

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

AUDIT REPORT

JUNE 30, 2014



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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SAN JOSE, CA 95129

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**PORTOLA VALLEY SCHOOL DISTRICT
SAN MATEO COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
FINANCIAL SECTION:	
Independent Auditor’s Report.....	1 - 3
Management’s Discussion and Analysis.....	4 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Fiduciary Net Position - Fiduciary Funds	18
Notes to the Basic Financial Statements.....	19 - 39
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) General Fund.....	40
SUPPLEMENTARY INFORMATION:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	42
Compliance Section:	
Organization	43
Schedule of Average Daily Attendance.....	44
Schedule of Instructional Time Offered	45
Schedule of Financial Trends and Analysis.....	46
Reconciliation of the Annual Financial Budget Report to the Audited Financial Statements.....	47
Schedule of Excess Sick Leave	48
Notes to Compliance Sections	49

**PORTOLA VALLEY SCHOOL DISTRICT
SAN MATEO COUNTY**

TABLE OF CONTENTS

OTHER INDEPENDENT AUDITOR’S REPORTS:

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	50 - 51
Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on State Programs.....	52 - 53

FINDINGS AND RECOMMENDATIONS:

Schedule of Findings and Questioned Costs.....	54 - 55
Status of Prior Year Findings and Recommendations	56

FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Portola Valley School District
Portola Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portola Valley School District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Portola Valley School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Portola Valley School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 40 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.

Other Information

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2014 on our consideration of Portola Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Portola Valley School District's internal control over financial reporting and compliance.

C & A LLP

November 22, 2014
San Jose, California

Management's Discussion and Analysis

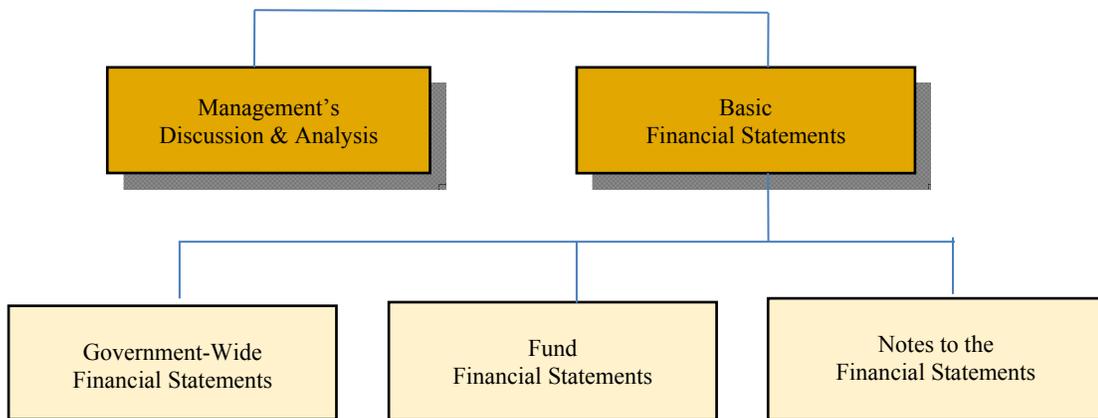
**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

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

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2014 were as follows:

- Total net position decreased by \$1,124,076 or 9% from June 30, 2013 to June 30, 2014.
- General revenues accounted for \$13,824,708 which is 97% of all revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$499,520 or 3% of total revenues of \$14,324,228.
- The District had \$14,143,521 in expenses, which was directly supported by program specific revenues of \$499,520.
- Total fund balances of governmental funds increased by \$288,931, or 11%, from June 30, 2013 to June 30, 2014.
- Among major funds, the General Fund had \$12,760,732 in revenues and \$12,352,578 in expenditures. The General Fund's fund balance increased by \$172,582 from June 30, 2013 to June 30, 2014.

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

USING THE ANNUAL REPORT

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2013 - 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

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

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on page 14. 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, Building Fund, and Bond Interest and Redemption Fund.

Governmental Funds

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

Fiduciary funds

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

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2014 as compared to June 30, 2013:

Table 1 - Summary of Net Position				
	2014	2013	Increase (Decrease)	Percent
Assets				
Current Assets	\$ 3,268,007	\$ 3,081,500	\$ 186,507	6.1%
Noncurrent Assets	30,164,494	32,063,011	(1,898,517)	-5.9%
Total Assets	\$ 33,432,501	\$ 35,144,511	\$ (1,712,010)	-4.9%
Deferred Outflows of Resources				
	\$ 677,385	\$ 717,945	\$ (40,560)	-5.6%
Liabilities				
Current and Other Liabilities	\$ 558,324	\$ 666,779	\$ (108,455)	-16.3%
Long-Term Liabilities	21,886,286	22,406,325	(520,039)	-2.3%
Total Liabilities	\$ 22,444,610	\$ 23,073,104	\$ (628,494)	-2.7%
Net Position				
Net Investment in Capital Assets	\$ 9,547,431	\$ 10,476,576	\$ (929,145)	-8.9%
Restricted	625,857	553,142	72,715	13.1%
Unrestricted	1,491,988	1,759,634	(267,646)	-15.2%
Total Net Position	\$ 11,665,276	\$ 12,789,352	\$ (1,124,076)	-8.8%

Table 2 shows the changes in net position from fiscal year 2013 to 2014.

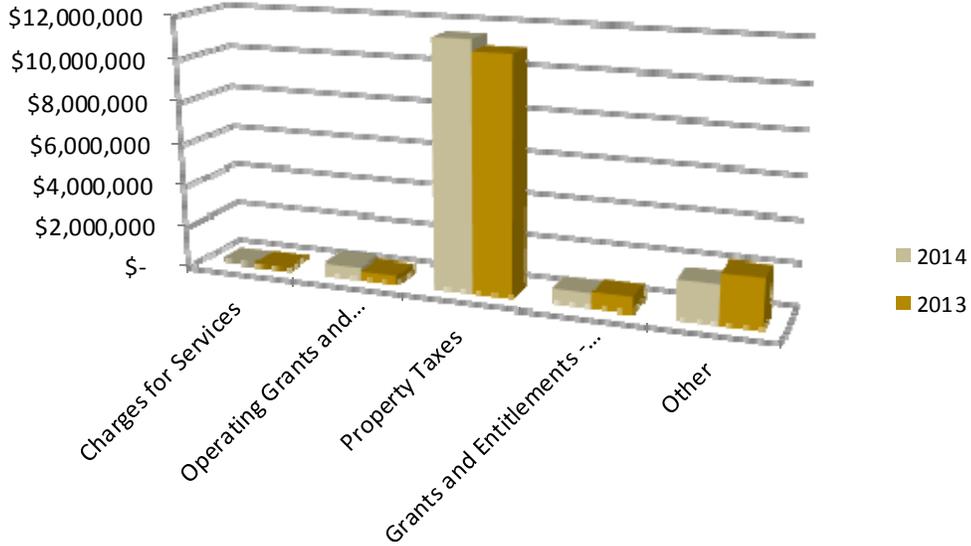
Table 2 - Change in Net Position				
	2014	2013	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	\$ 18,507	\$ 38,243	\$ (19,736)	-51.6%
Operating Grants and Contributions	481,013	303,649	177,364	58.4%
General Revenues:				
Property Taxes	11,517,736	10,963,549	554,187	5.1%
Grants and Entitlements - Unrestricted	593,912	656,044	(62,132)	-9.5%
Other	1,713,060	2,231,514	(518,454)	-23.2%
Total Revenues	14,324,228	14,192,999	131,229	0.9%
Program Expenses				
Instruction	7,991,586	7,308,942	682,644	9.3%
Instruction-Related Services	2,257,742	1,835,439	422,303	23.0%
Pupil Services	593,777	520,992	72,785	14.0%
General Administration	1,435,168	1,306,594	128,574	9.8%
Plant Services	670,429	538,116	132,313	24.6%
Ancillary Services	19,744	25,669	(5,925)	-23.1%
Other Educational Agencies	77,480	48,409	29,071	60.1%
Interest and Fiscal Charges	1,097,595	998,473	99,122	9.9%
Total Expenses	14,143,521	12,582,634	1,560,887	12.4%
Change in Net Position	180,707	1,610,365	(1,429,658)	-88.8%
Prior Period Adjustments	(1,304,783)	954,629	(2,259,412)	-236.7%
Change in Net Position Including Restatement	\$ (1,124,076)	\$ 1,610,365	\$ (2,734,441)	-169.8%

Property taxes comprised 80% of District revenues and direct instruction costs comprised 57% of District expenses for fiscal year 2014.

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

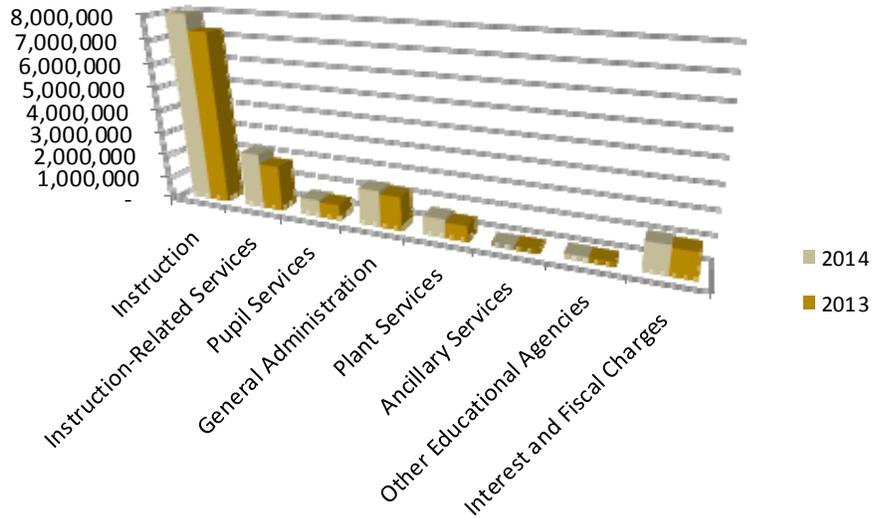
The following is a summary of government wide revenues for the fiscal year ended June 30, 2014:

Revenues Gov't Wide



The following is a summary of expenses by function for the fiscal year ended June 30, 2014:

Expenses By Function



**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENTAL ACTIVITIES

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

Table 3 - Net Cost of Services				
Function	2014	2013	Increase (Decrease)	Percent
Instruction	\$ 7,800,769	\$ 7,120,414	\$ 680,355	9.6%
Instruction-Related Services	2,114,385	1,805,117	309,268	17.1%
Pupil Services	555,468	490,590	64,878	13.2%
General Administration	1,435,168	1,306,433	128,735	9.9%
Plant Services	670,429	538,116	132,313	24.6%
Ancillary Services	19,744	25,669	(5,925)	-23.1%
Other Educational Agencies	(49,557)	(44,070)	(5,487)	12.5%
Interest and Fiscal Charges	1,097,595	998,473	99,122	9.9%
Total Expenses	\$ 13,644,001	\$ 12,240,742	\$ 1,403,259	11.5%

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

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

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

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

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

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

The dependence upon tax and local revenues is apparent, 96% of the District's activities are supported through taxes and other general revenues. The community, as a whole, is the primary support for the District.

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

THE DISTRICT'S FUNDS

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

Table 4 - Change in Fund Balances			
Funds	2014	2013	Increase (Decrease)
General Fund	\$ 1,718,017	\$ 1,545,435	\$ 172,582
Cafeteria Fund	22,323	2,985	19,338
Deferred Maintenance Fund	294	70	224
Capital Facilities Fund	115,448	26,845	88,603
Bond Interest & Redemption Fund	1,159,601	1,151,417	8,184
Total Governmental Fund Balances	\$ 3,015,683	\$ 2,726,752	\$ 288,931

GENERAL FUND BUDGETING HIGHLIGHTS

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

During the course of the 2013-14 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim, which resulted in an increase in budgeted expenditures of \$604,034 from the original to final budget. The overall increase in expenditures is largely due to additional expenditures generated from restricted ending balance/deferred income from prior year and increased expenditures in Special Education programs.

For the General Fund, the final budget basis revenue and other financing sources estimate was \$12,085,397. The original budgeted estimate was \$12,727,696.

CAPITAL ASSETS

Table 5 shows June 30, 2014 balances as compared to June 30, 2013.

Table 5 - Summary of Capital Assets Net of Depreciation			
Capital Asset	2014	2013	Percentage Change
	Net Capital Asset	Net Capital Asset	
Land	\$ 770,000	\$ 4,172,050	-82%
Buildings and Improvements	28,537,721	26,976,303	6%
Property and Equipment	437,108	469,175	-7%
Totals	\$ 29,744,829	\$ 31,617,528	-6%

Overall capital assets decreased by 6% from fiscal year 2013 to fiscal year 2014 because of \$815,835 in current depreciation, net \$12,347 in capital asset additions, and the reclassification of land improvements from land to building and improvements which resulted in a, increase in accumulated depreciation of \$1,069,211.

**PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

LONG TERM DEBT

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

Table 6 - Long-term Debt			
Type of Debt	2014	2013	Percentage Change
General obligation bonds	\$ 17,895,638	\$ 18,599,745	-3.79%
Capital Lease Obligations	2,721,425	2,986,690	-8.88%
Early Retirement Incentives	827,916	552,076	49.96%
Net OPEB obligation	370,597	255,712	44.93%
Compensated absences	70,710	12,102	484.28%
Total Debt	21,886,286	22,406,325	-2.32%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

Portola Valley School District will also need to monitor the macro-economy to be sure we are reacting to potential threats like those seen in recent years. It appears that property values in the region have stabilized and started to rebound. However, the economy as a whole remains sluggish. At the same time, the rapid growth in the stock markets, a seeming contradiction, may be indicating there are additional threats to stability on the horizon. The District's Board has indicated their intent to act prudently by committing to monitoring actively the multiyear projection and to building a reserve beyond required levels which will be sufficient to ensure solvency and to preserve programming for students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Jon Barth, Portola Valley School District Business Office, 4575 Alpine Road, Portola Valley, CA 94028, (650) 851-1777, extension 2560.

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Basic Financial Statements

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets	
Current Assets:	
Cash and investments	\$ 2,832,755
Accounts receivable	331,412
Prepaid expenses	103,840
Total Current Assets	3,268,007
Noncurrent Assets:	
Unamortized prepaid bond issuance costs - net	419,665
Land	770,000
Building and improvements	39,408,030
Equipment	645,735
Less accumulated depreciation	(11,078,936)
Total Noncurrent Assets	30,164,494
Total Assets	\$ 33,432,501
 Deferred Outflows of Resources	
Deferred loss on early retirement of long-term debt	\$ 677,385
Total Deferred Outflows of Resources	\$ 677,385
 Liabilities	
Current Liabilities:	
Accounts payable	\$ 246,178
Accrued interest	306,000
Total Current Liabilities	558,324
Long-term Liabilities:	
Due within one year:	
General obligation bonds payable	665,000
Capital lease obligations	275,610
Early retirement incentives	110,908
Compensated absences payable	70,710
Total due within one year	1,122,228
Due after one year:	
General obligation bonds payable	17,230,638
Capital lease obligations	2,445,815
Net OPEB obligation	370,597
Early retirement incentives	717,008
Total due after one year	20,764,058
Total long-term Liabilities	21,886,286
Total Liabilities	\$ 22,444,610
 Net Position	
Net investment in capital assets	\$ 9,547,431
Restricted for:	
Capital projects	115,448
Cafeteria programs	22,323
Educational programs	488,086
Total restricted net position	625,857
Unrestricted (deficit)	1,491,988
Total Net Position	\$ 11,665,276

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

**PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 7,991,586	\$ 1,358	\$ 189,459	\$ (7,800,769)
Instruction-related services:				
Supervision of instruction	563,664	393	74,525	(488,746)
Instruction library, media and technology	787,236	152	66,967	(720,117)
School site administration	906,842	-	1,320	(905,522)
Pupil services:				
Home-to-school transportation	88,466	-	-	(88,466)
Food services	40,538	-	38,309	(2,229)
All other pupil services	464,773	-	-	(464,773)
General administration:				
Data processing	95,377	-	-	(95,377)
All other general administration	1,339,791	-	-	(1,339,791)
Plant services	670,429	-	-	(670,429)
Ancillary services	19,744	-	-	(19,744)
Other educational agencies	77,480	16,604	110,433	49,557
Interest on long-term debt	1,097,595	-	-	(1,097,595)
Total governmental activities	<u>\$ 14,143,521</u>	<u>\$ 18,507</u>	<u>\$ 481,013</u>	<u>(13,644,001)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				8,962,300
Taxes levied for debt service				1,383,309
Taxes levied for other specific purposes				1,172,127
Federal and state aid not restricted to specific purposes				593,912
Interest and investment earnings				244,788
Miscellaneous				1,468,272
Total general revenues and special items				<u>13,824,708</u>
Change in net position				180,707
Prior period adjustments:				
Lease financing				(235,572)
Depreciation on land improvements reclassified from land				(1,069,211)
Net position beginning				<u>12,789,352</u>
Net position ending				<u>\$ 11,665,276</u>

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

**PORTOLA VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Bond Interest Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 1,541,059	\$ 1,158,116	\$ 133,580	\$ 2,832,755
Accounts receivable	322,273	1,485	7,654	331,412
Prepaid expenditures	103,840	-	-	103,840
Total Assets	<u>\$ 1,967,172</u>	<u>\$ 1,159,601</u>	<u>\$ 141,234</u>	<u>\$ 3,268,007</u>
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
Accounts payable	\$ 243,009	\$ -	\$ 3,169	\$ 246,178
Unearned revenue	6,146	-	-	6,146
Total Liabilities	<u>249,155</u>	<u>-</u>	<u>3,169</u>	<u>252,324</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	103,840	-	-	103,840
Restricted for:				
Educational programs	488,086	-	-	488,086
Debt service	-	1,159,601	-	1,159,601
Cafeteria programs	-	-	22,323	22,323
Capital projects	-	-	115,448	115,448
Assigned for:				
Educational programs	31,472	-	-	31,472
Site repairs	-	-	294	294
Unassigned:				
Unappropriated	1,094,619	-	-	1,094,619
Total Fund Balances	<u>1,718,017</u>	<u>1,159,601</u>	<u>138,065</u>	<u>3,015,683</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 1,967,172</u>	<u>\$ 1,159,601</u>	<u>\$ 141,234</u>	<u>\$ 3,268,007</u>

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

**PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balances - governmental funds	\$	3,015,683
<p>Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$40,823,765 and the accumulated depreciation is \$11,078,936.</p>		
		29,744,829
<p>To recognize accrued interest at year end which is not reported in the governmental funds</p>		
		(306,000)
<p>Discounts and prepaid issuance costs paid when debt is issued are expensed in the fund statements but capitalized and amortized over the life of the bonds in the government-wide statements and not resources currently available for spending.</p>		
		419,665
<p>The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred inflow in the government-wide statement of net position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements.</p>		
		677,385
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:</p>		
General obligation bonds	\$	17,895,638
Capital lease obligations		2,721,425
Net OPEB obligation		370,597
Early retirement incentives		827,916
Compensated absences (vacation)		70,710
		(21,886,286)
Net position - governmental activities	\$	11,665,276

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

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Bond Interest Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Revenue limit sources	\$ 9,421,150	\$ -	\$ -	\$ 9,421,150
Federal	106,073	-	36,366	142,439
Other state	360,197	3,880	1,943	366,020
Other local	2,873,312	1,390,179	97,839	4,361,330
Total revenues	12,760,732	1,394,059	136,148	14,290,939
Expenditures:				
Instruction	6,931,572	-	-	6,931,572
Instruction-related services:				
Supervision of instruction	492,316	-	-	492,316
Instruction library, media and technology	715,888	-	-	715,888
School site administration	903,930	-	-	903,930
Pupil services:				
Home-to-school transportation	88,466	-	-	88,466
Food services	-	-	27,983	27,983
All other pupil services	464,773	-	-	464,773
General administration:				
Data processing	95,377	-	-	95,377
All other general administration	1,324,313	-	-	1,324,313
Plant services	638,916	-	-	638,916
Ancillary services	19,744	-	-	19,744
Facility acquisition and construction	12,347	-	-	12,347
Other educational agencies	77,480	-	-	77,480
Debt service:				
Principal	265,265	645,000	-	910,265
Interest and other costs	322,191	740,875	-	1,063,066
Total expenditures	12,352,578	1,385,875	27,983	13,766,436
Excess (deficiency) of revenues over (under) expenditures	408,154	8,184	108,165	524,503
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	408,154	8,184	108,165	524,503
Fund balances beginning	1,545,435	1,151,417	29,900	2,726,752
Prior period adjustment - lease financing	(235,572)	-	-	(235,572)
Fund balances beginning	1,309,863	1,151,417	29,900	2,491,180
Fund balances ending	\$ 1,718,017	\$ 1,159,601	\$ 138,065	\$ 3,015,683

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

**PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Total net change in fund balances - governmental funds	\$	524,503
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of \$12,347 was less than depreciation expense of \$815,835 in the period.		(803,488)
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of bond principal		645,000
The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure.		
Repayment of capital lease principal		265,265
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. The difference between premiums or discounts recognized in the current period and amortized over future periods is:		33,289
In governmental funds, deferred loss on early retirement of long-term debt is recognized as other finances uses. In the government-wide statements, the deferred losses on early retirement of long-term debt is amortized over the life of the debt. The difference between other financing uses and amortization is:		(40,560)
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned was less than the amounts used by:		(58,608)
Payments for early retirement incentive programs are expenditures in the governmental funds and liabilities amortized over the life of the program in the statement of activities.		(275,840)
In the statement of activities, the net other postemployment benefits obligation is measured by deducting the amount contributed to the plan from the annual required contribution as actuarially determined. In governmental funds, this obligation is not recorded because it is not paid with current financial resources and only current contributions are expended.		(114,885)
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.		6,031
Changes in net position of governmental activities	\$	<u>180,707</u>

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

**PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	Student Body Agency Fund
Assets	
Cash on hand and in banks	<u>\$ 5,522</u>
Total Assets	<u><u>\$ 5,522</u></u>
Liabilities	
Accounts payable	<u>\$ 5,522</u>
Total Liabilities	<u><u>\$ 5,522</u></u>

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

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

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

Accordingly, for the year ended June 30, 2014, the District does not have any component units and is not a component unit of any other reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

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

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

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

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

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

Deferred Outflows/Deferred Inflows:

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

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

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned 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 from unearned revenue.

Expenses/Expenditures:

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

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows,

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

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

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

Non-major Governmental Funds:

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

- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service programs.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.

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

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

Fiduciary Funds:

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

F. 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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

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

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. In the General Fund, there were actual expenditures in excess of budget reported in certificated salaries and other outgo of \$160,101 and \$82,681, respectively. Fund balance was more than adequate to cover the excess appropriation which was also immaterial.

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. Assets, Liabilities, and Equity

1. Cash and Investments

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

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

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

2. Inventories and Prepaid Expenditures

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

3. Capital Assets

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

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

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

<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

4. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded as a deferred inflow to the extent that cash received on specific projects and programs exceeds qualified expenditures.

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

5. Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

6. Long-Term Obligations

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

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

7. Fund Balance Classifications

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

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

- *Non-spendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- *Committed* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and the Assistant Superintendent of Business Services.
- *Unassigned* fund balance includes positive amounts within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

8. Net Position

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

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

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

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

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

9. Local Control Funding Formula and Property Taxes

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

The 2013–14 Budget Act provides \$2.1 billion for school districts and charter schools and \$32 million for COEs to support the first-year implementation of the LCFF. Until full implementation, however, 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 the new LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The LCFF includes the following components for school districts and charter schools:

- Provides a base grant for each LEA equivalent to \$7,643 per average daily attendance (ADA). The actual base grants would vary based on grade span.
- Provides an adjustment of 10.4 percent on the base grant amount for kindergarten through grade three (K–3). As a condition of receiving these funds, the LEA shall progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade three, unless the LEA has collectively bargained an annual alternative average class enrollment in those grades for each school site.
- Provides an adjustment of 2.6 percent on the base grant amount for grades nine through twelve.
- Provides a supplemental grant equal to 20 percent of the adjusted base grant for targeted disadvantaged students. Targeted students are those classified as English learners (EL), eligible to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these factors (unduplicated count).
- Provides a concentration grant equal to 50 percent of the adjusted base grant for targeted students exceeding 55 percent of an LEA’s enrollment.
- Provides for additional funding based on an “economic recovery target” to ensure that virtually all districts are at least restored to their 2007–08 state funding levels (adjusted for inflation) and also guarantees a minimum amount of state aid to LEAs.

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

10. Risk Management

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

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

11. Accounting Estimates

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

12. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure other than the issuance of 2014-15 Tax and Revenue Anticipation Notes in the amount of \$1,990,000.

13. Upcoming Accounting and Reporting Changes

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State*

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

and Local Governmental Employers, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the Entity's financial statements from the implementation of this standard is pending as of the issuance date of this report.

NOTE 2 - CASH AND INVESTMENTS

Summary of Deposits

A summary of deposits as of June 30, 2014, is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash in county treasury investment pool	\$ 2,496,351	\$ 2,496,226	AA
Carrying amount of cash in banks	900	900	n/a
Cash with fiscal agent	335,504	335,504	AAA
Total Government-Wide Cash and Investments	2,832,755	2,832,630	
Fiduciary Funds:			
Carrying amount of cash in banks	5,522	5,522	n/a
Total Cash and Investments	\$ 2,838,277	\$ 2,838,152	

Cash in banks and revolving funds

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2014, the bank balance of the District's accounts with banks was \$18,106, which did not exceed FDIC.

Cash in County Treasury

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cash with Fiscal Agent

Cash with fiscal agent represents the amount on deposit with Deutsche Bank in two Trust accounts for federally subsidized loan proceeds from which vendor payments are made for the projects. Escrow account #1 had a balance of \$27,456 on deposit in an interest bearing checking account. Escrow account #2 had a balance of \$282,676 at June 30, 2014, invested in US Treasury obligations.

Policies and Practices

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

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

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District keeps cash in the San Mateo County Investment Pool which had a fair value of approximately \$981 million and an amortized book value of \$981 million.

B. Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is governed by the County's general investment policy. The investment with the San Mateo County Investment Pool is rated at least Aa1 by Moody's Investor Service.

C. Custodial Credit Risk – Deposits

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

D. Concentration of Credit Risk

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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2014:

Receivables	General Fund	Bond		Total
		Interest Redemption	Nonmajor Funds	
Federal Government	\$ -	\$ -	\$ 7,654	\$ 7,654
State LCFF Apportionment	160,745	-	-	160,745
State Lottery	42,651	-	-	42,651
Other Resources	118,877	1,485	-	120,362
Total Accounts Receivable	\$ 322,273	\$ 1,485	\$ 7,654	\$ 331,412

NOTE 4 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2014, the District did not have any interfund payables and receivables.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. The District did not have any interfund transfers during the year.

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, is shown below:

Capital Assets	Balance				Balance June 30, 2014
	July 01, 2013	Additions	Deletions	Adjustments	
Land - not depreciable	\$ 4,172,050	\$ -	\$ (3,402,050)	\$ -	\$ 770,000
Buildings and improvements	35,993,633	3,414,397	-	-	39,408,030
Equipment	645,735	-	-	-	645,735
Total capital assets	40,811,418	3,414,397	(3,402,050)	-	40,823,765
Less accumulated depreciation for:					
Buildings	9,017,330	783,768	-	1,069,211	10,870,309
Equipment	176,560	32,067	-	-	208,627
Total accumulated depreciation	9,193,890	815,835	-	1,069,211	11,078,936
Total capital assets - net depreciation	\$ 31,617,528	\$ 2,598,562	\$ (3,402,050)	\$ (1,069,211)	\$ 29,744,829

Depreciation expense was charged to governmental activities as follows:	
Instruction	\$ 610,681
Instruction - related services	145,608
Food services	12,555
All other general administration	15,478
Plant services	31,513
Total depreciation expense	\$ 815,835

NOTE 6 - SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term debt for the year ended June 30, 2014:

Long-term Debt	Balance			Balance June 30, 2014	Due Within One Year
	July 01, 2013	Additions	Deletions		
General Obligation Bonds	\$ 18,599,745	\$ -	\$ 704,107	\$ 17,895,638	\$ 665,000
Capital Leases	2,986,690	-	265,265	2,721,425	275,610
Annual Net OPEB Obligation	255,712	247,181	132,296	370,597	-
Early Retirement Incentives	552,076	352,268	76,428	827,916	110,908
Compensated Absences	12,102	58,608	-	70,710	70,710
Total Long-term Debt	\$ 22,406,325	\$ 658,057	\$ 1,178,096	\$ 21,886,286	\$ 1,122,228

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 7 - GENERAL OBLIGATION BONDS

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

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

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

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

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

The following schedule summarizes District's outstanding General Obligation Bonds as of June 30, 2014:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
					Outstanding July 01, 2013	Redeemed	Outstanding June 30, 2014
2010 GO Bonds, Series B	2010	2032	2.0-5.0	\$ 5,315,000	\$ 5,095,000	\$ 125,000	\$ 4,970,000
2009 GO Bonds, Series 2009	2009	2029	2.0-4.0%	4,910,000	4,255,000	210,000	4,045,000
2010 GO Bonds, Series 2010	2010	2030	2.0-5.0%	9,180,000	8,210,000	310,000	7,900,000
Subtotal General Obligation Bonds				19,405,000	17,560,000	645,000	16,915,000
Unamortized Bond Premiums				1,219,864	1,039,745	59,107	980,638
Total General Obligation Bonds				\$ 20,624,864	\$ 18,599,745	\$ 704,107	\$ 17,895,638

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following is a summary of the District's annual debt service requirements as of June 30, 2014:

Year Ending June 30	Principal	Interest	Total
2015	\$ 665,000	\$ 723,438	\$ 1,388,438
2016	680,000	704,350	1,384,350
2017	695,000	681,106	1,376,106
2018	725,000	656,638	1,381,638
2019	750,000	631,963	1,381,963
2020-2024	4,225,000	2,649,906	6,874,906
2025-2029	5,240,000	1,595,106	6,835,106
2030-2032	3,935,000	302,075	4,237,075
Total Debt Service	\$ 16,915,000	\$ 7,944,581	\$ 24,859,581

NOTE 8 - CAPITAL LEASE OBLIGATIONS

The District leases property and equipment under various lease agreements, which provide for title to pass upon expiration of the lease periods. In July of 2010, the District entered into a site lease for solar and other equipment, including installation, in the amount of \$2,850,000. In January of 2012, the District added a technology and improvement capital lease in the amount of \$514,222. The solar equipment site lease qualifies the District for \$2,850,000 in Qualified School Construction Bond Program tax credits. The District is also entitled to federal subsidies over a 15 year period for the solar panel installation. The District was entitled to federal subsidies of \$203,984 and \$74,250, related to these leases which were offset against the required debt service payments.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 275,610	\$ 158,951	\$ 434,561
2016	286,527	144,916	431,443
2017	256,550	130,156	386,706
2018	141,699	118,541	260,240
2019	150,616	109,713	260,329
2020 - 2024	909,840	395,309	1,305,149
2025 - 2027	700,583	81,437	782,020
Payments	\$ 2,721,425	\$ 1,139,023	\$ 3,860,448

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS

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

PERS

Plan Description. The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy. Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's required employer contribution rate for fiscal year 2014 was 11.442%. The contribution requirements of the plan members are established by state statute. For the fiscal year ending June 30, 2014, 2013 and 2012 the District contributed \$221,325, \$200,015, and \$175,519 to CalPERS. These were the District's required contribution.

STRS

Plan Description. The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7919 Folsom Boulevard, Sacramento, California 95826.

Funding Policy. Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$486,797, \$467,881, and \$520,987, respectively, and equaled 100% of the required contributions for each year.

Postemployment Healthcare Plan

Plan Description.

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

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Funding Policy.

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	246,534
Interest on net OPEB obligation		15,699
Adjustment to annual required contribution		(15,052)
Annual OPEB cost (expense)		247,181
Contributions made		(132,296)
Increase in net OPEB obligation		114,885
Net OPEB obligation - beginning of year		255,712
Net OPEB obligation - end of year	\$	370,597

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 150,775	52%	\$ 218,564
6/30/2013	225,922	84%	255,712
6/30/2014	247,181	54%	370,597

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Funded Status and Funding Progress

The most recent actuarial valuation date was July 1, 2012. The following summarizes the funded status of the plan as of June 30, 2014:

Actuarial accrued liability (AAL)	\$ 2,394,796
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 2,394,796
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 7,297,627
UAAL as a percentage of covered payroll	33%

Actuarial Methods and Assumptions

The actuarial present value of the benefits which are allocated to the current year is called the Normal Cost. The actuarial present value of the benefits which are allocated to past years, including the full value of benefits for all former employees, is called the Actuarial Accrued Liability, and is amortized over a period of future years. The ARC is the sum of that amortization and the Normal Cost. Under the entry age normal funding method, normal costs are computed as a level percentage of salary. Amortization of unfunded liability is being made as a level percentage of payroll over the 30-year period beginning July 1 2010. The remaining amortization period at June 30, 2014, was twenty-seven years.

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

Required Supplementary Information (OPEB Schedule of Funding Progress)

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

Early Retirement Incentives

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

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following is a summary of retirees under the ERIP as of June 30, 2014:

Position	Age	Service Credit	Retirees		Replacements		Savings	Present	2YRS	Total	Net Savings
			Salary	Benefits	Salary	Benefits		Value of Retirement Cost (Plus Interest)	Postretirement Health Care Benefits Cost	Employee Retirement Costs	
Teacher	61.00	23.39	\$ 911,496	\$ 69,024	\$ 515,520	\$ 69,024	\$ 395,976	\$ 260,347	\$ 17,256	\$ 277,603	\$ 118,373
Teacher	58.10	35.00	874,376	154,008	489,920	76,600	461,864	82,808	20,726	103,534	358,330
Totals			\$ 1,785,872	\$ 223,032	\$ 1,005,440	\$ 145,624	\$ 857,840	\$ 343,155	\$ 37,982	\$ 381,137	\$ 476,703

The following is summary of the District's ERIP obligations and future estimated payments as of June 30, 2014:

Year Ending June 30	Principal	Interest	Total
2015	\$ 110,908	\$ 56,110	\$ 167,018
2016	110,908	48,595	159,503
2017	110,908	41,078	151,986
2018	110,908	33,565	144,473
2019	110,908	25,864	136,772
2020-2021	273,376	34,784	308,160
Total Payments	\$ 827,916	\$ 239,996	\$ 1,067,912

NOTE 10 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

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

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

The following is a summary financial information for the JPA:

	SMCSIG June 30, 2014
Total Assets	\$ 17,343,941
Total Liabilities	8,411,639
Total Net Assets	8,932,302
Total Revenues	35,889,261
Total Expenditures	35,880,935

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

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

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REQUIRED
SUPPLEMENTARY
INFORMATION

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 9,029,052	\$ 9,440,948	\$ 9,421,150	\$ (19,798)
Federal	142,011	128,836	106,073	(22,763)
Other state	337,516	369,279	360,197	(9,082)
Other local	2,576,818	2,788,633	2,873,312	84,679
Total revenues	12,085,397	12,727,696	12,760,732	33,036
Expenditures:				
Certificated salaries	6,023,842	6,044,440	6,204,541	(160,101)
Classified salaries	1,548,997	1,554,185	1,554,023	162
Employee benefits	2,370,663	2,344,374	2,310,256	34,118
Books and supplies	369,164	527,666	404,583	123,083
Services and other operating expenditures	1,072,074	1,280,086	1,156,325	123,761
Capital outlay	13,528	224,606	138,437	86,169
Other outgo	474,787	501,732	584,413	(82,681)
Total expenditures	11,873,055	12,477,089	12,352,578	124,511
Excess (deficiency) of revenues over (under) expenditures	212,342	250,607	408,154	157,547
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	212,342	250,607	408,154	157,547
Fund balances beginning	199,853	199,853	1,545,435	(1,345,582)
Restatement to fund balance	(235,572)	(235,572)	(235,572)	-
Fund balance beginning	(35,719)	(35,719)	1,309,863	(1,345,582)
Fund balances ending	\$ 176,623	\$ 214,888	\$ 1,718,017	\$ (1,188,035)

SUPPLEMENTARY
INFORMATION

**PORTOLA VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Nonmajor Funds
Assets				
Cash and investments	\$ 19,326	\$ 294	\$ 113,960	\$ 133,580
Accounts receivable	6,166	-	1,488	7,654
Total Assets	<u>\$ 25,492</u>	<u>\$ 294</u>	<u>\$ 115,448</u>	<u>\$ 141,234</u>
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,169	\$ -	\$ -	\$ 3,169
Due to other funds	-	-	-	-
Total Liabilities	<u>3,169</u>	<u>-</u>	<u>-</u>	<u>3,169</u>
Fund balances:				
Restricted for cafeteria programs	22,323	-	-	22,323
Assigned for capital facility projects	-	-	115,448	115,448
Assigned for site repairs	-	294	-	294
Total Fund Balances	<u>22,323</u>	<u>294</u>	<u>115,448</u>	<u>138,065</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 25,492</u>	<u>\$ 294</u>	<u>\$ 115,448</u>	<u>\$ 141,234</u>

**PORTOLA VALLEY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>
	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	
Revenues:				
Federal	\$ 36,366	\$ -	\$ -	\$ 36,366
Other state	1,943	-	-	1,943
Other local	9,012	224	88,603	97,839
Total revenues	<u>47,321</u>	<u>224</u>	<u>88,603</u>	<u>136,148</u>
Expenditures:				
Pupil services:				
Food services	27,983	-	-	27,983
Plant services	-	-	-	-
Total expenditures	<u>27,983</u>	<u>-</u>	<u>-</u>	<u>27,983</u>
Excess (deficiency) of revenues over (under) expenditures	<u>19,338</u>	<u>224</u>	<u>88,603</u>	<u>108,165</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	19,338	224	88,603	108,165
Fund balances beginning	<u>2,985</u>	<u>70</u>	<u>26,845</u>	<u>29,900</u>
Fund balances ending	<u>\$ 22,323</u>	<u>\$ 294</u>	<u>\$ 115,448</u>	<u>\$ 138,065</u>

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COMPLIANCE SECTION

**PORTOLA VALLEY SCHOOL DISTRICT
ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2014**

The Portola Valley School District serves approximately 700 students. The District is located in San Mateo County in Portola Valley, California, and operates one K-3 elementary school and one 4-8 middle school.

Governing Board

Name	Office	Term Expires
Jocelyn Swisher	Trustee	2015
Linda Wong	President	2015
Timothy McAdam	Trustee	2017
Caitha Ambler	Clerk	2017
Karen Tate	Trustee	2017

Administration

Lisa Gonzales
Superintendent

Jonathan Barth
Chief Business Official

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Grades TK/K through three	273	272
Grades four through six	228	228
Grades seven and eight	<u>126</u>	<u>126</u>
ADA Totals	<u><u>627</u></u>	<u><u>626</u></u>

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirements	Reduced 1986-87 Minutes Requirements	2013-14 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	37,735	36,687	36,000	35,000	44,640	180	0	In compliance
Grade 1	50,160	48,767	50,400	49,000	54,720	180	0	In compliance
Grade 2	50,160	48,767	50,400	49,000	54,720	180	0	In compliance
Grade 3	50,160	48,767	50,400	49,000	54,720	180	0	In compliance
Grade 4	56,940	55,358	54,000	52,500	61,396	180	0	In compliance
Grade 5	56,940	55,358	54,000	52,500	61,396	180	0	In compliance
Grade 6	57,005	55,422	54,000	52,500	64,423	180	0	In compliance
Grade 7	57,005	55,422	54,000	52,500	64,950	180	0	In compliance
Grade 8	57,005	55,422	54,000	52,500	64,950	180	0	In compliance

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46208. School districts that have met their LCFF targets or have not met their LCFF targets, but received longer day and year incentive funding, can not provide less than the 1986-87 minutes requirements; reduced by 5 days for fiscal years 2013-14 and 2014-15. There is no longer a requirement to offer minutes offered in 1982-83 for districts that exceeded the minutes listed in the statute and met their LCFF target, or districts that received incentive funding for longer instructional day and year, or for a district that did not meet its LCFF target and participated in the longer day incentive but not the longer year incentive.

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	(Budget ¹)			
	2015	2014	2013	2012
General Fund				
Revenues and other financial sources	\$ 12,849,349	\$ 12,760,732	\$ 12,645,912	\$ 12,616,707
Expenditures	12,696,025	12,352,578	11,657,068	14,339,398
Other uses and transfers out	-	-	-	10,000
Total outgo	12,696,025	12,352,578	11,657,068	14,349,398
Change in fund balance	\$ 153,324	\$ 408,154	\$ 988,844	\$ (1,732,691)
Beginning fund balance restatement:	\$ -	\$ (235,572)	\$ (9,129)	\$ 66
Ending fund balance	\$ 1,871,341	\$ 1,718,017	\$ 1,545,435	\$ 565,720
Available reserves ⁽²⁾	\$ 1,329,371	\$ 1,094,619	\$ 688,202	\$ -
Unassigned - Reserved for economic uncertainties	\$ -	\$ -	\$ 688,202	\$ -
Unassigned fund balance	\$ 1,329,371	\$ 1,094,619	\$ -	\$ -
Available reserves as a percentage of total outgo	10.47%	8.86%	5.90%	0.00%
Total long-term debt	\$ 20,764,058	\$ 21,886,286	\$ 22,406,325	\$ 22,657,470
Average daily attendance at P-2	638	627	646	677

Average daily attendance has decreased by 50 over the past three years. The district anticipates an increase of 11 ADA.

The fund balance in the General Fund has increased by \$1,152,297 over the past three years. For a district this size, the state recommends available reserves of at least 4% of total general fund expenditures, transfers out, other uses (total outgo).

The district earned an operating surplus in two of the past three years. Total long-term debt has decreased by \$771,184 over the past three years.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2014/15.

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

**PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Bond Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 1,582,244	\$ 1,159,601	\$ 169,537
Adjustments and Reclassifications:			
Special Reserve Fund for Other Than Capital Outlay Projects:			
Cash with County Treasury	31,425	-	(31,425)
Accounts Receivable	47	-	(47)
Adjustments to capital and site lease transactions	15,705	-	-
Adjustment to cash with fiscal agent for TRAN	88,596	-	-
June 30, 2014 Audited Financial Statements Fund Balances	\$ 1,718,017	\$ 1,159,601	\$ 138,065

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF EXCESS SICK LEAVE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Section 19833.5 (a)(3)(c) Disclosure

Portola Valley School District does not provides more than 12 sick leave days in a school year to any groups of employees who are CalSTRS members.

**PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2014**

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Financial Trends and Analysis

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

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

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

E. Schedule of Excess Sick Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Portola Valley School District
Portola Valley, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portola Valley School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Portola Valley School District's basic financial statements, and have issued our report thereon dated November 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Portola Valley School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Portola Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Portola Valley School District's internal control.

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

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

Compliance and Other Matters

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



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 an instance of noncompliance and other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs, that includes the District's response, as Finding 2014-1; 70000 – Instructional Materials.

Purpose of this Report

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

C & A LLP

November 22, 2014
San Jose, California



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

Board of Education
 Portola Valley School District
 Portola Valley, California

Compliance

We have audited the Portola Valley School District's (the District) compliance with the types of State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. The applicable State compliance requirements are identified in the table below.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the District’s management.

Auditors’ Responsibility

Our responsibility is to express an opinion on the District’s compliance with the State laws and regulations based on our audit. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, 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 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.

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	6
Teacher Certification and Misassignments	3	3
Kindergarten Continuance	3	3
Independent Study	23	None
Continuation Education	10	None
Instructional Time for School Districts	10	10
Instructional Materials - General Requirements	8	8
Ratios of Administrative Employees to Teachers	1	1
Classroom Teacher Salaries	1	1
Early Retirement Incentive	4	4
Gann Limit Calculation	1	1
School Accountability Report Card	3	3
Juvenile Courts	8	Not applicable
Local Control Funding Formula Certification	1	1
California Clean Energy Job Acts	3	3



<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Education Protection Account Funds	1	1
Common Core Implementation Funds	3	3
Unduplicated Local Control Funding Formula Pupil Counts	3	3
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom - Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

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

Opinion

In our opinion, Portola Valley School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2014 except as described in the accompanying schedule of findings and questioned costs as Finding 2014-1; 70000 – Instructional Materials.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

C & A LLP

November 22, 2014
 San Jose, California

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FINDINGS AND
RECOMMENDATIONS

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Expenditures of federal awards was less than \$500,000

State Awards

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

Section II – Financial Statement Findings

No findings noted.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Section IV – State Award Findings and Questioned Costs

Finding 2014-1; 70000 – Instructional Materials

Criteria or Specific Requirements

The District's governing board is required by the provisions of Education Code Section 60119 to hold a public hearing on or before the end of the eighth week from the first day pupils attended school for that year, prior to making a determination through a resolution as to the sufficiency of textbooks or other instructional materials.

(Continued)

**PORTOLA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Condition

The District did not hold a public hearing, nor pass a resolution as to the sufficiency of textbooks or other instructional materials, as required by Education Code Section 60119.

Questioned costs

There are no questioned costs associated with this condition.

Context

The purpose of this requirement is to ensure that each pupil in each school had sufficient textbooks or instructional materials aligned to the content standards adopted by the State Board of Education pursuant to Education Code Section 60605 or 60605.8 and consistent with the content and cycles of the curriculum framework adopted by the State Board of Education.

Effect

Instructional materials public hearings requirements are verified for compliance only and does not result in a disallowance of funds.

Cause

The funding for instructional material was removed when the state rolled the categorical programs into the new Local Control Funding Formula. Thus the District believed the compliance requirement to hold the public hearing and pass the resolution was also removed.

Recommendation

We recommend that the District comply with requirements of Education Code Section 60119 by holding a public hearing and passing a resolution as soon as possible in the 2014-15 school year. When management meets with principals in preparation for the 2015-16 school year, we recommend that they communicate the public hearing and resolution requirements of Education Code Section 60119 and inform the school Board about the timing of the required public hearing and the needed resolution to ensure compliance with education code.

District Response

The District agrees with the findings and recommendations.

(Concluded)

**PORTOLA VALLEY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

Section II – Financial Statement Findings

No findings noted.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Section IV – State Award Findings and Questioned Costs

No findings noted.