

**MILLBRAE SCHOOL DISTRICT
COUNTY OF SAN MATEO
MILLBRAE, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2011



**CHAVAN & ASSOCIATES, LLP
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SAN JOSE, CA 95129**

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Millbrae School District
San Mateo County

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San Mateo County

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FINANCIAL
SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Millbrae School District
Millbrae, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Millbrae School District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11 (K-12 Audit Guide)*, prescribed by the California State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District at June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise District's basic financial statements. The combining and individual fund financial statements and other schedules 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 of the District. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

November 5, 2011
San Jose, California

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Management's Discussion and Analysis

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

This discussion and analysis of Millbrae School District's (the District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2010-11 are as follows:

- The District had \$18,090,375 in expenses for governmental activities, which is 96% of total revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$2,754,182, or 15% of the total revenues of \$18,774,435.
- General revenue of \$16,020,253 was comprised of \$8,214,268 in property taxes, \$7,023,943 in grants and entitlements, and \$782,042 in other revenue.
- The District's ending net assets were \$21,736,662, an increase of 3% from 2009-10.
- The fund balances of all governmental funds increased by \$3,915,410, which is a 14% increase from 2009-10. Of this amount, \$3,355,718 was from an increase in the fund balance of the Building Fund due to proceeds from the bond issuance in the current year, net of capital expenditures.
- Total governmental fund revenues and expenditures totaled \$18,773,524 and \$32,824,105, respectively, and net proceeds from Measure X bond issuances totaled \$17,965,991.

Using the Annual Report

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

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

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overview of the Financial Statements

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

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

District-Wide Financial Statements - Statement of Net Assets 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 2010-11?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 12. 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

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

funds. The District's major governmental funds are the General Fund, Building Fund and Special Reserve Fund for Other Than Capital Projects.

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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The District as a Whole

Recall that the Statement of Net Assets provides a perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2011 compared to June 30, 2010:

Table 1 - Summary of Net Assets				
	2011	2010	Increase (Decrease)	Percent
Assets				
Current and Other Assets	\$ 39,570,911	\$ 33,328,768	\$ 6,242,143	18.7%
Capital Assets	22,564,284	7,421,825	15,142,459	204.0%
Total Assets	\$ 62,135,195	\$ 40,750,593	\$ 21,384,602	52.5%
Liabilities				
Other Liabilities	\$ 8,369,236	\$ 5,932,270	\$ 2,436,966	41.1%
Long-Term Liabilities	32,029,297	13,765,721	18,263,576	132.7%
Total Liabilities	\$ 40,398,533	\$ 19,697,991	\$ 20,700,542	105.1%
Net Assets				
Invested in Capital Assets, Net of Debt	\$ 2,981,713	\$ 2,382,995	\$ 598,718	25.1%
Restricted	4,363,308	9,659,800	(5,296,492)	-54.8%
Unrestricted	14,391,641	9,009,807	5,381,834	59.7%
Total Net Assets	\$ 21,736,662	\$ 21,052,602	\$ 684,060	3.2%

Total assets of governmental activities increased by 52.5% because of construction in progress from Measure X Projects, Increment II, Summer 2011. Unrestricted net assets of the District, which is the portion of net assets that may be used to finance day-to-day activities without constraints from grants and legal requirements, increased by 59.7%. Other liabilities increased by 41.1% mainly due to construction liabilities from the Measure X Projects, Increment II, Summer 2011 that were classified as work in progress as of June 30, 2011.

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

Table 2 shows the changes in net assets for the fiscal year 2010-11:

Table 2 - Change in Net Assets				
	2011	2010	Increase (Decrease)	Percent
Revenues				
Program Revenues:				
Charges for Services	\$ 357,694	\$ 380,301	\$ (22,607)	-5.9%
Operating Grants and Contributions	2,396,488	2,515,530	(119,042)	-4.7%
General Revenues:				
Property Taxes	8,214,268	6,524,294	1,689,974	25.9%
Grants and Entitlements - Unrestricted	7,023,943	7,628,403	(604,460)	-7.9%
Other	782,042	910,314	(128,272)	-14.1%
Total Revenues	18,774,435	17,958,842	815,593	4.5%
Program Expenses				
Instruction	9,868,352	10,834,926	(966,574)	-8.9%
Instruction-Related Services	1,230,943	1,433,300	(202,357)	-14.1%
Pupil Services	1,984,906	1,888,053	96,853	5.1%
General Administration	1,241,732	1,230,302	11,430	0.9%
Plant Services	1,637,818	1,557,427	80,391	5.2%
Other	2,126,624	1,444,476	682,148	47.2%
Total Expenses	18,090,375	18,388,484	(298,109)	-1.6%
Change in Net Assets	\$ 684,060	\$ (429,642)	\$ 1,113,702	-259.2%

Governmental Activities

Property taxes made up 43.8% of revenues from governmental activities for the District during the fiscal year 2010-11 and increased by 25.9% from 2010. Grants and entitlements – unrestricted decreased by 7.9% because of a reduction in class size reduction funding with the flexibility allowance in increased classes. State Aid was also reduced but was offset with an increase in property taxes. Other revenue decreased by \$128,272 mainly due to the premium on the bond issuance recorded in the current year.

Direct instruction expenses comprised 54% of total District expenses. Interest and fiscal charges increased because of increased debt service requirements from the issuance of general obligation bonds in 2010-11. The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

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

Table 3 - Net Cost of Services				
Function	2011	2010	Increase (Decrease)	Percent
Instruction	\$ 8,166,601	\$ 9,497,189	\$ (1,330,588)	-14.01%
Instruction-Related Services	1,134,530	1,266,447	(131,917)	-10.42%
Pupil Services	1,343,037	987,920	355,117	35.95%
General Administration	1,146,671	1,181,997	(35,326)	-2.99%
Plant Services	1,632,909	1,552,697	80,212	5.17%
Other	1,912,445	1,006,403	906,042	90.03%
Total Expenses	\$ 15,336,193	\$ 15,492,653	\$ (156,460)	-1.01%

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

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

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

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

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

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

The District's Funds

The District's governmental funds report a combined fund balance of \$31,284,687, which is an increase of 14% from the prior year's total of \$27,369,277.

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	2011	2010	Increase (Decrease)
General Fund	\$ 4,570,418	\$ 1,574,510	\$ 2,995,908
Cafeteria Fund	41,929	76,513	(34,584)
Deferred Maintenance Fund	20,433	49,565	(29,132)
Foundation Fund	50,809	50,221	588
Building Fund	11,403,639	8,047,921	3,355,718
Capital Facilities Fund	338,270	209,970	128,300
Special Reserve Fund for Capital Projects	13,679,465	17,043,602	(3,364,137)
Bond Interest & Redemption Fund	1,179,724	316,975	862,749
Total Governmental Fund Balances	\$ 31,284,687	\$ 27,369,277	\$ 3,915,410

Capital Assets

At the end of the fiscal year 2010-11, the District had \$27,853,511 invested in land, buildings, furniture and equipment, and vehicles. Table 5 shows June 30, 2011 balances compared to June 30, 2010:

Table 5 - Summary of Capital Assets Net of Depreciation					
Capital Asset	2011			2010	
	Cost	Accumulated Depreciation	Net Capital Asset	Net Capital Asset	Percentage Change
Land	\$ 358,270	\$ -	\$ 358,270	\$ 358,270	0.0%
Buildings	15,426,744	4,859,013	10,567,731	1,891,704	458.6%
Property and Equipment	677,792	430,214	247,578	219,751	12.7%
Work-in-Progress	11,390,705	-	11,390,705	4,952,100	56.5%
Totals	\$ 27,853,511	\$ 5,289,227	\$ 22,564,284	\$ 7,421,825	204.0%

Net capital assets increased by \$15,142,459 during the fiscal year 2010-11, mainly due to Measure X construction in progress.

Millbrae School District
Management's Discussion and Analysis
June 30, 2011

Long Term Debt

Table 6 reports the balance and changes of long-term liabilities during the fiscal year 2010-11.

Table 6 - Long-term Debt			
Type of Debt	2011	2010	Percentage Change
Capital lease obligations	\$ 67,881	\$ 91,167	-25.54%
General obligation bonds	30,464,607	12,200,534	149.70%
School loan	1,083,742	1,139,260	-4.87%
Net OPEB obligation	341,168	301,023	13.34%
Compensated absences	71,899	33,737	113.12%
Total Debt	\$ 32,029,297	\$ 13,765,721	132.67%

Factors Bearing on the District's Future

Because of the economic crisis and reduced funding for the Revenue Limit (Prop. 98), the district has been facing budget shortfalls for years. The District no longer has the use of one-time federal resources and has to rely on state categorical flexibility, rental income, and interest from other funds to balance the budget. The State's economy continues to be dismal with future reductions to the District's Revenue Limit (Prop 98), the District faces insurmountable challenges to balance its budget.

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 Wendy Richard, Chief Business Official, Millbrae School District, 555 Richmond Drive, Millbrae, CA 94030 or via email at wrichard@mesd.k12.ca.us.

Basic Financial Statements

Millbrae School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 37,567,852
Accounts receivable	1,361,488
Prepaid and other assets	11,551
Debt issuance costs	630,020
Land	358,270
Construction in progress	11,390,705
Building and improvements	15,426,744
Equipment	677,792
Less accumulated depreciation	<u>(5,289,227)</u>
Total Assets	<u><u>\$ 62,135,195</u></u>
Liabilities	
Accounts payable	\$ 7,021,725
Deferred revenue	634,479
Accrued interest	713,032
Long-term liabilities:	
Due within one year:	
Capital leases payable	25,951
School loan	58,660
General obligation bonds	767,790
Total due within one year	<u>852,401</u>
Due after one year:	
Capital leases payable	41,930
School loan	1,025,082
General obligation bonds	29,696,817
Net OPEB obligation	341,168
Compensated absences payable	71,899
Total due after one year	<u>31,176,896</u>
Total Liabilities	<u><u>\$ 40,398,533</u></u>
Net Assets	
Invested in capital assets, net of related debt	\$ 2,981,713
Restricted for:	
Debt service	1,179,724
Miscellaneous	446,154
Other Postemployment Benefits	2,737,430
Unrestricted	<u>14,391,641</u>
Total Net Assets	<u><u>\$ 21,736,662</u></u>

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

Millbrae School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental activities				
Instruction	\$ 9,868,352	\$ 7,458	\$ 1,694,293	\$ (8,166,601)
Instruction-related services:				
Supervision of instruction	180,095	122	96,252	(83,721)
Instruction library, media and technology	97,190	-	26	(97,164)
School site administration	953,658	4	9	(953,645)
Pupil services:				
Home-to-school transportation	211,267	1,381	5,182	(204,704)
Food services	691,450	324,169	245,188	(122,093)
All other pupil services	1,082,189	4,113	61,836	(1,016,240)
General administration:				
Data processing	127,868	-	19	(127,849)
All other general administration	1,113,864	13,752	81,290	(1,018,822)
Plant services	1,637,818	42	4,867	(1,632,909)
Community services	18,169	-	-	(18,169)
Other outgo	972,424	6,653	207,526	(758,245)
Interest on long-term debt	1,136,031	-	-	(1,136,031)
Total governmental activities	<u>\$ 18,090,375</u>	<u>\$ 357,694</u>	<u>\$ 2,396,488</u>	<u>(15,336,193)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				6,661,397
Taxes levied for debt service				1,343,388
Taxes levied for other specific purposes				209,483
Federal and state aid not restricted to specific purposes				7,023,943
Interest and investment earnings				318,755
Miscellaneous				475,538
Special item:				
Loss on disposal of capital assets				(12,251)
Total general revenues and special item				<u>16,020,253</u>
Change in net assets				684,060
Net assets beginning				<u>21,052,602</u>
Net assets ending				<u>\$ 21,736,662</u>

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

Millbrae School District
Governmental Funds
Balance Sheet
6/30/2011

	General Fund	Building Fund	Special Reserve for Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 4,785,943	\$ 17,332,301	\$ 13,853,264	\$ 1,596,344	\$ 37,567,852
Accounts receivable	1,203,015	43,980	56,682	57,811	1,361,488
Due from other funds	44,502	-	-	527	45,029
Prepaid and other current assets	-	-	-	11,551	11,551
Total Assets	\$ 6,033,460	\$ 17,376,281	\$ 13,909,946	\$ 1,666,233	\$ 38,985,920
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 903,786	\$ 5,972,642	\$ 141,133	\$ 4,164	\$ 7,021,725
Due to other funds	14,125	-	-	30,904	45,029
Deferred revenue	545,131	-	89,348	-	634,479
Total Liabilities	1,463,042	5,972,642	230,481	35,068	7,701,233
Fund balances:					
Nonspendable:					
Revolving fund	2,500	-	-	850	3,350
Inventories	-	-	-	11,551	11,551
Restricted for:					
Educational programs	365,817	-	-	50,809	416,626
Cafeteria Programs	-	-	-	29,528	29,528
Debt service	-	-	-	1,179,724	1,179,724
Capital projects	-	11,403,639	-	-	11,403,639
Other Postemployment Benefits	2,737,430	-	-	-	2,737,430
Assigned for:					
Capital projects	108,135	-	13,679,465	358,703	14,146,303
Unassigned:					
Reserve for economic uncertainties	504,000	-	-	-	504,000
Unappropriated	852,536	-	-	-	852,536
Total Fund Balances	4,570,418	11,403,639	13,679,465	1,631,165	31,284,687
Total Liabilities and Fund Balances	\$ 6,033,460	\$ 17,376,281	\$ 13,909,946	\$ 1,666,233	\$ 38,985,920

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

Millbrae School District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Assets
 6/30/2011

Total fund balances - governmental funds		\$ 31,284,687
<p>Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$27,853,511 and the accumulated depreciation is \$5,289,227</p>		
		22,564,284
<p>In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The accrued interest at the end of the period was:</p>		
		(713,032)
<p>In the governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Debt issuance costs of \$672,630 were reported net accumulated amortization of \$42,610.</p>		
		630,020
<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 consist of:</p>		
Capital leases payable	\$ 67,881	
School loan	1,083,742	
General obligation bonds	30,464,607	
Net OPEB obligations	341,168	
Compensated absences	71,899	(32,029,297)
Total net assets - governmental activities		\$ 21,736,662

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

Millbrae School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2011

	General Fund	Building Fund	Special Reserve for Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Revenue limit sources	\$ 12,146,805	\$ -	\$ -	\$ 59,569	\$ 12,206,374
Federal	1,002,794	-	-	232,775	1,235,569
Other state	1,993,401	-	-	27,350	2,020,751
Other local	548,026	76,149	871,649	1,815,006	3,310,830
Total revenues	15,691,026	76,149	871,649	2,134,700	18,773,524
Expenditures:					
Instruction	9,643,741	-	-	-	9,643,741
Instruction-related services:					
Supervision of instruction	180,095	-	-	-	180,095
Instruction library, media and technology	97,190	-	-	-	97,190
School site administration	953,658	-	-	-	953,658
Pupil services:					
Home-to-school transportation	211,267	-	-	-	211,267
Food services	-	-	-	659,667	659,667
All other pupil services	1,082,189	-	-	-	1,082,189
General administration:					
Data processing	127,868	-	-	-	127,868
All other general administration	1,040,956	-	-	27,984	1,068,940
Plant services	1,475,459	1,680	136,868	309	1,614,316
Facility acquisition and construction	-	14,588,719	783,076	29,428	15,401,223
Ancillary services	-	-	-	-	-
Community services	18,169	-	-	-	18,169
Other outgo	972,424	-	-	-	972,424
Debt service:					
Principal	23,286	-	55,518	-	78,804
Interest	11,416	-	122,894	580,244	714,554
Total expenditures	15,837,718	14,590,399	1,098,356	1,297,632	32,824,105
Excess (deficiency) of revenues over (under) expenditures	(146,692)	(14,514,250)	(226,707)	837,068	(14,050,581)
Other financing sources (uses):					
Transfers in	3,349,826	-	-	-	3,349,826
Transfers out	(207,226)	(2,250)	(3,137,430)	(2,920)	(3,349,826)
Bond issuance costs	-	(311,243)	-	-	(311,243)
Proceeds from bond issuance	-	17,999,527	-	-	17,999,527
Premium from bond issuance	-	183,934	-	93,773	277,707
Total other financing sources (uses)	3,142,600	17,869,968	(3,137,430)	90,853	17,965,991
Changes in fund balances	2,995,908	3,355,718	(3,364,137)	927,921	3,915,410
Fund balances beginning	1,574,510	8,047,921	17,043,602	703,244	27,369,277
Fund balances ending	\$ 4,570,418	\$ 11,403,639	\$ 13,679,465	\$ 1,631,165	\$ 31,284,687

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

Millbrae School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ 3,915,410

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 additions to capital outlay of \$15,506,072 exceeded depreciation expense of \$351,362 in the period. 15,154,710

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

Capital leases principal	23,286	
School loan principal	55,518	
Proceeds from bond issuance	(17,999,527)	
Bond Premiums	(277,707)	
Issuance costs and discounts	311,243	
Amortization of debt issuance costs	(42,610)	
Amortization of bond premiums	13,162	(17,916,635)

In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation used exceeded vacation earned by \$30,395. (38,162)

In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net OPEB obligation was not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of: (40,145)

Governmental funds do not report loss on disposal of capital assets. However, in the government-wide statement of activities and changes in net assets, the cost to dispose of capital assets, net any proceeds, is accounted for as a special item. (12,251)

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. (378,867)

Change in net assets of governmental activities \$ 684,060

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

Millbrae School District
Statement of Fiduciary Net Assets
Fiduciary Funds
6/30/2011

	Student Body Agency Fund
Assets:	
Cash on hand and in banks	\$ 60,099
Total Assets	<u>\$ 60,099</u>
Liabilities:	
Due to student groups	\$ 60,099
Total Liabilities	<u>\$ 60,099</u>

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

Notes to the Basic Financial Statements

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB.

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

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities.

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, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

Unearned/Deferred revenue:

Unearned/Deferred 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 revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

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

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

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

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 nonmajor special revenue funds:

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

- 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.
- The *Foundation Special Reserve Fund* exists primarily to account for money received from gifts and bequests.

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

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

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

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.

F. Budgets and Budgetary Accounting

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

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

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

H. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation except for non-interest bearing accounts which are completely insured. In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

b) Stores Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

c) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred.

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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

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

d) Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred and timing requirements have been met. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue in the funds is recorded for grant and entitlement receivables that are not available within ninety days of year end and for cash receipts from grants and entitlements for which the District has not met the eligibility requirements for recognizing revenue.

e) Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. Credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

f) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

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

g) Fund Balance Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 3 percent of general fund operating expenditures and other financing uses.

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Executive Director and the Deputy Director of Finance.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

h) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt 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. Net assets are reported as restricted when there are limitations imposed on their 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 assets are 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.

Legally Restricted restrictions reflect amounts to be expended for federal and state funded educational programs.

Other educational program restrictions reflect the amounts to be expended on specific school programs that are legally restricted.

Unrestricted net assets reflect net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

i) Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources. 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 January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

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

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

j) Risk Management

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

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

k) Interfund Transactions

Interfund transactions are reported as either 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 eliminated as part of the reconciliation to the government-wide financial statements.

l) Accounting Estimates

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

I. New Accounting Pronouncements

The Government Accounting Standards Board has issued **Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions***. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010 (fiscal year ending June 30, 2011).

In order to implement and fully comply with the requirements of GASB 54, all activity in the Special Reserve fund for Other than Capital Outlay (Special Reserve Fund) for the fiscal year ended June 30, 2011 was included in the General Fund for reporting purposes. The Special Reserve Fund does not meet the definition of a special revenue fund as defined by GASB 54. See page 48 for a reconciliation of the detailed amounts included in the General Fund.

J. Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement **No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The implementation of this standard will **not** have a significant impact on the Authority's financial statements.

The *Government Accounting Standards Board* has issued Statement **No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies***. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The implementation of this standard will **not** have a significant impact on the Authority's financial statements.

The Government Accounting Standards Board has issued **Statement No. 59, *Financial Instruments Omnibus***. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement amends numerous previously issued standards and is clarified to indicate that a 2a7-like

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission’s (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The implementation of this standard will **not** have a significant impact on the Authority’s financial statements.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2011 is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
<i>Government-Wide Statements - Cash:</i>			
Cash in county treasury investment pool	\$ 37,152,716	\$ 37,144,468	AA
Cash in revolving fund	3,350	3,350	n/a
Cash in banks	4,614	4,614	n/a
Subtotal - Cash	37,160,680	37,152,432	
<i>Government-Wide Statements - Investments:</i>			
Local Agency Investment Fund (LAIF)	407,172	408,642	n/a
Total Government-Wide Cash and Investments	37,567,852	37,561,074	
<i>Fiduciary Funds:</i>			
Cash in banks	60,099	60,099	n/a
Total Cash and Investments	\$ 37,627,951	\$ 37,621,173	

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2011, the bank balance of the District’s accounts with banks was \$68,148 which was fully insured by FDIC. The carrying amount of all deposits is noted in the summary of cash and investments on the previous page.

Cash in County Treasury

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

Local Agency Investment Fund

LAIF allows local governments such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2011, was approximately \$68.24 billion. Of that amount, 94.99% is invested in non-derivative financial products and 5.01% in structured notes and asset-backed securities. The average maturity for the investment in LAIF is 237 days.

Policies and Practices

The District is authorized under California Government Code Section 53635 to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the San Mateo County Investment Pool. The pool has a fair value of approximately \$915 million and an amortized book value of \$915 million. The average maturity of the pool was 1 year with an average duration of .9 years and holds no derivative products.

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.

Custodial Credit Risk – Deposits

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

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2011:

Receivables	General Fund	Building Fund	Special Reserve Fund for Capital		Total
			Outlay Projects	Nonmajor Funds	
<i>Federal Government:</i>					
Local Assistance, IDEA	\$ 115,645	\$ -	\$ -	\$ -	\$ 115,645
Special Ed. ARRA Local Asst.	19,945	-	-	-	19,945
Child Nutrition	-	-	-	39,752	39,752
<i>State Government:</i>					
State Aid	524,609	-	-	-	524,609
Lottery	108,544	-	-	-	108,544
Class Size Reduction	209,166	-	-	-	209,166
Lottery Instructional Materials	37,315	-	-	-	37,315
After School Education and Safety	11,250	-	-	-	11,250
Special Education	119,945	-	-	-	119,945
Child Nutrition	-	-	-	3,212	3,212
<i>Local Resources:</i>					
Interest	19,521	43,980	51,158	1,121	115,780
Other Local Resources	37,075	-	5,524	13,726	56,325
Accounts Receivable	\$ 1,203,015	\$ 43,980	\$ 56,682	\$ 57,811	\$ 1,361,488

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2011 were as follows:

Capital Assets	Balance				Balance June 30, 2011
	July 01, 2010	Additions	Deletions	Adjustments	
Land - not depreciable	\$ 358,270	\$ -	\$ -	\$ -	\$ 358,270
Work-in-progress	4,952,100	11,390,705	4,952,100	-	11,390,705
Buildings	6,464,466	8,962,278	-	-	15,426,744
Equipment	586,604	105,189	14,001	-	677,792
Total capital assets	12,361,440	20,458,172	4,966,101	-	27,853,511
Less accumulated depreciation for:					
Buildings	4,572,762	286,251	-	-	4,859,013
Equipment	366,853	65,111	1,750	-	430,214
Total accumulated depreciation	4,939,615	351,362	1,750	-	5,289,227
Total capital assets - net depreciation	\$ 7,421,825	\$ 20,106,810	\$ 4,964,351	\$ -	\$ 22,564,284

Depreciation expense was charged to governmental activities as follows:

Depreciation expense was charged to governmental activities as follows:	
Instruction	\$ 251,153
Pupil services, food services	31,783
All other general administration	44,924
Plant services	23,502
Total depreciation expense	\$ 351,362

5. INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables (Due From/Due To)

Interfund receivables and payables consisted of the following as of June 30, 2011:

Due To (Payable-in)	Due From (Receivable-in)		
	General Fund	Nonmajor Funds	Total Due To
General Fund	\$ 13,598	\$ 30,904	\$ 44,502
Nonmajor Funds	527	-	527
Total Due From	\$ 14,125	\$ 30,904	\$ 45,029

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

Interfund Transfers

Interfund transfers consisted of the following for the fiscal year ended June 30, 2011:

Fund Receiving Transfers	Fund Making Transfers	Amount
General Fund	Special Res. Fund for Other Capital Outlay ⁽¹⁾	\$ 125,610 1
General Fund	Building Fund	2,250 2
General Fund	Capital Facilities Fund	2,920 3
Special Res. Fund for Other Capital Outlay ⁽¹⁾	General Fund	81,616 4
Special Res. Fund for Other Capital Outlay ⁽¹⁾	Special Reserve Fund for Capital Outlay Projects	<u>3,137,430</u> 5
		<u>\$ 3,349,826</u>

1 To reimburse General Fund for 1 Alp Way (sale of site proceeds) approved one-time expenditures
2 To reimburse General Fund for Prop 39/Bond Audit
3 Transfer to General Fund for 3% Allowable Admin Fee for Developer Fee Collections
4 Transferred unrestricted portion of Deferred Maintenance flex to Fund 17
5 Transfer to Fund 17 amount approved from 1 Alp Way (sale of site proceeds) waiver

(1) The Special Reserve Fund for Other Than Capital Projects has been combined with the General Fund for reporting purposes as required by GASB 54.

6. LONG-TERM DEBT

Schedule of Changes in Long-term Debt

A schedule of changes in long-term debt for the fiscal year ended June 30, 2011, is shown below:

Long Term Debt	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
General obligation bonds:					
Bond principal	\$ 12,000,000	\$17,999,527	\$ -	\$ 29,999,527	\$ 750,000
Bond premium	200,534	277,707	13,162	465,080	17,790
Total general obligation bonds	12,200,534	18,277,234	13,162	30,464,607	767,790
Capital leases	91,167	-	23,286	67,881	25,951
School loan	1,139,260	-	55,518	1,083,742	58,660
Net OPEB obligation	301,023	308,828	268,683	341,168	-
Compensated absences	33,737	38,162	-	71,899	-
Total Long-Term Debt	\$ 13,765,721	\$18,624,224	\$ 360,649	\$ 32,029,297	\$ 852,401

Payments on the general obligation bonds are made from the Bond Interest and Redemption Fund using local revenues. Compensated absences are paid by the fund for which the employee worked. Net other post employment benefits and capital leases are paid from the General Fund. The school loan is paid from the Special Reserve for Capital Projects Fund.

General Obligation Bonds Payable

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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

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

The following summarizes the bonds outstanding as of June 30, 2011:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
					Outstanding July 01, 2010	Redeemed	Outstanding June 30, 2011
2009	4/17/09	7/1/33	4.125-5.0%	\$ 12,000,000	\$ 12,000,000	-	\$ 12,000,000
2011	4/19/11	7/1/41	2.0-6.157%	17,999,527	17,999,527	-	17,999,527
Total General Obligation Bonds				\$ 29,999,527	\$ 29,999,527	\$ -	\$ 29,999,527

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

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 750,000	\$ 1,145,973	\$ 1,895,973
2013	235,000	1,371,839	1,606,839
2014	325,000	1,357,839	1,682,839
2015	290,000	1,342,464	1,632,464
2016	365,000	1,326,989	1,691,989
2017-2021	6,210,000	6,252,837	12,462,837
2022-2026	6,475,000	4,646,559	11,121,559
2027-2031	6,936,862	3,670,573	10,607,434
2032-2036	4,992,636	6,213,495	11,206,131
2037-2041	2,905,103	8,711,647	11,616,750
2042	514,927	1,813,873	2,328,800
Total	\$ 29,999,527	\$ 37,854,090	\$ 67,853,617

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

The annual tax credit subsidies to be received from the U.S. Treasury for QSCB's outstanding as of June 30, 2011, are as follows:

Fiscal Year	Total
2012	\$ -
2013	496,368
2014	413,640
2015	413,640
2016	413,640
2017-2021	2,068,200
2022-2026	1,034,100
Total	\$ 4,839,588

Capital Leases

The District had several capital lease agreements for office equipment. The minimum lease payments for the capital leases consisted of the following as of June 30, 2011:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 25,951	\$ 8,752	\$ 34,703
2013	28,919	5,784	34,703
2014	13,011	1,838	14,849
Total	\$ 67,881	\$ 16,374	\$ 84,255

School Loan

In November 1, 2009, the District entered into a Lease Agreement with the Millbrae School District Financing Corporation (the "Corporation") to finance \$1,208,893. The proceeds are used by the District to substantially rehabilitate and to construct improvements on the athletic fields at the district schools.

Pursuant to the Agreement, the District leased the real property constituting the Lomita Park School (the "Leased Property") to the Corporation for an up-front rental payment which is sufficient to enable the District to finance the projects, and Corporation has leased the Leased Property back to the District. The District is obliged under the Lease Agreement to pay certain Lease Payments which have been assigned by the Corporation to Zions First National bank under an Assignment of Lease Agreement dated November 1, 2009.

The lease payments have a principal component of \$1,208,893. Under the lease agreement, the principal and interest are paid semi-annually every August 1 and February 1, maturing on August 1, 2023. Interest rate is assumed to be 5.66% for the term of the lease.

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

Scheduled lease payments as of June 30, 2011 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	58,660	59,680	118,340
2013	61,980	56,266	118,246
2014	65,488	52,658	118,147
2015	69,195	48,847	118,042
2016	73,112	44,819	117,931
2017-2021	432,517	155,243	587,760
2022-2023	322,790	28,075	350,865
Total	\$ 1,083,742	\$ 445,588	\$ 1,529,330

8. JOINT POWERS AGREEMENTS

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

<i>Risk Management JPA's</i>	SMCSIG June 30, 2011
Total Assets	\$ 12,966,179
Total Liabilities	6,403,177
Total Net Assets	6,563,002
Total Revenues	31,945,163
Total Expenditures	31,959,454

The District also participates in the School Project for Utility Rate Reduction (SPURR) JPA. Utility services from SPURR totaled \$29,891 for the fiscal year ended June 30, 2011. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. There is no financial information available for SPURR.

9. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims involving the District are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Award, and Grants

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

10. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System ("STRS"), and classified employees are members of the Public Employees' Retirement System ("PERS").

State Teachers' Retirement System

a) Plan Description

The District contributes to the 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 the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

b) Funding Policy

Active plan members are required to contribute 8.0% 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 2011 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 year ended June 30, 2011, 2010, and 2009 were \$604,335, \$673,922, and \$702,889, respectively, and equal 100% of the required contributions for each year.

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

Public Employees' Retirement System

a) Plan Description

The District contributes to PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. The plan provides 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 Employee's Retirement Law. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

b) Funding Policy

Active plan members are required to contribute 7.0% 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2011 was 10.707% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to PERS for the fiscal year ended June 30, 2011, 2010, and 2009 were \$233,693, \$225,592, and \$234,373, respectively, and equal 100% of the required contributions for each year.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Postemployment Healthcare Plan

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

	Certificated	Classified
Benefit types provided	Medical, Dental and Vision	Medical, Dental and Vision
Duration of benefits	Option 1 - 5 years at current cap, not beyond age 65 Option 2 - 10 years subject to cap below	Option 1 - 5 years at current cost Option 2 - 10 years subject to cap below
Required service	10 Years	10 Years
Minimum age	55	50
Dependent coverage	Yes	Yes
District contribution %	100% to cap	100% to cap
District cap	\$347 per month	\$347 per month

Funding Policy. The required contribution to the PHP is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2011, the District contributed \$244,394 to the plan from payment of current premiums and current retiree benefits.

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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	\$ 308,828
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	308,828
Contributions made	(268,683)
Increase in net OPEB obligation	40,145
Net OPEB obligation - beginning of year	301,023
Net OPEB obligation - end of year	\$ 341,168

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 392,782	61.14%	\$ 152,635
6/30/2010	392,782	62.22%	301,023
6/30/2011	308,828	87.00%	341,168

Actuarial Methods and Assumptions. In the Entry Age Normal method, the cost of each individual’s OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a “normal cost” is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability. The remaining amortization period at June 30, 2011, was twenty-nine years.

The actuarial assumptions included a discount rate of 5% per year and an annual healthcare cost trend rate of 4%. 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.

Millbrae School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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	\$ -	\$ 4,056,331	\$ 4,056,331	0.00%	\$ 10,986,528	36.92%

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REQUIRED
SUPPLEMENTARY
INFORMATION

Millbrae School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources	\$ 11,415,669	\$ 12,195,024	\$ 12,146,805	\$ (48,219)
Federal	825,935	1,169,052	1,002,794	(166,258)
Other state	1,743,903	1,994,497	1,993,401	(1,096)
Other local	328,759	887,149	548,026	(339,123)
	<u>14,314,266</u>	<u>16,245,722</u>	<u>15,691,026</u>	<u>(554,696)</u>
Total revenues				
Expenditures:				
Certificated salaries	7,456,649	7,434,799	7,387,413	47,386
Classified salaries	2,090,788	2,030,742	2,008,387	22,355
Employee benefits	2,922,201	2,827,786	2,766,951	60,835
Books and supplies	254,440	522,820	347,832	174,988
Services and other operating expenditures	2,066,889	2,830,366	2,337,771	492,595
Capital outlay	-	10,223	10,223	-
Other outgo	885,400	1,120,543	1,007,125	113,418
Transfers of indirect/direct support costs	(30,514)	(30,522)	(27,984)	(2,538)
	<u>15,645,853</u>	<u>16,746,757</u>	<u>15,837,718</u>	<u>909,039</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(1,331,587)</u>	<u>(501,035)</u>	<u>(146,692)</u>	<u>354,343</u>
Other financing sources (uses):				
Transfers in	305,270	3,375,083	3,349,826	(25,257)
Transfers out	-	-	(207,226)	(207,226)
Contributions	-	4,664	-	-
	<u>305,270</u>	<u>3,379,747</u>	<u>3,142,600</u>	<u>(232,483)</u>
Total other financing sources (uses)				
Changes in fund balance	<u>\$ (1,026,317)</u>	<u>\$ 2,878,712</u>	2,995,908	<u>\$ 121,860</u>
Fund balance beginning			<u>1,574,510</u>	
Fund balance ending			<u>\$ 4,570,418</u>	

SUPPLEMENTARY
INFORMATION

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*Nonmajor Governmental Funds
Combining Schedules*

Millbrae School District
Combining Balance Sheet
Nonmajor Funds
6/30/2011

	Special Revenue Funds			Capital Projects Funds	Debt Service Funds	Totals
	Cafeteria Fund	Deferred Maintenance Fund	Foundation Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	
Assets						
Cash and investments	\$ 11,307	\$ 20,336	\$ 50,653	\$ 337,530	\$ 1,176,518	\$ 1,596,344
Accounts receivable	50,692	97	156	3,660	3,206	57,811
Due from other funds	527	-	-	-	-	527
Prepaid and other current assets	11,551	-	-	-	-	11,551
Total Assets	\$ 74,077	\$ 20,433	\$ 50,809	\$ 341,190	\$ 1,179,724	\$ 1,666,233
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 4,164	\$ -	\$ -	\$ -	\$ -	\$ 4,164
Due to other funds	27,984	-	-	2,920	-	30,904
Total Liabilities	32,148	-	-	2,920	-	35,068
Fund balances:						
Nonspendable:						
Revolving fund	850	-	-	-	-	850
Inventories	11,551	-	-	-	-	11,551
Restricted for:						
Debt service	-	-	-	-	1,179,724	1,179,724
Educational programs	-	-	50,809	-	-	50,809
Cafeteria programs	29,528	-	-	-	-	29,528
Assigned for:						
Capital projects	-	20,433	-	338,270	-	358,703
Total Fund Balances	41,929	20,433	50,809	338,270	1,179,724	1,631,165
Total Liabilities and Fund Balances	\$ 74,077	\$ 20,433	\$ 50,809	\$ 341,190	\$ 1,179,724	\$ 1,666,233

Millbrae School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Funds
For the Fiscal Year Ended June 30, 2011

	Special Revenue Funds			Capital Projects Funds	Debt Service Funds	Totals
	Cafeteria Fund	Deferred Maintenance Fund	Foundation Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	
Revenues:						
Revenue limit sources	\$ 59,569	\$ -	\$ -	\$ -	\$ -	\$ 59,569
Federal	232,775	-	-	-	-	232,775
Other state	19,030	-	-	-	8,320	27,350
Other local	341,779	519	588	131,220	1,340,900	1,815,006
Total revenues	653,153	519	588	131,220	1,349,220	2,134,700
Expenditures:						
Pupil services:						
Food services	659,667	-	-	-	-	659,667
General administration:						
All other general administration	27,984	-	-	-	-	27,984
Plant services	86	223	-	-	-	309
Facilities acquisition and construction		29,428	-	-	-	29,428
Debt service:						
Interest	-	-	-	-	580,244	580,244
Total expenditures	687,737	29,651	-	-	580,244	1,297,632
Excess (deficiency) of revenues over (under) expenditures	(34,584)	(29,132)	588	131,220	768,976	837,068
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(2,920)	-	(2,920)
Proceeds from bond premiums	-	-	-	-	93,773	93,773
Total other financing sources (uses)	-	-	-	(2,920)	93,773	90,853
Changes in fund balances	(34,584)	(29,132)	588	128,300	862,749	927,921
Fund balances beginning	76,513	49,565	50,221	209,970	316,975	703,244
Fund balances ending	\$ 41,929	\$ 20,433	\$ 50,809	\$ 338,270	\$ 1,179,724	\$ 1,631,165

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STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

Millbrae School District

Organization

June 30, 2011

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

The Board of Education for the fiscal year ended June 30, 2011, was comprised of the following members:

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
D. Don Revelo	President	2013
Jay D. Price	Clerk/President Pro Tem	2011
Frank Barbaro	Trustee	2011
Marjory Luxenberg	Trustee	2013
Caroline Shea	Trustee	2013

Administration

Linda Luna
Superintendent

Millbrae School District
 Schedule of Average Daily Attendance
 For the Fiscal Year Ended June 30, 2011

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	207.50	206.91
Grades one through three	662.54	664.01
Grades four through six	719.20	720.86
Grades seven and eight	573.31	572.33
Home and hospital	0.25	0.20
Special education	5.45	5.49
ADA Totals	<u>2,168.25</u>	<u>2,169.80</u>

Millbrae School District
 Schedule of Instructional Time
 For the Fiscal Year Ended June 30, 2011

Grade Level	1982/83	Reduced	1986/87	Reduced	2010/11	Number	Number	Status
	Actual	1982/83	Minutes	1986/87	Actual	of Days	of Days	
	Minutes	Minutes ⁽¹⁾	Requirements	Requirements ⁽¹⁾	Minutes	Traditional	Multitrack	
						Calendar	Calendar	
Kindergarten	32,040	31,150	36,000	35,000	35,000	180	0	In Compliance
Grade 1	48,950	47,590	50,400	49,000	51,570	180	0	In Compliance
Grade 2	48,950	47,590	50,400	49,000	51,570	180	0	In Compliance
Grade 3	48,950	47,590	50,400	49,000	51,570	180	0	In Compliance
Grade 4	53,400	51,917	54,000	52,500	52,971	180	0	In Compliance
Grade 5	53,400	51,917	54,000	52,500	52,971	180	0	In Compliance
Grade 6	53,400	51,917	54,000	52,500	58,183	180	0	In Compliance
Grade 7	56,070	54,513	54,000	52,500	58,183	180	0	In Compliance
Grade 8	56,070	54,513	54,000	52,500	58,183	180	0	In Compliance

Districts must maintain their instructional minutes at either the 1982/83 actual minutes or the 1986/87 requirement, whichever is greater, as required by Educational Code Section 46201.

⁽¹⁾Commencing in the 2009-10 school year and continuing through the 2012-13 school year, a school district, county office of ed. or charter school may reduce the equivalent of up to 5 days of instruction or the equivalent number of instructional minutes without incurring penalties set forth in Sections 41420, 46200, 46200.5, 46201, 46202, and 47612.5. A school district, county office of ed, or charter school shall receive revenue limit funding based on the adjustments prescribed pursuant to Section 42238.146 whether or not it reduces the number of school days or instructional minutes.

Millbrae School District
Schedule of Charter Schools
June 30, 2011

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

Millbrae School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2011

	(Budget) ⁽¹⁾			
	2012	2011	2010	2009
General Fund				
Revenues and other financial sources	\$ 15,369,062	\$ 19,040,852	\$ 16,312,475	\$ 17,645,006
Expenditures	16,159,568	15,837,718	16,657,780	16,807,319
Other uses and transfers (out)	-	207,226	153,781	147,780
Total outgo	16,159,568	16,044,944	16,811,561	16,955,099
Change in fund balance	\$ (790,506)	\$ 2,995,908	\$ (499,086)	\$ 689,907
Ending fund balance	\$ 3,779,912	\$ 4,570,418	\$ 1,574,510	\$ 2,073,596
Available reserves ⁽²⁾⁽³⁾	\$ 504,000	\$ 504,000	\$ 504,347	\$ 528,550
Designated for economic uncertainty	\$ 504,000	\$ 504,000	\$ 504,347	\$ 528,550
Unassigned fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	3.12%	3.14%	3.00%	3.12%
Total long-term debt	\$ 31,176,896	\$ 32,029,297	\$ 13,765,721	\$ 13,642,268
Average daily attendance at P-2	2,189	2,168	2,098	2,094

Average daily attendance has increased by 74 over the past three years. The district anticipates an increase of 21 ADA in 2011.

The general fund balance has increased by \$2,496,822 over the past three years, but had an operating deficit in two out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$18,387,029 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2011/12

⁽²⁾ Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties. For a district of this size, the state recommends available reserves of at least 3% of total outgo.

⁽³⁾ Prior year available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty within the general fund and special reserve fund for other than capital outlay projects.

Millbrae School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Program Name	Federal Catalog Number		Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through California Department of Education				
<i>Special Education Cluster</i>				
IDEA Basic Local Assistance	84.027	(1)	13379	\$ 376,424
IDEA Private School ISP's	84.027	(1)	10115	3,047
IDEA Preschool Local Entitlement	84.027	(1)	13682	25,207
IDEA Preschool Grants	84.173	(1)	13430	13,164
IDEA Preschool Staff Development	84.173	(1)	13431	321
ARRA Private School ISP's	84.391	(1)	10123	501
<i>Total Special Education Cluster</i>				<u>418,664</u>
<i>Title I, Part A Cluster</i>				
Title I: Block Grant	84.010		14329	103,822
Title I: ARRA	84.389		15005	58,236
<i>Total Title I, Part A Cluster</i>				<u>162,058</u>
Title II, Improving Teacher Quality	84.367		14341	21,711
Title III, Limited English Proficient Student Program	84.365		14346	68,787
Title III, Immigrant Education Program	84.365		15146	15,245
ARRA Education Jobs Fund	84.410	(1)	25152	190,517
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>876,982</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through California Department of Education				
National school lunch program	10.555		13391	232,775
TOTAL FEDERAL PROGRAMS				<u>\$ 1,109,757</u>

(1) Audited as major program

Millbrae School District
 Reconciliation of Annual Financial and Budget Report (SACS)
 to the Audited Financial Statements
 For the Fiscal Year Ended June 30, 2011

	General Fund	Building Fund	Special Reserve for Capital Projects Fund	Other Governmental Funds
June 30, 2011 Annual Financial and Budget Report Fund Balances	\$ 1,450,463	\$ 11,403,639	\$ 13,679,465	\$ 4,751,120
Adjustments and Reclassifications:				
Special Reserve Fund for Other Than Capital Outlay:				
Cash with County Treasury	3,123,587	-	-	(3,123,587)
Accounts Receivable	9,966	-	-	(9,966)
Due to Other Funds	(13,598)	-	-	13,598
June 30, 2011 Audited Financial Statements Fund Balances	\$ 4,570,418	\$ 11,403,639	\$ 13,679,465	\$ 1,631,165

Millbrae School District
Excess Sick Leave
For the Fiscal Year Ended June 30, 2011

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

The District does not provide more than 12 sick leave days in a school year to any group of employees who are CalSTRS members.

Millbrae School District
Notes to Supplementary Information
For the Fiscal Year Ended June 30, 2011

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements.

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

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

F. 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.

Millbrae School District
Notes to Supplementary Information
For the Fiscal Year Ended June 30, 2011

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

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

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

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. EARLY RETIREMENT INCENTIVE PROGRAM

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased to two years.

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OTHER INDEPENDENT
AUDITOR'S REPORTS

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

Board of Trustees
Millbrae School District
Millbrae, California

We have audited the basic financial statements of Millbrae School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 5, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Millbrae School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Millbrae School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Millbrae School District's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Millbrae School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

November 5, 2011
San Jose, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Millbrae School District
Millbrae, California

Compliance

We have audited Millbrae School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Millbrae School District's major federal programs for the year ended June 30, 2011. Millbrae School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Millbrae School District's management. Our responsibility is to express an opinion on Millbrae School District's compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Millbrae School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Millbrae School District's compliance with those requirements.

In our opinion, Millbrae School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of Millbrae School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Millbrae School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Millbrae School District's internal control over compliance.

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

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

This report is intended solely for the information and use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C & A UP

November 5, 2011
Campbell, California

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Trustees
 Millbrae School District
 Millbrae, California

We have audited the accompanying financial statements of the governmental fund activities, each major fund, and the aggregate remaining fund information of the Millbrae School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 5, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11 (K-12 Audit Guide)*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	8	8
Kindergarten Continuance	3	3
Independent Study	23	None
Continuation Education	10	None
Instructional Time:		
School Districts	6	6
County Offices of Education	3	Not applicable
Instructional Materials - General Requirements	8	8
Ratios of Administrative Employees to Teachers	1	1
Classroom Teacher Salaries	1	1
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	1
School Accountability Report Card	3	3
Public Hearing Requirements - Receipt of Funds	1	1
Class Size Reduction:		
General Requirements	7	7
Option One	3	3
Option Two	4	Not applicable
Districts or Charter Schools with Only One School Serving K-3	4	Not applicable

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
After School Education and Safety Program		
General Requirements	4	4
After School	4	4
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	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	3	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.

Based on our audit, we found that, for the items tested, the Millbrae School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the District had not complied with the state laws and regulations.

This report is intended solely for the information and use of management, the Board, federal awarding agencies, State Controller's Office, Department of Finance, Department of Education, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

November 5, 2011
 San Jose, California

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FINDINGS AND
RECOMMENDATIONS

Millbrae School District
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2011

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</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

Internal control over major 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 major programs	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)	_____ Yes <u> x </u> No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027	IDEA Basic Local Assistance
84.027	IDEA Private School ISP's
84.027	IDEA Preschool Local Entitlement
84.173	IDEA Preschool Grants
84.173	IDEA Preschool Staff Development
84.391	ARRA Private School ISP's
84.410	ARRA Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs:	\$ <u>300,000</u>
Auditee qualified as low risk auditee?	<u> x </u> Yes _____ No

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>Unqualified</u>

Millbrae School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Millbrae School District
Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

FINDING 2011 – 1 - 40000 - State Compliance; Administrative Services Credential Requirements

CRITERIA:

Per the state of California Commission on Teacher Credentialing, as regulated by the California Ed. Code, an individual **must** hold an Administrative Services Credential to provide the following services in grades preschool, K-12 and adults: evaluate the quality and effectiveness of instructional services at the school site level; evaluate certificated personnel employed at the school site level; and conduct student and certificated personnel employee discipline services at the school site level.

CONDITION:

During our audit, we tested the credentials of each Principal within the District and discovered that one Principal did not have the five-year Preliminary Credential required by the state of California.

The Administrative Services Credential authorizes the holder to provide the following services in grades 12 and below, including preschool:

1. Develop, coordinate, and assess instructional programs
2. Evaluate certificated and classified personnel
3. Provide students' discipline, including but not limited to, suspension and expulsion
4. Provide certificated and classified employees discipline, including but not limited to, suspension, dismissal, and reinstatement
5. Supervise certificated and classified personnel
6. Manage school site, district, or county level fiscal services
7. Recruit, employ, and assign certificated and classified personnel
8. Develop, coordinate, and supervise student support services, including but not limited to extracurricular activities, pupil personnel services, health services, library services, and technology support services

Millbrae School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2011

EFFECT OF CONDITION:

Although state law requires that principals have the appropriate Administrative Credential, California does not stipulate any questioned costs when the requirement is not met. However, for the District to enable the Principal to continue in this position it must ensure that the above criteria have been completed or are in the process of completion. Without obtaining a proper credential, the Principal can't evaluate other certificated employees.

CAUSE OF CONDITION:

The Preliminary Credential for this Principal was not successfully completed because the District did not verify that the Principal satisfied the following requirements:

1. Complete **one** of the following:
 - a. Commission-approved program of specialized and professional preparation in administrative services resulting in the formal recommendation of the program sponsor or,
 - b. A one-year Commission-approved administrative services internship program consisting of supervised in-service training resulting in the formal recommendation by the California college or university where the program was completed or,
 - c. Achieve a passing score of 173 on the School Leaders Licensure Assessment (SLLA), numbered 1010, examination administered by Educational Testing Service (ETS).
 - i. Passing examination scores must be used for credentialing purposes within five years of the passing exam date.
 - ii. Individuals who pass the SLLA numbered 1010 may apply directly to the Commission for the credential.
 - iii. Please include an original score report showing passage of the examination with the application.
2. Verify employment in an administrative position on form CL-777.

RECOMMENDATION:

To avoid similar circumstances in the future, we recommend the District develop a written procedure or checklist to ensure that the Administrative Credential requirements are met for both Principals hired from outside the District and promoted from within. In addition, we recommend that Human Resources conduct routine progress meetings with new Principals to ensure that they have completed the steps required to maintain the Preliminary Credential and move forward into the Clear Credential.

Millbrae School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2011

DISTRICT RESPONSE AND CORRECTIVE ACTION PLAN:

Since this finding has been brought to light it has been rectified. The Principal has taken and passed the CBEST test, therefore obtaining the 5 year preliminary Administrative Services credential.

This was an unusual situation in that it was overlooked by all parties involved. All district required documentation was provided for application of credential. Credential was never applied for by university, due to CBEST requirement. To avoid similar circumstances in the future, the District has developed a checklist to ensure that the Administrative Services Credential requirements are met for Administrators hired from outside the District or promoted from within. Each district in the county is subject to assignment monitoring by the county office every 4 years. CBEST is now required prior to any credential being issued.

CURRENT STATUS:

The deficiency was rectified in the current year.

* * *

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