrae School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Millbrae 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 opinion.

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 Millbrae School District, as of June 30, 2019, 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.

Emphasis of a Matter

Deficit Net Position

As of June 30, 2019, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 8. Our opinion is not modified with respect to this matter.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The District did not report any direct borrowings and direct placements as of June 30, 2019. Our opinion has not been modified with respect to this matter.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, as required by the Governmental Accounting Standards Board, organization schedule, schedule of average daily attendance, schedule of instructional time offered, schedule of charter schools, schedule of financial trends and analysis, and the reconciliation of the Annual Financial and Budget report to the audited financial statements, as required by the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost*



Principles, and Audit Requirements for Federal Awards, 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, schedule of average daily attendance, schedule of instructional time offered, the reconciliation of the Annual Financial and Budget report to the audited financial statement, and schedule of expenditures of federal awards are the responsibility of management and were 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, schedule of average daily attendance, schedule of instructional time offered, the reconciliation of the Annual Financial and Budget report to the audited financial statement, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019 on our consideration of Millbrae 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 Millbrae School District's internal control over financial reporting and compliance.

C & A LLP

December 4, 2019
San Jose, California

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Management's Discussion and Analysis

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Millbrae School District
Management's Discussion and Analysis
June 30, 2019

This discussion and analysis of Millbrae School District's (the District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2018-19 are as follows:

- Total net position decreased by \$667,842, 26%, and unrestricted net position decreased by \$1,352,491, 12.2%, from June 30, 2018 to June 30, 2019, mainly due to an increase in retirement plan liabilities of \$1,713,456.
- Deferred outflows of resources increased by \$766,793, 8.6%, and deferred inflows of resources increased by \$926,242, 105.2%, because of changes in assumptions, estimate differences, proportionate share changes, and changes in contribution deferrals since the prior fiscal year.
- The District had \$33,734,464 in expenses for governmental activities, which is 101% of total revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$5,366,147, 16.02%, of total revenues in the amount of \$33,491,622.
- General revenue of \$28,125,475 was comprised of \$14,812,466 in property taxes, \$12,171,779 in grants and entitlements, and \$1,141,230 in other revenue.
- The fund balances of all governmental funds increased by \$1,070,231, which is a 4.08% increase from 2017-18. Of this net amount, \$1,038,538 was from an increase in the fund balance of the General Fund which includes the fund balance of the postemployment benefits fund and special reserve fund for other than capital outlay as required by GASB 54.
- Total general fund revenues and expenditures totaled \$27,761,605 and \$26,883,897, respectively.

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 Millbrae School District as a financial whole, an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the District-wide financial statements and provide information about the activities of the entire 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 Millbrae School District, the General Fund is by far the most significant fund.

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

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 Discussion and Analysis. These three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, District-wide and funds.

- District-wide financial statements, which comprise the first two statements, 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.

District-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 2018-19?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the District's net position and changes in those assets. 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, and required educational programs.

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 engage in business activities.

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

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, Special Reserve Fund for Capital Projects, and the Bond Interest and Redemption Fund.

Governmental Funds

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

The District as a Whole

Recall that the Statement of Net Position provides a perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019 compared to June 30, 2018:

Table 1 - Summary of Net Position				
	2019	2018	Increase (Decrease)	Percent
Assets				
Current and Other Assets	\$ 29,159,859	\$ 27,654,686	\$ 1,505,173	5.4%
Capital Assets	56,017,830	56,577,533	(559,703)	-1.0%
Total Assets	\$ 85,177,689	\$ 84,232,219	\$ 945,470	1.1%
Deferred Outflows				
	\$ 9,697,859	\$ 8,931,066	\$ 766,793	8.6%
Liabilities				
Current Liabilities	\$ 3,584,742	\$ 3,169,800	\$ 414,942	13.1%
Long-Term Liabilities	92,725,849	91,686,928	1,038,921	1.1%
Total Liabilities	\$ 96,310,591	\$ 94,856,728	\$ 1,453,863	1.5%
Deferred Inflows				
	\$ 1,806,295	\$ 880,053	\$ 926,242	105.2%
Net Position				
Net Investment in Capital Assets	\$ 3,451,601	\$ 3,048,862	\$ 402,739	13.2%
Restricted	5,708,279	5,426,369	281,910	5.2%
Unrestricted	(12,401,218)	(11,048,727)	(1,352,491)	-12.2%
Total Net Position	\$ (3,241,338)	\$ (2,573,496)	\$ (667,842)	-26.0%

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

Total assets and liabilities of governmental activities each increased by 1.1% and net position decreased by 9.4% because of changes related deferrals from retirement plans. 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 12.2%.

Table 2 shows the changes in net position for the fiscal year 2018-19:

Table 2 - Change in Net Position				
	2019	2018	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	\$ 467,808	\$ 481,906	\$ (14,098)	-2.9%
Operating Grants and Contributions	4,898,339	3,659,853	1,238,486	33.8%
General Revenues:				
Property Taxes	14,812,466	13,749,800	1,062,666	7.7%
Grants and Entitlements - Unrestricted	12,171,779	10,913,936	1,257,843	11.5%
Other	1,141,230	1,035,134	106,096	10.2%
Total Revenues	33,491,622	29,840,629	3,650,993	12.2%
Program Expenses				
Instruction	19,349,593	17,341,310	2,008,283	11.6%
Instruction-Related Services	2,465,862	2,144,223	321,639	15.0%
Pupil Services	3,695,753	2,904,057	791,696	27.3%
General Administration	2,356,949	2,073,756	283,193	13.7%
Plant Services	2,769,463	2,280,154	489,309	21.5%
Other	3,096,844	4,875,041	(1,778,197)	-36.5%
Total Expenses	33,734,464	31,618,541	2,115,923	6.7%
Change in Net Position	(242,842)	(1,777,912)	1,535,070	86.3%
Beginning Net Position	(2,573,496)	5,471,931	(8,045,427)	-147.0%
Prior Period Adjustments	(425,000)	(6,267,515)	5,842,515	100.0%
Beginning Net Assets - as Adjusted	(2,998,496)	(795,584)	(2,202,912)	276.9%
Ending Net Position	\$ (3,241,338)	\$ (2,573,496)	\$ (667,842)	26.0%

Governmental Activities

Property taxes made up 44.2% of revenues from governmental activities for the District during the fiscal year 2018-19 and increased by 7.7% from 2017-18. Unrestricted grants and entitlements increased by 11.5%. Direct instruction, Instruction-Related Services, and Pupil Services represent 76% of total expenses in 2018-19 as compared to 71% in 2017-18.

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

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

Table 3 - Net Cost of Services				
Function	2019	2018	Increase (Decrease)	Percent
Instruction	\$ 16,618,963	\$ 15,725,003	\$ 893,960	5.68%
Instruction-Related Services	2,183,271	1,970,676	212,595	10.79%
Pupil Services	2,246,962	2,007,302	239,660	11.94%
General Administration	2,221,422	1,996,567	224,855	11.26%
Plant Services	2,699,916	2,153,979	545,937	25.35%
Other	2,397,783	3,623,255	(1,225,472)	-33.82%
Total Net Cost of Services	\$ 28,368,317	\$ 27,476,782	\$ 891,535	3.24%

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

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

General Administration expenses include 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 expenses include the operation and maintenance of plant activities which involve keeping the school grounds, buildings, and equipment in an effective working condition.

Other expense includes community service, interest and fiscal charges. Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the District.

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

The District's Funds

The District's governmental funds reported a combined fund balance of \$27,286,117, which is an increase of 4.08% from the prior year's total of \$26,215,886.

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	2019	2018	Increase (Decrease)
General Fund	\$ 7,667,714	\$ 6,629,176	\$ 1,038,538
Cafeteria Fund	166,120	143,914	22,206
Foundation Fund	51,309	51,184	125
Capital Facilities Fund	1,371,925	986,814	385,111
Special Reserve Fund for Capital Projects	11,644,962	12,438,505	(793,543)
Bond Interest & Redemption Fund	6,384,087	5,966,293	417,794
Total Governmental Fund Balances	\$ 27,286,117	\$ 26,215,886	\$ 1,070,231

Capital Assets

Table 5 shows June 30, 2019 capital asset balances, net of accumulated depreciation by category, as compared to June 30, 2018:

Table 5 - Summary of Capital Assets Net of Depreciation				
Capital Asset	2019	2018	Change	Percentage Change
	Net Capital Asset	Net Capital Asset		
Land	\$ 358,270	\$ 358,270	\$ -	0.0%
Buildings	54,168,676	55,655,879	(1,487,203)	-2.7%
Property and Equipment	580,514	563,384	17,130	3.0%
Work-in-Progress	910,370	-	910,370	100.0%
Totals	\$ 56,017,830	\$ 56,577,533	\$ (559,703)	-1.0%

Net capital assets decreased by \$559,703 during the fiscal year 2018-19, mainly due to depreciation expense.

Millbrae School District
Management's Discussion and Analysis
June 30, 2019

Long Term Debt

Table 6 reports the balance and changes of long-term liabilities during the fiscal year 2018-19.

Table 6 - Long-Term Liabilities				
Type of Debt	2019	2018	Change	Percentage Change
Capital lease obligations	\$ 104,126	\$ 130,038	\$ (25,912)	-19.93%
General obligation bonds	59,065,549	59,735,184	(669,635)	-1.12%
Net OPEB liability	6,620,093	6,123,283	496,810	8.11%
Net Pension liabilities	26,765,343	25,548,697	1,216,646	4.76%
Compensated absences	170,738	149,726	21,012	14.03%
Total Long-Term Liabilities	\$ 92,725,849	\$ 91,686,928	\$ 1,038,921	1.13%

Factors Bearing on the District's Future

The District's budget was developed and adopted using the Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP). Under LCFF there are no state statutes that specify an annual appropriation to support the LCFF. Therefore, the annual LCFF entitlement will be determined by “any available appropriations” (Ed Code 42238.03 b 3). Recessions are cyclical and California is on target for the next recession as we reach ten years of historic economic recovery. Therefore, it is critical to maintain healthy reserves for future contingencies due to California's volatile economy. Continued cooperative efforts and sound decision making by the Board, the superintendent, and the entire staff will be key to the District's long-term financial health. As the District enters into the next fiscal year, a number of factors affecting the budget will be considered.

- Continued monitoring and identifying measures to address the structural deficit spending and maintain its fiscal health in the Unrestricted General Fund.
- In the projection years, now that the LCFF funding formula is fully implemented, expected growth of revenues will be calculated on “COLA only-environment” scenario.
- It is critical the district makes effective use of one-time funding: Support on-going expenditures with on-going revenues (independent of one-time funds).
- Exercise caution and maintain flexibility in the collective bargaining process and any long-term expenditure agreements.
- As the District reaches classroom capacity at a number of our sites, accommodating long-term growth becomes a concern in terms of available facilities, as no new state funding for facilities appears to be projected, therefore the District will need to plan for financing this expansion through its own measures.

Additionally, under the California State Pension Reform, signed by the Governor in June 2014, contribution rates from all parties—members, employers and the state—to the Defined Benefit Program will be increasing gradually over the next several years. No new state revenues will be afforded to cover this expense to the District.

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 Denice LaCroix, Supervisor of Business Services, Millbrae School District, 555 Richmond Drive, Millbrae, CA 94030 or via email at dlacroix@millbraesd.org.

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Basic Financial Statements

Millbrae School District
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Cash and investments	\$ 27,959,529
Accounts receivable	1,194,600
Prepaid and other assets	5,730
Capital assets - net	56,017,830
Total Assets	\$ 85,177,689
 Deferred Outflows of Resources	
Pension adjustments	\$ 8,151,895
OPEB adjustments	223,540
Deferred loss on early retirement of long-term debt	1,322,424
Total Deferred Outflows of Resources	\$ 9,697,859
 Liabilities	
Accounts payable	\$ 1,497,003
Unearned revenue	376,739
Accrued interest	1,711,000
Long-term liabilities:	
Due within one year	
Capital leases payable	26,941
Compensated absences payable	42,685
General obligation bonds	1,230,000
Total due within one year	1,299,626
Due after one year	
Capital leases payable	77,185
General obligation bonds	57,835,549
Total OPEB liability	6,620,093
Net pension liabilities	26,765,343
Compensated absences payable	128,053
Total due after one year	91,426,223
Total long-term liabilities	92,725,849
Total Liabilities	\$ 96,310,591
 Deferred Inflows of Resources	
Pension adjustments	\$ 1,806,295
 Net Position	
Net investment in capital assets	\$ 3,451,601
Restricted for:	
Cafeteria programs	159,540
Debt service	3,305,673
Educational programs	315,500
Other postemployment benefits	1,927,566
Unrestricted	(12,401,218)
Total Net Position	\$ (3,241,338)

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

Millbrae School District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 19,349,593	\$ 12,052	\$ 2,718,578	\$ (16,618,963)
Instruction-related services:				
Supervision of instruction	750,913	1,969	129,421	(619,523)
Instruction library, media and technology	6,535	-	-	(6,535)
School site administration	1,708,414	10	151,191	(1,557,213)
Pupil services:				
Home-to-school transportation	51,121	392	96	(50,633)
Food services	1,075,892	417,271	418,334	(240,287)
All other pupil services	2,568,740	8,250	604,448	(1,956,042)
General administration:				
Data processing	363,901	-	10,347	(353,554)
All other general administration	1,993,048	22,574	102,606	(1,867,868)
Plant services	2,769,463	-	69,547	(2,699,916)
Ancillary services	114,933	-	114,933	-
Community services	69,104	-	-	(69,104)
Payments to other agencies	604,688	5,290	578,838	(20,560)
Interest on long-term debt	2,308,120	-	-	(2,308,120)
Total governmental activities	<u>\$ 33,734,465</u>	<u>\$ 467,808</u>	<u>\$ 4,898,339</u>	<u>(28,368,318)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				10,179,638
Taxes levied for debt service				3,686,322
Taxes levied for other specific purposes				946,506
Federal and state aid not restricted to specific purposes				12,171,779
Interest and investment earnings				466,536
Miscellaneous				674,695
Total general revenues				<u>28,125,476</u>
Change in net position				<u>(242,842)</u>
Net position beginning				(2,573,496)
Prior period adjustments - general obligation bonds				(425,000)
Net position beginning as adjusted				<u>(2,998,496)</u>
Net position ending				<u>\$ (3,241,338)</u>

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

Millbrae School District
Governmental Funds
Balance Sheet
June 30, 2019

	General Fund	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 7,876,427	\$ 12,133,378	\$ 6,348,107	\$ 1,601,617	\$ 27,959,529
Accounts receivable	1,013,635	78,436	35,980	66,549	1,194,600
Due from other funds	225,138	-	-	20,000	245,138
Prepaid and other current assets	-	-	-	5,730	5,730
Total Assets	\$ 9,115,200	\$ 12,211,814	\$ 6,384,087	\$ 1,693,896	\$ 29,404,997
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,103,733	\$ 386,022	\$ -	\$ 7,248	\$ 1,497,003
Due to other funds	20,000	180,830	-	44,308	245,138
Unearned revenue	323,753	-	-	52,986	376,739
Total Liabilities	1,447,486	566,852	-	104,542	2,118,880
Fund balances:					
Nonspendable:					
Revolving fund	2,500	-	-	850	3,350
Inventories	-	-	-	5,730	5,730
Restricted for:					
Educational programs	264,191	-	-	51,309	315,500
Cafeteria programs	-	-	-	159,540	159,540
Debt service	-	-	6,384,087	-	6,384,087
Other postemployment benefits	1,927,566	-	-	-	1,927,566
Assigned for:					
Educational programs	1,280,285	-	-	-	1,280,285
Other postemployment benefits	106,861	-	-	-	106,861
Capital projects	-	11,644,962	-	1,371,925	13,016,887
Litigation	100,000	-	-	-	100,000
Deficit spending	1,729,318	-	-	-	1,729,318
Unassigned:					
Reserve for economic uncertainties	837,226	-	-	-	837,226
Unappropriated	1,419,767	-	-	-	1,419,767
Total Fund Balances	7,667,714	11,644,962	6,384,087	1,589,354	27,286,117
Total Liabilities and Fund Balances	\$ 9,115,200	\$ 12,211,814	\$ 6,384,087	\$ 1,693,896	\$ 29,404,997

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

Millbrae School District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2019

Total fund balances - governmental funds		\$ 27,286,117
Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$74,085,641 and the accumulated depreciation is \$18,067,811.		56,017,830
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The accrued interest at the end of the period was:		(1,711,000)
The differences from retirement plan assumptions, estimates and timing differences in actuarial valuations and the government-wide financial statements are reported as deferred inflows and outflows of resources in the Statement of Net Position.		6,569,140
Losses from the early retirement of long-term debt are reported as deferred outflows of resources in the government-wide statement of net position.		1,322,424
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 consist of:		
Capital leases payable	\$ 104,126	
General obligation bonds	59,065,549	
Total OPEB liability	6,620,093	
Net pension liabilities	26,765,343	
Compensated absences	170,738	(92,725,849)
Total net position - governmental activities		\$ (3,241,338)

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

Millbrae School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2019

	General Fund	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF Sources	\$ 21,434,977	\$ -	\$ -	\$ -	\$ 21,434,977
Federal	717,689	-	-	399,776	1,117,465
Other state	3,501,549	-	11,681	43,192	3,556,422
Other local	2,107,390	450,703	3,992,046	832,619	7,382,758
Total revenues	27,761,605	450,703	4,003,727	1,275,587	33,491,622
Expenditures:					
Instruction	16,643,859	-	-	1,000	16,644,859
Instruction-related services:					
Supervision of instruction	697,423	-	-	-	697,423
Instruction library, media and technology	6,070	-	-	-	6,070
School site administration	1,586,718	-	-	-	1,586,718
Pupil services:					
Home-to-school transportation	47,479	-	-	-	47,479
Food services	-	-	-	833,868	833,868
All other pupil services	2,385,760	-	-	-	2,385,760
General administration:					
Data processing	337,979	-	-	-	337,979
All other general administration	1,568,771	-	-	48,540	1,617,311
Plant services	2,262,369	182,785	-	4,737	2,449,891
Facility acquisition and construction	528,222	880,631	-	-	1,408,853
Ancillary services	114,933	-	-	-	114,933
Community services	69,104	-	-	-	69,104
Payments to other agencies	604,688	-	-	-	604,688
Debt service:					
Principal	25,912	-	1,310,000	-	1,335,912
Interest and fees	4,610	-	2,275,933	-	2,280,543
Total expenditures	26,883,897	1,063,416	3,585,933	888,145	32,421,391
Excess (deficiency) of revenues over (under) expenditures	877,708	(612,713)	417,794	387,442	1,070,231
Other financing sources (uses):					
Transfers in	180,830	-	30,214	20,000	231,044
Transfers out	(20,000)	(180,830)	(30,214)	-	(231,044)
Total other financing sources (uses)	160,830	(180,830)	-	20,000	-
Changes in fund balances	1,038,538	(793,543)	417,794	407,442	1,070,231
Fund balances beginning	6,629,176	12,438,505	5,966,293	1,181,912	26,215,886
Fund balances ending	<u>\$ 7,667,714</u>	<u>\$ 11,644,962</u>	<u>\$ 6,384,087</u>	<u>\$ 1,589,354</u>	<u>\$ 27,286,117</u>

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

Millbrae School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2019

Total net change in fund balances - governmental funds \$ 1,070,231

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 assets additions of \$1,408,853 were less than depreciation expense of \$1,968,556 in the period. (559,702)

The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of prepaid issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Capital leases principal	\$ 25,912	
Bond principal paid	1,310,000	
Amortization of bond premiums	153,930	
Amortization of gain (loss) on early retirement of long-term debt	167,788	
Accreted Interest	<u>(369,295)</u>	1,288,335

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. 20,000

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 used exceeded vacation earned by \$21,011. (21,011)

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. (1,767,425)

In governmental funds, actual contributions and benefits paid to OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. (273,270)

Change in net position of governmental activities \$ (242,842)

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

Millbrae School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Student Body Agency Fund
Assets:	
Cash on hand and in banks	\$ 94,055
Total Assets	<u>\$ 94,055</u>
Liabilities:	
Due to student groups	\$ 94,055
Total Liabilities	<u>\$ 94,055</u>

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

Notes to the Basic Financial Statements

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Millbrae 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 account policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U. S. 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 using the criteria established by GASB. 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

The Millbrae School District Financing Corporation (the "Corporation") is a nonprofit entity organized under the laws of State of California and is a blended component unit of the District. This is a nonprofit public benefit corporation created on February 6, 1996, to assist the District authorizing lease financing of improvement projects and approving related documents of and actions. The Corporation is governed by the same board that governs the District.

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 non-major 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 and current liabilities 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 except for agency fund, which have no 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 one year 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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding which is reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the District's benefit plans liability reported which is in the Statement of Net Position.

Unearned Revenue:

Unearned revenue arises when assets (such as cash) are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements (such as qualified expenditures) are met are recorded as liabilities from unearned revenue.

Unavailable Revenue:

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 of resources as unavailable revenue.

Expenses/Expenditures:

Using 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.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 and the Special Reserve Fund for Postemployment Benefits. These funds are not substantially composed of restricted or committed revenue sources and does not meet the definition of a special revenue fund under GASB 54.

The *Special Reserve Fund for Capital Outlay Projects* exists primarily to account for resources from rentals and proceeds from the sale of real property accumulated for capital outlay.

The *Bond Interest and Redemption Fund* is used to account for the interest and redemption of principal of general obligation bonds.

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 the following nonmajor 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 *Foundation Special Reserve Fund* exists primarily to account for money received from gifts and bequests.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains the following nonmajor 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.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board 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. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

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

H. Benefit Plans

Pensions

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

GASB 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, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Other Postemployment Benefits Other Than Pensions (OPEB)

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

I. Assets, Liabilities, and Equity

a) 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.

b) Fair Value Measurements

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

In determining this amount, three valuation techniques are available:

- 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.

c) Stores Inventories and Prepaid Expenditures

Inventories

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

are a component of net current assets. The District's central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures 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, thus recording a prepaid expense in the Statement of Net Position.

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
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

e) Compensated Absences

All vacation pay 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. Credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

f) Long-Term Liabilities

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 as well as issuance costs if related to prepaid insurance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs, not related to prepaid insurance 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.

g) Fund Balance Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of three percent of general fund operating expenditures and other financing uses.

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance 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 - includes fund balance 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 - includes fund balance 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 Chief Business Official.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

h) 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, except for accreted interest on those borrowings. 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. As of June 30, 2019, capital assets net of accumulated depreciation totaling \$56,017,830 was reduced by related debt of \$53,463,653, which excluded accreted interest of \$2,238,588 and premiums attributed to cash reserves for debt service of \$3,042,434. 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 of \$6,348,107 that are restricted for debt service payments by debt covenants, reduced by outstanding bond premiums of \$3,042,434.

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

Other Postemployment Benefits restrictions reflect the District's one-time use money for other postemployment benefits, such as medical, dental and vision for retirees.

Unrestricted net position reflects 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.

i) 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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

j) 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.

k) Eliminations and Reclassifications

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

l) 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.

m) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the December 4, 2019 and noted the issuance of \$12,035,000 of 2019 General Obligation Refunding Bonds as a significant item requiring additional disclosure. The bonds were issued on October 31, 2019 to refund a portion of the District's General Obligation Bonds Election of 2011, Series 2012 and bear interest from 1.718 to 3.229 percent through July 1, 2042.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

J. Implemented New Accounting Pronouncements

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. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have a significant impact on the District's financial statements.

K. Upcoming Accounting and Reporting Changes

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 is in the process of determining the impact this Statement will have on the financial statements.

GASB issued Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is in the process of determining the impact this Statement will have on the financial statements.

Millbrae School District
Notes to Basic Financial Statements
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GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 90, Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The District is in the process of determining the impact this Statement will have on the financial statements.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2019 is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
<i>Government-Wide Statements:</i>			
Cash in county treasury investment pool	\$ 27,935,627	\$ 28,008,260	AA
Cash in revolving fund	3,350	3,350	n/a
Cash in banks	20,552	20,552	n/a
Total Government-Wide Cash and Investments	27,959,529	28,032,162	
<i>Fiduciary Funds:</i>			
Cash in banks	94,055	94,055	n/a
Total Cash and Investments	<u>\$ 28,053,584</u>	<u>\$ 28,126,217</u>	

Cash in Banks and in 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, 2019, the District's bank balance of \$146,747 was fully insured by 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 maintain substantially all of its cash with the County Treasurer in accordance with 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.

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, 2019:

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Policies and Practices

The District is authorized under California Government Code Section 53635 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.

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 maintains cash with the San Mateo County Investment Pool. The pool has a fair value of approximately \$222.5 million and an amortized book value of \$221.9 million.

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.

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.

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.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2019:

Receivables	General Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Nonmajor Funds	Total
Federal government	\$ 465,358	\$ -	\$ -	\$ 54,891	\$ 520,249
State Government	482,838	-	-	2,919	485,757
Other resources	65,439	78,436	35,980	8,739	188,594
Total Receivables	<u>\$ 1,013,635</u>	<u>\$ 78,436</u>	<u>\$ 35,980</u>	<u>\$ 66,549</u>	<u>\$ 1,194,600</u>

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2019 were as follows:

Capital Assets	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Land - not depreciable	\$ 358,270	\$ -	\$ -	\$ 358,270
Work-in-progress - not depreciable	-	910,370	-	910,370
Buildings	71,035,967	391,759	-	71,427,726
Equipment	1,282,551	106,724	-	1,389,275
Total capital assets	<u>72,676,788</u>	<u>1,408,853</u>	<u>-</u>	<u>74,085,641</u>
Less accumulated depreciation for:				
Buildings	15,380,088	1,878,962	-	17,259,050
Equipment	719,167	89,594	-	808,761
Total accumulated depreciation	<u>16,099,255</u>	<u>1,968,556</u>	<u>-</u>	<u>18,067,811</u>
Total capital assets - net depreciation	<u>\$ 56,577,533</u>	<u>\$ (559,703)</u>	<u>\$ -</u>	<u>\$ 56,017,830</u>

Depreciation was allocated to the following activities for the year ended June 30, 2019:

Instruction	\$ 1,407,120
Food services	178,069
All other general administration	251,694
Plant services	131,673
Total depreciation expense	<u>\$ 1,968,556</u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), 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)

Interfund receivables and payables consisted of the following as of June 30, 2019:

Fund	Due From Other Funds	Due to Other Funds
General Fund	\$ 225,138	\$ 20,000
Special Reserve Fund for Capital Projects	-	180,830
<u>Nonmajor Funds</u>	<u>20,000</u>	<u>44,308</u>
Totals	<u>\$ 245,138</u>	<u>\$ 245,138</u>

Interfund Transfers

Interfund transfers consisted of the following for the fiscal year ended June 30, 2019:

Fund	Transfers In	Transfers Out
General Fund	\$ 180,830	\$ 20,000
Bond Interest and Redemption Fund	30,214	30,214
Special Reserve Fund for Capital Projects	-	180,830
<u>Nonmajor funds</u>	<u>20,000</u>	<u>-</u>
Totals	<u>\$ 231,044</u>	<u>\$ 231,044</u>

The Special Reserve Fund for Other Than Capital Projects and the Other Postemployment Benefits fund have been combined with the General Fund for reporting purposes as required by GASB 54.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

6. LONG-TERM LIABILITIES

Schedule of Changes in Long-term Liabilities

Long-Term Liabilities	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
General obligation bonds:					
Bond principal	\$ 54,669,527	\$ 425,000	\$ 1,310,000	\$ 53,784,527	\$ 1,230,000
Bond premiums	3,196,364	-	153,930	3,042,434	-
Accreted Interest	1,869,293	369,295	-	2,238,588	-
Total general obligation bonds	59,735,184	794,295	1,463,930	59,065,549	1,230,000
Capital leases	130,038	-	25,912	104,126	26,941
Total OPEB liability	6,123,283	779,387	282,577	6,620,093	-
Net pension liabilities	25,548,697	10,061,364	8,844,718	26,765,343	-
Compensated absences	149,726	21,012	-	170,738	42,685
Total Long-Term Liabilities	<u>\$ 91,686,928</u>	<u>\$ 11,656,058</u>	<u>\$ 10,617,137</u>	<u>\$ 92,725,849</u>	<u>\$ 1,299,626</u>

Payments on the general obligation bonds are made from the Bond Interest and Redemption Fund using local revenues. Compensated absences are paid by the fund for which the employee worked. The net pension liabilities, total OPEB liability and capital leases are paid from the General Fund and the Cafeteria fund.

General Obligation Bonds Payable

The following summarizes the bonds outstanding as of June 30, 2019:

Bond	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2019
			Outstanding July 01, 2018	Additions	Reductions	
2009 GOB	4.125-5%	\$ 12,000,000	\$ 405,000	\$ 425,000	\$ 405,000	\$ 425,000
2011 GOB	2-6.157%	17,999,527	10,944,527	-	75,000	10,869,527
2012 GOB	2-4%	20,000,000	18,330,000	-	280,000	18,050,000
2013 GOB	4-5.5%	10,000,000	9,255,000	-	360,000	8,895,000
2016 GORB	2-4%	8,720,000	8,565,000	-	-	8,565,000
2017 GORB	2-4%	7,170,000	7,170,000	-	190,000	6,980,000
		<u>\$ 75,889,527</u>	<u>\$ 54,669,527</u>	<u>\$ 425,000</u>	<u>\$ 1,310,000</u>	<u>\$ 53,784,527</u>

On April 17, 2009, the District issued the 2009 General Obligation Bonds, Series A in the amount of \$12,000,000, maturing on July 1, 2033. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes. This bond was partially defeased in 2016/17 through the issuance of the 2016 General Obligation Refunding Bonds as noted below.

On April 19, 2011, the District issued the 2011 General Obligation Bonds, Series B in the amount of \$17,999,527, maturing on July 1, 2041. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On April 19, 2012, the District issued the 2012 General Obligation Bonds in the amount of \$20,000,000,

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maturing on July 1, 2042. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds will be used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On December 11, 2013, the District issued the 2013 General Obligation Bonds in the amount of \$10,000,000, maturing on July 1, 2042. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. The proceeds of the Bonds were used for specific construction and modernization projects approved by the voters. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On July 13, 2016, the District issued the 2016 General Obligation Refunding Bonds in the amount of \$8,720,000, maturing on July 1, 2033, at a premium of \$1,040,270. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. Bond proceeds totaling \$9,568,373, after issuance costs of \$191,897, was placed in escrow in order to defease the 2009 General Obligation Bonds. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

On October 19, 2017, the District issued the 2017 General Obligation Refunding Bonds in the amount of \$7,170,000, maturing on July 1, 2037, at a premium of \$908,241. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity. Bond proceeds totaling \$8,078,241, after issuance costs of \$171,349, was placed in escrow in order to defease the 2011 General Obligation Bonds. The Bonds are a general obligation of the District payable solely from the proceeds of ad valorem taxes.

The annual debt service requirements of the bonds are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 1,230,000	\$ 2,589,296	\$ 3,819,296
2021	5,165,000	2,537,108	7,702,108
2022	1,410,000	2,281,469	3,691,469
2023	1,325,000	2,227,988	3,552,988
2024	1,380,000	2,174,944	3,554,944
2025-2029	13,715,448	8,619,676	22,335,124
2030-2034	11,724,743	8,934,266	20,659,009
2035-2039	9,739,126	10,673,640	20,412,766
2040-2044	8,095,210	4,490,278	12,585,488
Total	<u>\$ 53,784,527</u>	<u>\$ 44,528,665</u>	<u>\$ 98,313,192</u>

The annual tax credit subsidies to be received from the U.S. Treasury for QSCB's are as follows:

Fiscal Year	Total
2020	\$ 413,640
2021	413,640
2022	206,820
2023	206,820
2024	206,820
2025-2029	413,640
Total	<u>\$ 1,861,380</u>

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Capital Leases

The District had a capital lease agreement for office equipment with a cost of \$138,454. The minimum lease payments for the capital leases consisted of the following as of June 30, 2019:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 26,941	\$ 3,581	\$ 30,522
2021	28,010	2,512	30,522
2022	29,122	1,400	30,522
2023	20,053	294	20,347
Total	<u>\$ 104,126</u>	<u>\$ 7,787</u>	<u>\$ 111,913</u>

7. JOINT POWERS AGREEMENTS

The District participates in a joint powers agreement ("JPA") with the San Mateo County Schools Insurance Group ("SMCSIG"). A board consisting of a representative from each member district governs the JPA. The governing board controls the operation of the JPA independent of any influence by the District beyond the District's representation on the governing board. The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation. The relationship between the District and the JPA is such that the JPA not a component unit of the District for financial reporting purposes.

The following is a summary of the SMCSIG JPA's most recent financial statement information:

	SMCSIG June 30, 2018
Total Assets and Deferred Outflows	\$ 25,857,722
Total Liabilities and Deferred Inflows	10,504,013
Total Equity	15,353,709
Total Revenues	45,214,456
Total Expenditures	42,672,851

The District also participates in the School Project for Utility Rate Reduction (SPURR) JPA. 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. There is no financial information available for SPURR.

7. COMMITMENTS AND CONTINGENCIES

Litigation

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

Federal and State Allowances, Award, and Grants

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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

8. CALPERS PENSION PLAN

A. California Public Employees Retirement System (CalPERS) 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, 2019, are summarized as follows:

	CalPERS	
	Classic	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age: minimum	50	52
Monthly benefits as a % of eligible compensation	(1)	(1)
Required employee contribution rates	7.000%	7.000%
Required employer contribution rates	18.062%	18.062%

(1) Monthly benefit is a product of benefit factor, years of service, and final compensation

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 fiscal year ending June 30, 2019, the State enacted Senate Bill No. 90 which appropriated funding to the Public Employees' Retirement Fund on behalf of the District.

Millbrae School District
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For the Fiscal Year Ended June 30, 2019

For the year ended June 30, 2019, the contributions were as follows:

	CalPERS
Employer Contributions	\$ 653,015
State Contributions	221,932
Total	\$ 874,947

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
District	\$ 6,545,803

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, 2018, 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, 2017 rolled forward to June 30, 2018 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 for the fiscal years ended June 30, 2018 and 2019 was as follows:

	CalPERS
Proportion - June 30, 2018	0.02567%
Proportion - June 30, 2019	0.02455%
Change - Increase/(Decrease)	-0.00112%

For the year ended June 30, 2019, the District recognized pension expense of \$1,321,313 for the Plan and a total pension expense for all plans (CalPERS and CalSTRS) of \$6,283,097.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 653,570	\$ -
Differences between Expected and Actual Experience	429,119	-
Differences between Projected and Actual Investment Earnings	53,690	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	6,504
Change in Employer's Proportion	109,512	301,594
Pension Contributions Made Subsequent to Measurement Date	653,015	-
Total	\$ 1,898,906	\$ 308,098

The District reported \$1,898,906 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, 2020. Total deferred outflows and inflows for all plans is summarized in the statement of net position. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2020	\$ 659,606
2021	379,644
2022	(62,822)
2023	(38,636)
Total	\$ 937,792

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (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

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses.

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.

<u>Asset Class (a)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate -

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalPERS
1% Decrease	6.15%
Net Pension Liability	\$ 9,530,376
Current	7.15%
Net Pension Liability	\$ 6,545,803
1% Increase	8.15%
Net Pension Liability	\$ 4,069,672

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, 2019, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a % of eligible compensation	2%	2%
Required employee contribution rates	10.250%	10.205%
Required employer contribution rates	16.280%	16.280%
Required State contribution rates	9.828%	9.828%

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2019, the District's contributions were as follows:

	CalSTRS
Employer Contributions	\$ 2,007,505
State Contributions	1,861,599
Total	\$ 3,869,104

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
District	\$ 20,219,540
State	11,576,698
Total	\$ 31,796,238

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, 2018, 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, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The state contributed 9.124 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year plus an additional \$783,914 as required by SB90. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

	CalSTRS
Proportion - June 30, 2018	0.02100%
Proportion - June 30, 2019	0.02200%
Change - Increase/(Decrease)	0.00100%

For the year ended June 30, 2019, the District recognized pension expense of \$4,961,784 for the Plan.

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 3,141,160	\$ -
Differences between Expected and Actual Experience	62,700	293,700
Differences between Projected and Actual Investment Earnings	-	778,580
Differences between Employer's Contributions and Proportionate Share of Contributions	51,681	3,414
Change in Employer's Proportion	989,944	422,503
Pension Contributions Made Subsequent to Measurement Date	2,007,505	-
Total	\$ 6,252,990	\$ 1,498,197

The District reported \$2,007,505 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, 2020.

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

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources CalSTRS
2020	\$ 848,627
2021	556,907
2022	26,267
2023	445,866
2024	757,104
Thereafter	112,519
Total	\$ 2,747,290

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Wage Growth	3.50%
Postretirement Benefit Increases	(1)
Investment Rate of Return	7.10% (2)
Mortality	(3)

- (1) 2% simple for DB (annually)
Maintain 85% purchasing power level for DB
Not applicable for DBS/CBB
- (2) Net of investment expense but gross of administrative expenses.
- (3) Based on 110% of the MP-2016 Ultimate Projection
Scale table issued by the Society of Actuaries.

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Rate of Return ⁽¹⁾
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash/Liquidity	2.00%	-1.00%
Total	100.00%	

⁽¹⁾ 20 year average

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

- The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS
1% Decrease	6.10%
Net Pension Liability	\$ 29,619,260
Current	7.10%
Net Pension Liability	\$ 20,219,540
1% Increase	8.10%
Net Pension Liability	\$ 12,426,260

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 BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

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

Benefits

The following summarizes the benefits in the plan:

	Certificated	Classified
Benefits Provided:	Medical, dental and vision	Medical, dental and vision
Duration of Benefits:	Option 1: 5 years at current cap Option 2: 10 years at statutory minimum monthly benefit of \$133	Option 1: 5 years at current cap Option 2: 10 years at statutory minimum monthly benefit of \$133
Required Services:	10 years	10 years
Minimum Age:	55	50
Dependent Coverage:	Yes	Yes
Contribution Percentage:	100% to cap	100% to cap
Cap:	\$347 per month	\$347 per month

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Employees Covered by Benefit Terms

At June 30, 2019, the benefit terms covered the following employees:

Active employees	215
Inactive employees	89
Total employees	304

Contributions

The District makes contributions on a pay-as-you-go basis. Total benefits paid considered contributions the OPEB plan during the year were \$282,577. The actuarially determined contribution for the measurement period was \$790,141. The District's contributions were 2.1% of covered employee payroll during the measurement period June 30, 2019. Employees are not required to contribute to the plan.

Actuarial Assumptions

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

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	30 years
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Payroll Increases	2.75%
Municipal Bond Rate	3.50%
Mortality	2009 CalSTRS Mortality 2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	Certificated: 2009 CalSTRS Retirement Rates Hired >12/31/2012: CalPERS 2% @ 60 Rates for Miscellaneous Employeess
Service Requirement	Certificated: 100% at 10 Years of Service Classified: 100% at 10 Years of Service

Discount Rate

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2019 (measurement date) and was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2019 (reporting date).

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Changes in the Total OPEB Liability

The following summarizes the changes in the total OPEB liability during the year ended June 30, 2019:

Fiscal Year Ended June 30, 2019	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018	\$ 6,123,283	\$ -	\$ 6,123,283
Service cost	311,611	-	311,611
Interest in Total OPEB Liability	214,823	-	214,823
Changes in assumptions	252,953	-	252,953
Benefit payments	(282,577)	-	(282,577)
Net changes	496,810	-	496,810
Balance at June 30, 2019	\$ 6,620,093	\$ -	\$ 6,620,093
Covered Employee Payroll	\$ 13,481,615		
Total OPEB Liability as a % of Covered Employee Payroll	49.10%		
Service Cost as a % of Covered Employee Payroll	2.31%		
Net OPEB Liability as a % of Covered Employee Payroll	49.10%		

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

Deferred Inflows and Outflows of Resources

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 223,540	\$ -

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

Year Ended June 30,	
2020	\$ 29,413
2021	29,413
2022	29,413
2023	29,413
2024	29,415
Thereafter	76,473
Total	\$ 223,540

Millbrae School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	\$	311,611
Interest in TOL		214,823
Change in assumptions		29,413
OPEB Expense		<u>555,847</u>

The following summarizes changes in the total OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Total OPEB liability ending	\$	6,620,093
Total OPEB liability beginning		<u>(6,123,283)</u>
Change in total OPEB liability		496,810
Changes in deferred outflows		(223,540)
Employer contributions and implicit subsidy		282,577
OPEB Expense		<u>555,847</u>

Sensitivity to Changes in the Discount Rate (Municipal Bond Rate)

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

	Municipal Bond Rate		
	(1% Decrease)	2.75%	(1% Increase)
Total OPEB Liability	\$ 7,553,204	\$ 6,620,093	\$ 5,870,627

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	(1% Decrease)	Current	(1% Increase)
Total OPEB Liability	\$ 6,000,070	\$ 6,620,093	\$ 7,390,924

REQUIRED
SUPPLEMENTARY
INFORMATION

Millbrae School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
LCFF sources	\$ 21,080,226	\$ 21,436,328	\$ 21,434,977	\$ (1,351)
Federal	691,036	808,950	717,689	(91,261)
Other state	2,415,496	3,501,549	3,501,549	-
Other local	957,868	2,340,343	2,107,390	(232,953)
Total revenues	<u>25,144,626</u>	<u>28,087,170</u>	<u>27,761,605</u>	<u>(325,565)</u>
Expenditures:				
Certificated salaries	11,905,023	12,362,098	12,320,295	41,803
Classified salaries	3,251,114	3,385,798	3,377,049	8,749
Employee benefits	6,168,864	7,329,235	7,305,538	23,697
Books and supplies	478,570	1,040,370	689,846	350,524
Services and other operating expenditures	1,906,514	2,320,756	2,081,106	239,650
Capital outlay	-	519,163	519,163	-
Other outgo	653,298	596,787	590,900	5,887
Total expenditures	<u>24,363,383</u>	<u>27,554,207</u>	<u>26,883,897</u>	<u>670,310</u>
Excess (deficiency) of revenues over (under) expenditures	<u>781,243</u>	<u>532,963</u>	<u>877,708</u>	<u>344,745</u>
Other financing sources (uses):				
Transfers in	91,318	180,831	180,830	(1)
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	<u>71,318</u>	<u>160,831</u>	<u>160,830</u>	
Changes in fund balance	<u>\$ 852,561</u>	<u>\$ 693,794</u>	1,038,538	<u>\$ 344,745</u>
Fund balance beginning			<u>6,629,176</u>	
Fund balance ending			<u>\$ 7,667,714</u>	

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures can not legally exceed appropriations by major object.

Millbrae School District
Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2019

CalPERS	2015	2016	2017	2018	2019
Contractually Required Contributions	\$ 316,703	\$ 389,626	\$ 454,571	\$ 502,992	\$ 653,015
Contributions in Relation to Contractually Required Contributions	316,703	389,626	454,571	502,992	653,015
Contribution Deficiency (Excess)	\$ -				
Covered Payroll	\$ 2,690,536	\$ 3,288,816	\$ 3,273,121	\$ 3,238,632	\$ 3,615,408
Contributions as a % of Covered Payroll	11.77%	11.85%	13.89%	15.53%	18.06%

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

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

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

This schedule provides information about the District's required and actual contributions to CalPERS during the year.

Millbrae School District
Schedule of CalPERS Proportionate Share
of Net Pension Liability
For the Fiscal Year Ended June 30, 2019

CalPERS	2015	2016	2017	2018	2019
District's Proportion of Net Pension Liability	0.02230%	0.02169%	0.02314%	0.02567%	0.02455%
District's Proportionate Share of Net Pension Liability	\$ 2,531,593	\$ 3,197,286	\$ 4,570,015	\$ 6,128,107	\$ 6,545,803
District's Covered Payroll	\$ 2,339,809	\$ 2,690,536	\$ 3,288,816	\$ 3,273,121	\$ 3,238,632
District's Proportionate Share of NPL as a % of Covered Payroll	108.20%	118.83%	138.96%	187.23%	202.12%
Plan's Fiduciary Net Position as a % of the TPL	83.38%	79.43%	73.90%	71.87%	70.85%

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

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

This schedule presents information on the District's portion of the net pension liability of CalPERS in compliance with GASB 68.

Millbrae School District
Schedule of CalSTRS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2019

CalSTRS	2015	2016	2017	2018	2019
Contractually Required Contributions	\$ 894,914	\$ 1,147,847	\$ 1,424,323	\$ 1,715,443	\$ 2,007,505
Contributions in Relation to Contractually Required Contributions	894,914	1,147,847	1,424,323	1,715,443	2,007,505
Contribution Deficiency (Excess)	\$ -				
Covered Payroll	\$ 10,077,860	\$ 10,697,549	\$ 11,322,122	\$ 11,888,349	\$ 12,331,112
Contributions as a % of Covered Payroll	8.88%	10.73%	12.58%	14.43%	16.28%

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Method used for Actuarial Cost Method

Level Percentage of Payroll Basis

7 Years Remaining Amortization Period

Inflation Assumed at 2.75%

Investment Rate of Returns set at 7.10%

Mortality tables are based on 110% of the MP-2016 Ultimate Projection Scale table issued by the Society of Actuaries.

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

The CalSTRS discount rate was decreased from 7.6% to 7.1% in the District's fiscal year 2017.

The CalSTRS investment rate of return was decreased from 7.6% to 7.1% during the District's fiscal year 2017.

The CalSTRS inflation rate was decreased from 3% to 2.75% during the District's fiscal year 2017.

The CalSTRS wage growth was decreased from 3.75% to 3.5% during the District's fiscal year 2017.

This schedule provides information about the District's required and actual contributions to CalSTRS during the year.

Millbrae School District
Schedule of CalSTRS Proportionate Share
of Net Pension Liability
For the Fiscal Year Ended June 30, 2019

CalSTRS	2015	2016	2017	2018	2019
District's Proportion of Net Pension Liability	0.02100%	0.01956%	0.01980%	0.02100%	0.02200%
District's Proportionate Share of Net Pension Liability	\$ 12,271,770	\$ 13,165,268	\$ 16,012,238	\$ 19,420,590	\$ 20,219,540
State's Proportionate Share of Net Pension Liability Associated with the District	7,410,186	6,962,979	9,115,447	11,489,027	11,576,698
Total	<u>\$ 19,681,956</u>	<u>\$ 20,128,247</u>	<u>\$ 25,127,685</u>	<u>\$ 30,909,617</u>	<u>\$ 31,796,238</u>
District's Covered Payroll	\$ 9,195,103	\$ 10,077,860	\$ 10,697,549	\$ 11,322,122	\$ 11,812,003
District's Proportionate Share of NPL as a % of Covered Payroll	133.46%	130.64%	149.68%	171.53%	171.18%
Plan's Fiduciary Net Position as a % of the TPL	76.52%	74.02%	70.04%	69.46%	70.99%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalSTRS discount rate was decreased from 7.6% to 7.1% in the District's fiscal year 2017.
The CalSTRS investment rate of return was decreased from 7.6% to 7.1% during the District's fiscal year 2017.
The CalSTRS inflation rate was decreased from 3% to 2.75% during the District's fiscal year 2017.
The CalSTRS wage growth was decreased from 3.75% to 3.5% during the District's fiscal year 2017.

This schedule presents information on the District's portion of the net pension liability of CalSTRS in compliance with GASB 68.

Millbrae School District
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30,2019

Fiscal Year Ended	2018	2019
Total OPEB liability		
Service cost	\$ 303,271	\$ 311,611
Interest	223,436	214,823
Changes of assumptions	-	252,953
Benefit payments	(271,709)	(282,577)
Net change in Total OPEB Liability	254,998	496,810
Total OPEB Liability - beginning	5,868,285	6,123,283
Total OPEB Liability - ending	<u>\$ 6,123,283</u>	<u>\$ 6,620,093</u>
Plan fiduciary net position		
Net change in plan fiduciary net position	\$ -	\$ -
Plan fiduciary net position - beginning	-	-
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability (asset)	\$ 6,123,283	6,620,093
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered Employee Payroll	\$ 13,120,793	\$ 13,481,615
Net OPEB liability as a percentage of covered employee payroll	46.67%	49.10%
Total OPEB liability as a percentage of covered employee payroll	46.67%	49.10%
<i>Other Notes</i>		
GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.		
No change in benefit terms; discount rates decreased from 3.8% to 3.5%.		
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.		

SUPPLEMENTARY
INFORMATION

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*Nonmajor Governmental Funds
Combining Schedules*

Millbrae School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds		Capital Projects Funds	Totals
	Cafeteria Fund	Foundation Fund	Capital Facilities Fund	
Assets				
Cash and investments	\$ 186,153	\$ 51,006	\$ 1,364,458	\$ 1,601,617
Accounts receivable	58,779	303	7,467	66,549
Due from other funds	20,000	-	-	20,000
Prepaid and other current assets	5,730	-	-	5,730
Total Assets	\$ 270,662	\$ 51,309	\$ 1,371,925	\$ 1,693,896
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 7,248	\$ -	\$ -	\$ 7,248
Due to other funds	44,308	-	-	44,308
Unearned Revenue	52,986	-	-	52,986
Total Liabilities	104,542	-	-	104,542
Fund balances:				
Nonspendable:				
Revolving fund	850	-	-	850
Inventories	5,730	-	-	5,730
Restricted for:				
Educational programs	-	51,309	-	51,309
Cafeteria programs	159,540	-	-	159,540
Assigned for:				
Capital projects	-	-	1,371,925	1,371,925
Total Fund Balances	166,120	51,309	1,371,925	1,589,354
Total Liabilities and Fund Balances	\$ 270,662	\$ 51,309	\$ 1,371,925	\$ 1,693,896

Millbrae School District
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2019

	Special Revenue Funds		Capital Projects Funds	Totals
	Cafeteria Fund	Foundation Fund	Capital Facilities Fund	
Revenues:				
Federal	\$ 399,776	\$ -	\$ -	\$ 399,776
Other state	43,192	-	-	43,192
Other local	442,151	1,125	389,343	832,619
Total revenues	885,119	1,125	389,343	1,275,587
Expenditures:				
Instruction	-	1,000	-	1,000
Pupil services:				
Food services	833,868	-	-	833,868
General administration:				
All other general administration	44,308	-	4,232	48,540
Plant services	4,737	-	-	4,737
Total expenditures	882,913	1,000	4,232	888,145
Excess (deficiency) of revenues over (under) expenditures	2,206	125	385,111	387,442
Other financing sources (uses):				
Transfers in	20,000	-	-	20,000
Transfers out	-	-	-	-
Total other financing sources (uses)	20,000	-	-	20,000
Changes in fund balances	22,206	125	385,111	407,442
Fund balances beginning	143,914	51,184	986,814	1,181,912
Fund balances ending	\$ 166,120	\$ 51,309	\$ 1,371,925	\$ 1,589,354

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STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

Millbrae School District
Organization (Unaudited)
June 30, 2019

The Millbrae School District was established in 1870 in San Mateo County. There were no changes in boundaries during the current year. The District is comprised of four elementary and one middle school.

The Board of Education and District Administrators for the fiscal year ended June 30, 2019, included the following members:

Governing Board

Member	Office	Term Expires
Lynne Ferrario	President	2022
Maggie Musa	Vice-President	2020
D. Don Revelo	Clerk	2022
Frank Barbaro	Trustee	2020
Denis Fama	Trustee	2022

District Administration

Name	Position
Vahn A. Phayprasert	Superintendent

Millbrae School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2019

	Second Period Report	Annual Report
Elementary:		
Grades TK/K through three	1,000	1,000
Grades four through six	745	744
Grades seven and eight	550	549
Special education	5	5
ADA Totals	<u>2,301</u>	<u>2,298</u>

Millbrae School District
 Schedule of Instructional Time
 For the Fiscal Year Ended June 30, 2019

Grade Level	Minutes Requirements	2019 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	51,210	180	0	In Compliance
Grade 1	50,400	52,020	180	0	In Compliance
Grade 2	50,400	52,020	180	0	In Compliance
Grade 3	50,400	53,280	180	0	In Compliance
Grade 4	54,000	54,150	180	0	In Compliance
Grade 5	54,000	54,150	180	0	In Compliance
Grade 6	54,000	59,680	180	0	In Compliance
Grade 7	54,000	59,680	180	0	In Compliance
Grade 8	54,000	59,680	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 and Year. 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.

Millbrae School District
Schedule of Charter Schools (Unaudited)
June 30, 2019

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Millbrae School District.

Millbrae School District
Schedule of Financial Trends and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

	(Budget) ⁽¹⁾			
	2020	2019	2018	2017
<u>General Fund</u>				
Revenues and other financial sources	\$ 26,033,840	\$ 27,942,435	\$ 24,233,092	\$ 23,582,997
Expenditures	26,310,140	26,883,897	24,320,750	23,136,637
Other uses and transfers (out)	20,000	20,000	-	50,000
Total outgo	26,330,140	26,903,897	24,320,750	23,186,637
Change in fund balance	\$ (296,300)	\$ 1,038,538	\$ (87,658)	\$ 396,360
Ending fund balance	\$ 7,371,414	\$ 7,667,714	\$ 6,629,176	\$ 6,716,834
Available reserves ⁽²⁾	\$ 2,105,550	\$ 2,256,993	\$ 1,240,324	\$ 2,676,943
Designated for economic uncertainty	\$ 789,904	\$ 837,226	\$ 729,630	\$ 696,000
Unassigned fund balance	\$ 1,315,646	\$ 1,419,767	\$ 510,694	\$ 607,072
Available reserves as a percentage of total outgo	8.00%	8.39%	5.10%	11.55%
Total long-term debt	\$ 91,426,223	\$ 92,725,849	\$ 91,686,928	\$ 80,083,622
Average daily attendance at P-2	2,251	2,301	2,364	2,362

Average daily attendance has decreased by 61 over the past three years. The district anticipates a decrease of 50 ADA for 2020.

The general fund balance has increased by \$950,880 over the past three years, and had an operating deficit in one out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$12,642,227 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2019/20

⁽²⁾ Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Millbrae School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Program Name	Federal Catalog Number		Pass-Through Entity Identifying Number	Non-cash Expenditures	Program Expenditures
U.S. DEPARTMENT OF EDUCATION					
Passed Through California Department of Education					
Special Education Cluster					
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	(1)	13379	\$ -	\$ 397,794
Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	(1)	10115	-	8,563
Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5) (17-18)	84.027	(1)	13682	-	24,398
Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	(1)	13430	-	7,833
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	84.173	(1)	13431	-	90
Total Special Education Cluster				-	438,678
ESEA (ESSA): Title I, Part A, Basic Grants Low-Income and Neglected	84.010		14329	-	160,140
ESEA (ESSA): Title II, Part A, Supporting Effective Instruction Local Grants	84.367		14341	-	34,104
Title II: EETT Formula Grants	84.318		14334	-	-
ESEA (ESSA) : Title III, English Learner Student Program	84.365		14346	-	58,480
ESEA (ESSA) : Title III, Immigrant Student Program	84.365		15146	-	15,159
ESEA (ESSA) Title IV, Part A, Student Support and Academic Enrichment Grants	84.424		15396	-	11,128
TOTAL U.S. DEPARTMENT OF EDUCATION				-	717,689
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through California Department of Education					
Nutrition Program Cluster					
Child Nutrition: School Programs (NSL Sec 11) - Noncash Commodities	10.555	(1)	N/A	52,544	52,544
Child Nutrition: School Programs (NSL Sec 11)	10.555	(1)	13524	-	343,765
Total Nutrition Program Cluster				52,544	396,309
Child Nutrition: CACFP Claims - Centers and Family Day Care Homes	10.558		13529	-	52,080
TOTAL U.S. DEPARTMENT OF AGRICULTURE				52,544	448,389
TOTAL FEDERAL PROGRAMS				\$ 52,544	\$ 1,166,078

⁽¹⁾ Audited as major program

There were no grants passed through to subrecipients

Millbrae School District
 Reconciliation of Annual Financial and Budget Report (SACS)
 to the Audited Financial Statements
 For the Fiscal Year Ended June 30, 2019

	General Fund	Special Reserve for Capital Projects Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2019 Annual Financial and Budget Report Fund Balances	\$ 4,629,662	\$ 11,644,962	\$ 6,384,087	\$ 4,627,406
Adjustments and Reclassifications:				
Special Reserve Fund for Other Than Capital Outlay:				
Due from Other Funds	-	-	-	(1,003,624)
Due to Other Funds	1,003,624	-	-	-
Special Reserve Fund for Postemployment Benefits:				
Cash with County Treasury	2,022,404	-	-	(2,022,404)
Accounts Receivable	12,024	-	-	(12,024)
June 30, 2019 Audited Financial Statements Fund Balances	<u>\$ 7,667,714</u>	<u>\$ 11,644,962</u>	<u>\$ 6,384,087</u>	<u>\$ 1,589,354</u>

Millbrae School District
Notes to State and Federal Award Compliance Sections
For the Fiscal Year Ended June 30, 2019

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments in 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 46200 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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.

E. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Millbrae School District
Notes to State and Federal Award Compliance Sections
For the Fiscal Year Ended June 30, 2019

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District has elected not to use the 10 percent de-minimis indirect cost rate as allowed under Uniform Guidance.

OTHER INDEPENDENT
AUDITOR'S REPORTS

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**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
Millbrae School District
Millbrae, 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 Millbrae School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Millbrae School District's basic financial statements, and have issued our report thereon dated December 4, 2019 .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Millbrae 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 Millbrae School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Millbrae 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 District'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 Millbrae School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of



laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

December 4, 2019
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE**

Board of Trustees
Millbrae School District
Millbrae, California

Report on Compliance for Each Major Federal Program

We have audited Millbrae School District's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Millbrae School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Millbrae School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Millbrae School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of



expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Millbrae School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

C & A CP

December 4, 2019
Campbell, California



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

The Honorable Board of Trustees
Millbrae School District
Millbrae, California

Compliance

We have audited the Millbrae School District (the District)’s compliance with the types of compliance requirements described in the *2018-19 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, 2019.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State’s audit guide, *2018-19 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 *2018-19 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
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes



Description	Procedures Performed
Early Retirement Incentive	N/A
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	Yes
Apprenticeship, Related and Supplemental Instructions	N/A
Comprehensive School Safety Plan	Yes
District of Choice	N/A
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
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-Course Based	N/A
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 the Full-time Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, Millbrae 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, 2019.

C & A LLP

December 4, 2019
 San Jose, California

FINDINGS AND
RECOMMENDATIONS

Millbrae School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

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

Internal control over major 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 major programs **Unmodified**

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a) ___ Yes **x** No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027/84.173	Special Education Cluster
10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between
type A and type B programs: \$ 750,000

Auditee qualified as low risk auditee? ___ Yes **x** No

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**

Millbrae School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Millbrae School District
Status of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

* * *

The audit staff wishes to express their thanks and appreciation for the help and cooperation of the District office staff during the course of our audit.