

**PETALUMA CITY SCHOOLS
COUNTY OF SONOMA
PETALUMA, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2015

PETALUMA CITY SCHOOLS

JUNE 30, 2015

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JUNE 30, 2015

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PETALUMA CITY SCHOOLS

JUNE 30, 2015

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Petaluma City Schools
Petaluma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 67, the schedule of funding progress on page 72, the schedules of proportionate share of the net pension liability on pages 73 and 74, and the schedules of contributions on pages 75 and 76, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Petaluma City Schools' basic financial statements. The combining non-major governmental fund financial statements, and supplementary schedules and information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Board of Education
Petaluma City Schools
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of Petaluma City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Petaluma City Schools' internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2015

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 16 and 17, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities and business-type activities, presented on pages 18 through 27, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

Governmental Activities:

- Fiscal year 2014-15 is the first year the District has been required to record a liability in the financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans. (See Note 18)
- The District's overall financial status improved during the course of the year, as total net position increased \$3,071,125. The improvement was due primarily to extraordinary earnings generated by the pension plan investments of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), which resulted in a significant reduction of the District's proportionate share of the net pension liabilities related to its participation in CalSTRS and CalPERS.
- Capital assets, net of depreciation, increased \$2,381,790, due to the current year addition of \$7,506,395 of new capital assets and improvements, and the current year recognition of \$5,124,605 of depreciation expense.
- Total long-term liabilities increased \$6,532,111, due to the current year issuance of \$7 million of "Measure E" general obligation bonds and \$23 million of "Measure C" general obligation bonds.
- The District's P-2 average daily attendance (ADA), inclusive of charter school ADA, decreased from 7,303 ADA in fiscal year 2013-14, down to 7,130 ADA in fiscal year 2014-15, a decrease of 173 ADA or 2.4%.
- The District's General Fund incurred an operating deficit of \$1,827,758, and reported a \$1,183,051 decline in available reserves.
- The District currently maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2014-15, General Fund total outgo was \$74,362,002. At June 30, 2015, the District had available reserves of \$6,170,440, which represents an available reserve of 8.3%.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, Governmental-wide and funds.

- Governmental-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 comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds 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 provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the Governmental-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

The basic services provided by the District, such as regular education, special education, and administration, are included here, and are primarily financed by state apportionments, property taxes, and other state and federal aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal programs and local revenues.

Business-type Activities:

These activities are provided on a charge for goods or services basis to recover the costs of the goods or services provided. The District's Downtown Project operations are reported as business activities.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law, while other funds have been established to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of Petaluma City Schools are the General Fund, Bond Interest and Redemption Fund, Measure C - Building Fund, and Measure E - Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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 operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Proprietary funds are activities that a District operates similar to a business, in that it attempts to recover costs through charges to the user. Proprietary funds include internal service funds and enterprise funds, and are accounted for on the full accrual basis. Internal service funds account for goods or services that are provided to other funds in return for a fee to cover the cost of operations. The District has one fund of this type, the Self-Insurance Fund. Enterprise funds are used to account for any activity or service that charges a fee to external users to cover the cost of operations. The District has one fund of this type, the Downtown Project Fund.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its scholarship and student activity funds. All of the District's fiduciary activities are reported in separate fiduciary statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

<u>Comparative Statement of Net Position</u>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Assets:						
Deposits and Investments	\$ 18,274,379	\$ 40,837,628	\$ 37,421	\$ 35,052	\$ 18,311,800	\$ 40,872,680
Receivables	9,134,630	4,717,928	4,328	133	9,138,958	4,718,061
Stores Inventory	49,348	70,579			49,348	70,579
Prepaid Expenses	0	51,360			0	
Capital Assets, net	91,595,372	93,977,162	12,787	7,303	91,608,159	93,984,465
Total Assets	<u>119,053,729</u>	<u>139,654,657</u>	<u>54,536</u>	<u>42,488</u>	<u>119,108,265</u>	<u>139,697,145</u>
Deferred Outflows of Resources:						
Pension Deferrals *	3,584,066	5,834,669			3,584,066	5,834,669
Bond Refunding	568,482	486,375			568,482	486,375
Total Deferred Outflows of Resources *	<u>4,152,548</u>	<u>6,321,044</u>	<u>0</u>	<u>0</u>	<u>4,152,548</u>	<u>6,321,044</u>
Liabilities:						
Current	13,814,047	16,315,488	2,751		13,816,798	16,315,488
Long-Term *	114,934,668	118,888,469			114,934,668	118,888,469
Total Liabilities *	<u>128,748,715</u>	<u>135,203,957</u>	<u>2,751</u>	<u>0</u>	<u>128,751,466</u>	<u>135,203,957</u>
Deferred Outflows of Resources:						
Pension Deferrals *	0	13,243,057	0	0	0	13,243,057
Net Position:						
Net Investment in Capital Assets	41,760,206	28,900,090	12,787	7,303	41,772,993	28,907,393
Restricted:						
Capital Projects	1,637,946	13,459,691			1,637,946	13,459,691
Debt Service (Deficit)	(2,767,497)	1,963,523			(2,767,497)	1,963,523
Educational Programs	2,252,599	2,127,776			2,252,599	2,127,776
Other	778,547	778,837			778,547	778,837
Unrestricted (Deficit) *	<u>(49,204,239)</u>	<u>(49,701,230)</u>	<u>38,998</u>	<u>35,185</u>	<u>(49,165,241)</u>	<u>(49,666,045)</u>
Total Net Position (Deficit) *	<u>\$ (5,542,438)</u>	<u>\$ (2,471,313)</u>	<u>\$ 51,785</u>	<u>\$ 42,488</u>	<u>\$ (5,490,653)</u>	<u>\$ (2,428,825)</u>

Table includes financial data of the combined governmental funds and proprietary funds

** The amounts presented for fiscal year 2013-14 have been adjusted to reflect the restatement discussed in Note 18 of these financial statements*

Governmental Activities:

The Restricted for Debt Service deficit balances, presented above, primarily reflect the amount that accumulated accreted interest on the District's outstanding capital appreciation bonds exceeds the amount available in the Bond Interest and Redemption Fund as of June 30 of each fiscal year. The deficit balance will be eliminated in future years by future property tax collections.

The Unrestricted deficit balances, presented above, are due primarily to the fact that the District is now required to record a liability in the financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

<u>Comparative Statement of Changes in Net Position</u>						
	Governmental Activities		Business-Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Program Revenues:						
Charges for Services	\$ 834,615	\$ 929,092			\$ 834,615	\$ 929,092
Operating Grants & Contributions	10,690,894	11,653,450			10,690,894	11,653,450
General Revenues:						
Taxes Levied	36,648,009	43,712,983			36,648,009	43,712,983
Federal & State Aid	26,517,996	26,408,231			26,517,996	26,408,231
Interest & Investment Earnings	106,784	213,341	\$ 130	\$ 174	106,914	213,515
Miscellaneous	3,800,632	4,021,055	43,064	16,279	3,843,696	4,037,334
Total Revenues	78,598,930	86,938,152	43,194	16,453	78,642,124	86,954,605
Expenses:						
Instruction	47,858,855	50,925,556			47,858,855	50,925,556
Instruction-Related Services	7,052,474	7,929,443			7,052,474	7,929,443
Pupil Services	10,724,227	10,787,659			10,724,227	10,787,659
General Administration	3,272,313	3,248,623			3,272,313	3,248,623
Plant Services	6,898,572	6,626,473			6,898,572	6,626,473
Ancillary Services	349,652	373,145			349,652	373,145
Community Services	351,721	375,683			351,721	375,683
Enterprise Activities	426,196	398,094	30,151	25,750	456,347	423,844
Interest on Long-Term Debt	2,071,935	2,777,961			2,071,935	2,777,961
Other Outgo	179,991	424,390			179,991	424,390
Total Expenses	79,185,936	83,867,027	30,151	25,750	79,216,087	83,892,777
Changes in Net Position	(587,006)	3,071,125	13,043	(9,297)	(573,963)	3,061,828
Net Position, Beginning (Deficit) *	(4,955,432)	(5,542,438)	38,742	51,785	(4,916,690)	(5,490,653)
Net Position, Ending (Deficit) *	<u>\$ (5,542,438)</u>	<u>\$ (2,471,313)</u>	<u>\$ 51,785</u>	<u>\$ 42,488</u>	<u>\$ (5,490,653)</u>	<u>\$ (2,428,825)</u>

Table includes financial data of the combined governmental funds and proprietary funds

** The amounts presented for fiscal year 2013-14 have been adjusted to reflect the restatement discussed in Note 18 of these financial statements*

Governmental Activities:

The District's overall financial status improved during the course of the year, as total net position increased \$3,071,125. The improvement was due primarily to extraordinary earnings generated by the pension plan investments of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), which resulted in a significant reduction of the District's proportionate share of the net pension liabilities related to its participation in CalSTRS and CalPERS.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

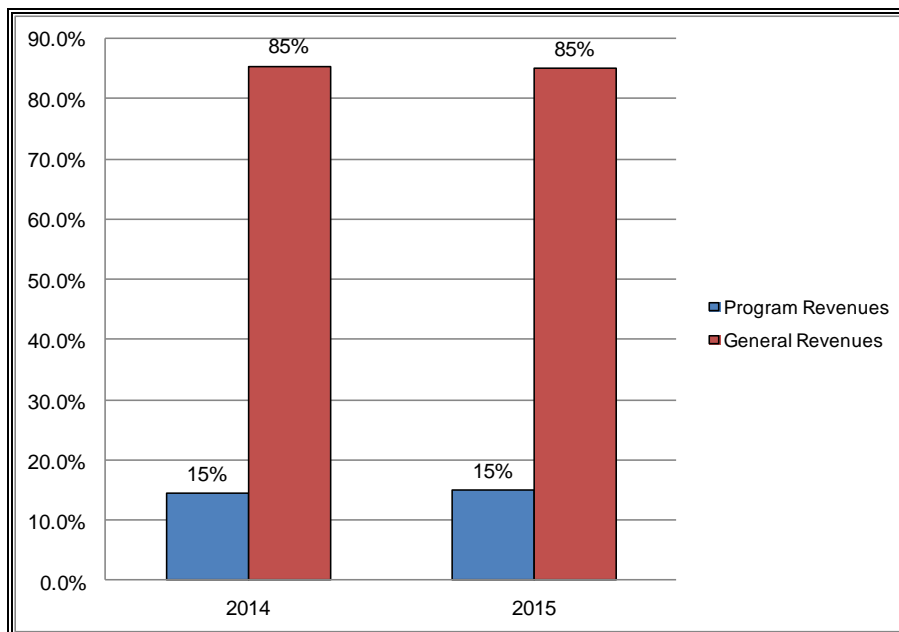
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES

	Total Cost of Services		Net Cost of Services	
	2014	2015	2014	2015
Instruction	\$ 47,858,855	\$ 50,925,556	\$ 40,831,406	\$ 42,935,861
Instruction-Related Services	7,052,474	7,929,443	6,611,322	7,020,626
Pupil Services	10,724,227	10,787,659	7,457,550	7,461,113
General Administration	3,272,313	3,248,623	3,160,198	3,158,360
Plant Services	6,898,572	6,626,473	6,252,801	6,556,872
Ancillary Services	349,652	373,145	349,652	359,817
Community Services	351,721	375,683	329,997	345,112
Enterprise Activities	426,196	398,094	426,196	291,252
Interest on Long-Term Debt	2,071,935	2,777,961	2,071,935	2,777,961
Other Expenses	179,991	424,390	169,370	377,511
Totals	\$ 79,185,936	\$ 83,867,027	\$ 67,660,427	\$ 71,284,485

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$71,284,485 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 15% of the total cost of providing the services listed above, while the remaining 85% was financed by the general revenues of the District.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

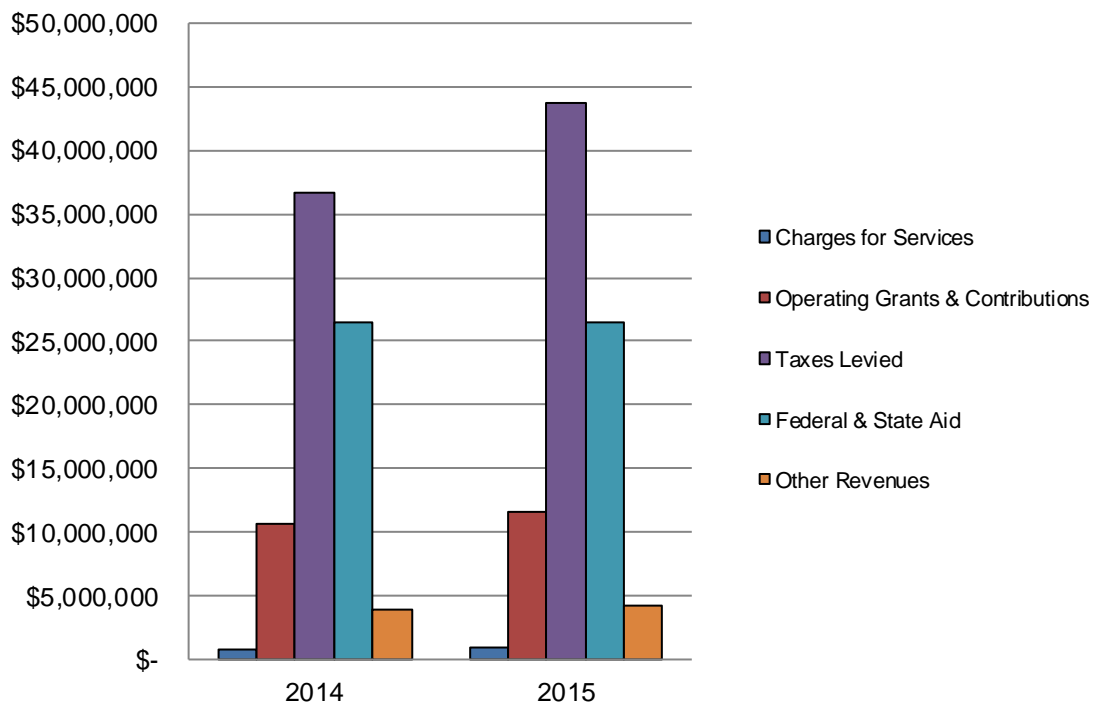
FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 834,615	1.06%	\$ 929,092	1.07%
Operating Grants & Contributions	10,690,894	13.60%	11,653,450	13.40%
<u>General Revenues</u>				
Taxes Levied	36,648,009	46.63%	43,712,983	50.28%
Federal & State Aid	26,517,996	33.74%	26,408,231	30.38%
Other Revenues	3,907,416	4.97%	4,234,396	4.87%
Total Revenues	<u>\$ 78,598,930</u>	<u>100.00%</u>	<u>\$ 86,938,152</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds

Comparative Revenues



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

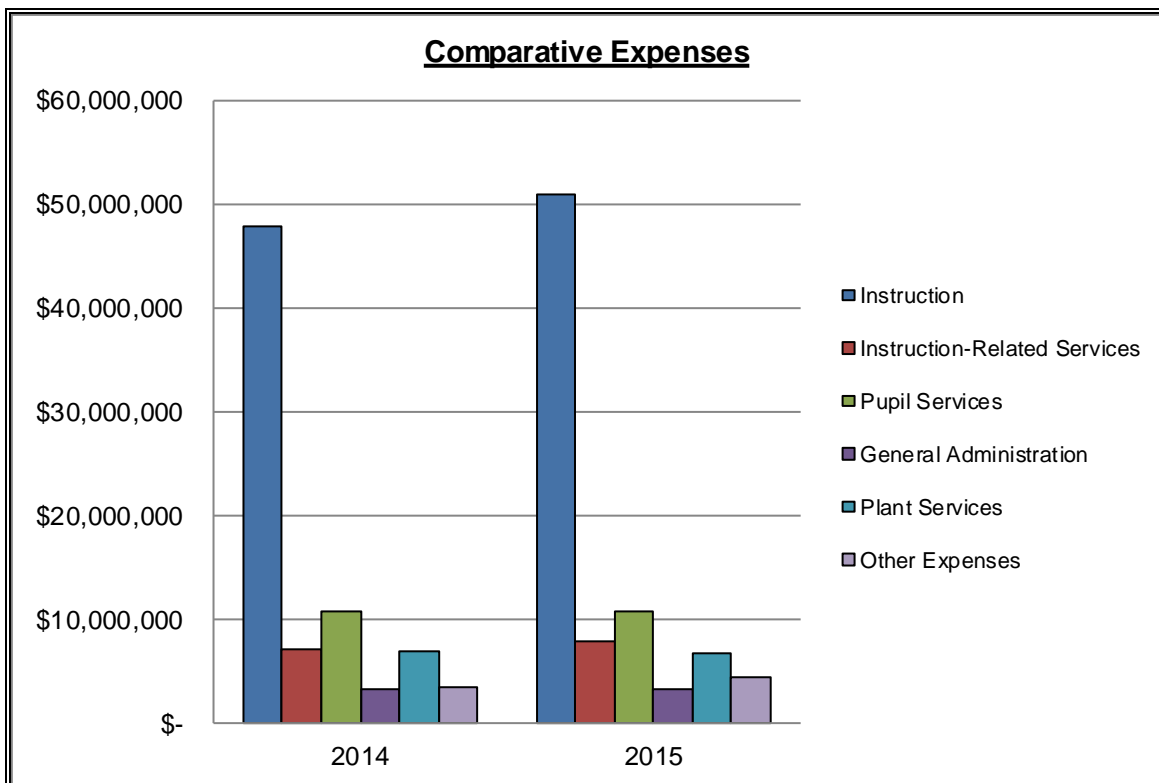
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONCLUDED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 47,858,855	60.44%	\$ 50,925,556	60.72%
Instruction-Related Services	7,052,474	8.91%	7,929,443	9.45%
Pupil Services	10,724,227	13.54%	10,787,659	12.86%
General Administration	3,272,313	4.13%	3,248,623	3.87%
Plant Services	6,898,572	8.71%	6,626,473	7.90%
Other Expenses	3,379,495	4.27%	4,349,273	5.19%
Total Expenses	\$ 79,185,936	100.00%	\$ 83,867,027	100.00%

Table includes financial data of the combined governmental funds



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE CAPITAL ASSETS & LONG-TERM LIABILITIES

Governmental Activities:

<u>Comparative Schedule of Capital Assets</u>		
	2014	2015
Land	\$ 4,266,886	\$ 4,266,886
Sites & Improvements	15,244,505	15,276,157
Buildings & Improvements	137,226,597	138,808,733
Furniture & Equipment	6,433,901	6,670,625
Work-in-Progress	199,695	5,855,578
Totals at Historical Cost	163,371,584	170,877,979
Less: Accumulated Depreciation	(71,776,212)	(76,900,817)
Capital Assets, net	\$ 91,595,372	\$ 93,977,162

Capital assets, net of depreciation, increased \$2,381,790, due to the current year addition of \$7,506,395 of new capital assets and improvements, and the current year recognition of \$5,124,605 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	2014	2015
Compensated Absences	\$ 536,828	\$ 477,039
General Obligation Bonds	49,187,653	75,418,679
Certificates of Participation	6,615,000	0
Capital Leases	2,721,154	2,471,587
Early Retirement Incentives	188,063	0
Other Post Employment Benefits	86,957	57,035
Net Pension Liability - CalSTRS *	45,645,791	37,339,236
Net Pension Liability - CalPERS *	16,032,510	11,782,491
Totals *	\$ 121,013,956	\$ 127,546,067

* The amounts presented for fiscal year 2013-14 have been adjusted to reflect the restatement discussed in Note 18 of these financial statements.

Total long-term liabilities increased \$6,532,111, due to the current year issuance of \$7 million of "Measure E" general obligation bonds and \$23 million of "Measure C" general obligation bonds.

The general obligation bonds are financed by the local taxpayers and represent 59% of the District's total long-term liabilities.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to the future debt service requirements of each long-term obligation.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2014	Fund Balances June 30, 2015	Increase (Decrease)
General	\$ 10,606,257	\$ 8,778,499	\$ (1,827,758)
Bond Interest & Redemption	5,715,433	10,068,267	4,352,834
Measure C - Building	0	12,583,115	12,583,115
Measure E - Building	0	5,117,175	5,117,175
Deferred Maintenance	927,339	627,698	(299,641)
Cafeteria	57,067	21,494	(35,573)
Adult Education	750,983	538,815	(212,168)
Capital Facilities	1,349,469	589,593	(759,876)
Building	135,780	0	(135,780)
County School Facilities	161	162	1
Capital Projects - Special Reserve	537,909	391,006	(146,903)
Totals	\$ 20,080,398	\$ 38,715,824	\$ 18,635,426

The fund balance of the General Fund decreased \$1,827,758, while the combined fund balances of all other District governmental funds increased \$20,463,184. The large increases in the Measure C - Building Fund and Measure E - Building Fund are due to the current year issuance of \$23 million of "Measure C" general obligation bonds, and \$7 million of "Measure E" general obligation bonds, both of which were only partially expended during fiscal year 2014-15.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. The original budget, approved at the end of June, is based on May Revise figures and updated 45 days after the State approves its final budget. Over the course of the year, the District revised the annual operating budget on numerous occasions. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Adjustments at First and Second Interim.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California. The District's fiscal year 2015-16 budget includes a projected decrease of increase of 101 ADA.

Beginning in fiscal year 2015-16, the South County Special Education Consortium was formed with Petaluma City Schools as the lead district. Accordingly, Petaluma City Schools will be responsible for hiring all necessary staff and providing workspace, administrative, business, budget and personnel services as necessary.

The 2015-16 budget includes the new Petaluma Accelerated Charter School, which is expected to serve 48 students in seventh grade, during its first year of operation, and then expanded to serve students in seventh and eighth grade during fiscal year 2016-17

On November 4, 2014, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account. Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established with Proposition 58, passed in 2004. Proposition 2 is set to create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves in future years. At this time, the fiscal impact of Proposition 2 is not immediately clear, since the ultimate impact will largely depend on how it is implemented at the state and local levels moving forward.

Fiscal year 2015-16 will be the third year of the projected eight year phase-in period for the new Local Control Funding Formula (LCFF). Although more information regarding the new funding and accountability standards was released during the past year, it is very likely that there will be additional modifications in the future. As a result, school district budgets should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

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 the Chief Business Official, Petaluma City Schools, 200 Douglas Street, Petaluma, CA 94952.

BASIC FINANCIAL STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Totals
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 40,837,628	\$ 35,052	\$ 40,872,680
Receivables (Note 4)	4,717,928	133	4,718,061
Stores Inventory (Note 1J)	70,579		70,579
Prepaid Expenses (Note 1J)	51,360		51,360
Capital Assets, Net of Accumulated Depreciation (Note 6)	93,977,162	7,303	93,984,465
Total Assets	<u>139,654,657</u>	<u>42,488</u>	<u>139,697,145</u>
<u>Deferred Outflows of Resources</u>			
Pension Deferrals - CalSTRS (Note 1J)	4,479,773		4,479,773
Pension Deferrals - CalPERS	1,354,896		1,354,896
Bond Refunding	486,375		486,375
Total Deferred Outflows of Resources	<u>6,321,044</u>	<u>0</u>	<u>6,321,044</u>
<u>Liabilities</u>			
Accounts Payable and Other Current Liabilities	6,492,684		6,492,684
Accrued Interest Payable	895,100		895,100
Unearned Revenue (Note 1J)	270,106		270,106
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Compensated Absences	477,039		477,039
General Obligation Bonds			
Current Interest	5,495,000		5,495,000
Capital Appreciation	2,334,248		2,334,248
Bond Premium	116,722		116,722
Capital Leases	205,500		205,500
Other Post Employment Benefits	29,089		29,089
<i>Portion Due or Payable After One Year:</i>			
General Obligation Bonds (Note 7)			
Current Interest	57,780,000		57,780,000
Capital Appreciation	8,477,528		8,477,528
Bond Premium	1,215,181		1,215,181
Capital Leases (Note 8)	2,266,087		2,266,087
Other Post Employment Benefits (Note 9)	27,946		27,946
Net Pension Liability - CalSTRS (Note 10A)	37,339,236		37,339,236
Net Pension Liability - CalPERS (Note 10B)	11,782,491		11,782,491
Total Liabilities	<u>135,203,957</u>	<u>0</u>	<u>135,203,957</u>
<u>Deferred Inflows of Resources</u>			
Pension Deferrals - CalSTRS (Note 1J)	9,194,461		9,194,461
Pension Deferrals - CalPERS	4,048,596		4,048,596
Total Deferred Inflows of Resources	<u>13,243,057</u>	<u>0</u>	<u>13,243,057</u>
<u>Net Position</u>			
Net Investment in Capital Assets	28,900,090	7,303	28,907,393
Restricted:			
For Capital Projects	13,459,691		13,459,691
For Debt Service	1,963,523		1,963,523
For Educational Programs	2,127,776		2,127,776
For Other Purposes	778,837		778,837
Unrestricted (Deficit)	<u>(49,701,230)</u>	<u>35,185</u>	<u>(49,666,045)</u>
Total Net Position (Deficit)	<u>\$ (2,471,313)</u>	<u>\$ 42,488</u>	<u>\$ (2,428,825)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<u>Governmental Activities</u>						
Instruction	\$ 50,925,556	\$ 110,191	\$ 7,879,504	\$ (42,935,861)		\$ (42,935,861)
Instruction-Related Services:						
Supervision of Instruction	1,941,483	1,716	622,954	(1,316,813)		(1,316,813)
Instructional Library and Technology	791,068		18,529	(772,539)		(772,539)
School Site Administration	5,196,892		265,618	(4,931,274)		(4,931,274)
Pupil Services:						
Home-to-School Transportation	2,415,065		415,874	(1,999,191)		(1,999,191)
Food Services	2,091,275	693,058	1,204,472	(193,745)		(193,745)
Other Pupil Services	6,281,319	15,406	997,736	(5,268,177)		(5,268,177)
General Administration:						
Other General Administration	3,248,623	67	90,196	(3,158,360)		(3,158,360)
Plant Services	6,626,473	1,812	67,789	(6,556,872)		(6,556,872)
Ancillary Services	373,145		13,328	(359,817)		(359,817)
Community Services	375,683		30,571	(345,112)		(345,112)
Enterprise Activities	398,094	106,842		(291,252)		(291,252)
Interest on Long-Term Debt	2,777,961			(2,777,961)		(2,777,961)
Other Outgo	424,390		46,879	(377,511)		(377,511)
Total Governmental Activities	83,867,027	929,092	11,653,450	(71,284,485)		(71,284,485)
<u>Business-Type Activities</u>						
Enterprise Activities	\$ 25,750				\$ (25,750)	(25,750)
Totals	\$ 83,892,777	\$ 929,092	\$ 11,653,450	(71,284,485)	(25,750)	(71,310,235)
<u>General Revenues</u>						
Taxes Levied for General Purposes				31,071,093		31,071,093
Taxes Levied for Debt Service				10,148,220		10,148,220
Taxes Levied for Specific Purposes				2,493,670		2,493,670
Federal and State Aid - Unrestricted				26,408,231		26,408,231
Interest and Investment Earnings				213,341	174	213,515
Miscellaneous				4,021,055	16,279	4,037,334
Total General Revenues				74,355,610	16,453	74,372,063
Change in Net Position				3,071,125	(9,297)	3,061,828
Net Position (Deficit) - July 1, 2014 (As Restated - Note 18)				(5,542,438)	51,785	(5,490,653)
Net Position (Deficit) - June 30, 2015				\$ (2,471,313)	\$ 42,488	\$ (2,428,825)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	Bond Interest and Redemption
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 10,470,856	\$ 10,068,267
Receivables (Note 4)	4,129,753	
Due from Other Funds (Note 5)	578,895	
Stores Inventory (Note 1J)	49,085	
Prepaid Expenditures (Note 1J)	51,360	
	\$ 15,279,949	\$ 10,068,267
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 5,662,674	
Due to Other Funds (Note 5)	568,670	
Unearned Revenue (Note 1J)	270,106	
	6,501,450	
Fund Balances: (Note 12)		
Nonspendable	128,645	
Restricted	2,127,776	\$ 10,068,267
Assigned	351,638	
Unassigned	6,170,440	
	8,778,499	10,068,267
Total Fund Balances	8,778,499	10,068,267
Total Liabilities and Fund Balances	\$ 15,279,949	\$ 10,068,267

Measure C - Building	Measure E - Building	Non-Major Governmental Funds	Total Governmental Funds
\$ 13,028,105	\$ 5,154,501	\$ 1,957,673	\$ 40,679,402
		547,520	4,677,273
		568,670	1,147,565
		21,494	70,579
			51,360
<u>\$ 13,028,105</u>	<u>\$ 5,154,501</u>	<u>\$ 3,095,357</u>	<u>\$ 46,626,179</u>
\$ 444,799	\$ 37,304	\$ 347,907	\$ 6,492,684
191	22	578,682	1,147,565
			270,106
<u>444,990</u>	<u>37,326</u>	<u>926,589</u>	<u>7,910,355</u>
12,583,115	5,117,175	22,494	151,139
		1,504,274	31,400,607
		642,000	993,638
			6,170,440
<u>12,583,115</u>	<u>5,117,175</u>	<u>2,168,768</u>	<u>38,715,824</u>
<u>\$ 13,028,105</u>	<u>\$ 5,154,501</u>	<u>\$ 3,095,357</u>	<u>\$ 46,626,179</u>

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Revenues</u>		
LCFF Sources:		
State Apportionment / Transfers	\$ 25,048,751	
Local Taxes	31,071,093	
Total LCFF Sources	56,119,844	
Federal Revenue	2,916,369	
State Revenue	4,743,686	\$ 90,468
Local Revenue	8,754,345	10,085,641
Total Revenues	72,534,244	10,176,109
<u>Expenditures</u>		
Current:		
Instruction	48,290,956	
Supervision of Instruction	1,861,079	
Instructional Library and Technology	755,185	
School Site Administration	4,676,117	
Home-To-School Transportation	2,367,888	
Food Services	6,872	
Other Pupil Services	5,902,826	
Other General Administration	2,995,652	
Plant Services	5,750,467	
Facilities Acquisition and Construction	32,152	
Ancillary Services	379,337	
Community Services	379,992	
Enterprise Activities	347,480	
Other Outgo	129,390	
Debt Service:		
Principal Retirement	241,083	4,680,000
Interest and Issuance Costs	189,500	1,568,613
Total Expenditures	74,305,976	6,248,613
Excess of Revenues Over (Under) Expenditures	(1,771,732)	3,927,496
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		425,338
Operating Transfers Out	(56,026)	
Other Sources		
Total Other Financing Sources (Uses)	(56,026)	425,338
Net Change in Fund Balances	(1,827,758)	4,352,834
Fund Balances - July 1, 2014	10,606,257	5,715,433
Fund Balances - June 30, 2015	\$ 8,778,499	\$ 10,068,267

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Measure C - Building</u>	<u>Measure E - Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$ 643,428	\$ 25,692,179
			31,071,093
		<u>643,428</u>	<u>56,763,272</u>
		1,158,843	4,075,212
		111,611	4,945,765
\$ 74,693	\$ 30,896	2,100,583	21,046,158
<u>74,693</u>	<u>30,896</u>	<u>4,014,465</u>	<u>86,830,407</u>
		645,823	48,936,779
			1,861,079
			755,185
		318,278	4,994,395
			2,367,888
		1,972,999	1,979,871
		118,129	6,020,955
		123,519	3,119,171
108		527,127	6,277,702
4,147,250	1,788,721	1,449,788	7,417,911
			379,337
			379,992
			347,480
			129,390
		6,623,484	11,544,567
170,000	125,000	55,504	2,108,617
<u>4,317,358</u>	<u>1,913,721</u>	<u>11,834,651</u>	<u>98,620,319</u>
<u>(4,242,665)</u>	<u>(1,882,825)</u>	<u>(7,820,186)</u>	<u>(11,789,912)</u>
135,780		6,366,026	6,927,144
(6,569,035)	(166,303)	(135,780)	(6,927,144)
23,259,035	7,166,303		30,425,338
<u>16,825,780</u>	<u>7,000,000</u>	<u>6,230,246</u>	<u>30,425,338</u>
12,583,115	5,117,175	(1,589,940)	18,635,426
0	0	3,758,708	20,080,398
<u>\$ 12,583,115</u>	<u>\$ 5,117,175</u>	<u>\$ 2,168,768</u>	<u>\$ 38,715,824</u>

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Governmental Funds		\$ 18,635,426
Amounts reported for governmental activities in the statement of activities are different due to the following:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation expense exceeded capital outlays during the fiscal year:		
Capital Outlays	\$ 7,506,395	
Depreciation Expense	<u>(5,124,605)</u>	2,381,790
Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:		
		(30,000,000)
Amortization of gain or loss from debt refunding: In governmental funds, any gain or loss resulting from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. Current year amortization of deferred amounts from debt refunding was:		
		(82,107)
Bond premiums are recognized as Other Financing Sources in the period they are received in governmental funds. In the government-wide statements, premiums are amortized over the life of the debt. The difference between premiums recognized in the current period and the premiums amortized for the current period are:		
Bond premiums	\$ (425,338)	
Bond premiums amortized	<u>113,877</u>	(311,461)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the fiscal year. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		
		59,789
Early retirement incentives: Early retirement incentives costs are recognized when employer contributions are made. In the statement of activities, early retirement incentives costs are recognized on the accrual basis. This year, the difference between early retirement incentives costs and actual employer contributions was:		
		188,063
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		
		29,922
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:		
		1,564,120
Debt Service: In the governmental funds, repayment of long-term obligations are reported as expenditures. In the government-wide statements, repayments of long-term obligations are reported as reduction of liabilities. The amount of expenditures made for the repayment of the principal portion of long-term obligations during the year was:		
General Obligation Bonds		
Current Interest Bonds	\$ 2,555,000	
Capital Appreciation Bonds	2,125,000	
Certificates of Participation	6,615,000	
Capital Leases	<u>249,567</u>	11,544,567
Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, accreted interest is recognized as an expense as the bonds accrete in value. The amount of accreted interest recognized in the current year is:		
		(599,566)
Interest on long-term liabilities in the statement of activities differs from the amount reported in the governmental funds because interest is recorded 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. Accrued interest on outstanding long-term liabilities decreased by:		
		(396,549)
The income and expense of internal service funds are not included in the governmental fund statements, but are included in the governmental activities. The amount that income exceeded expense during the year was:		
		<u>57,131</u>
Change in Net Position of Governmental Activities		<u><u>\$ 3,071,125</u></u>

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Internal Service</u>	<u>Enterprise</u>
	<u>Self-Insurance Fund</u>	<u>Downtown Project Fund</u>
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 158,226	\$ 35,052
Receivables (Note 4)	40,656	133
Capital Assets: (Note 6)		
Furniture and Equipment		56,833
Less: Accumulated Depreciation		(49,530)
Total Assets	<u>\$ 198,882</u>	<u>\$ 42,488</u>
<u>Net Position</u>		
Net Investment in Capital Assets		\$ 7,303
Restricted	\$ 198,882	
Assigned		35,185
Total Net Position	<u>\$ 198,882</u>	<u>\$ 42,488</u>

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<u>Operating Revenues</u>		
Local Revenue	\$ 106,842	\$ 16,279
Total Operating Revenues	106,842	16,279
<u>Operating Expenses</u>		
Classified Salaries		228
Employee Benefits		22
Books and Supplies	3,990	18,144
Contract Services	46,624	1,872
Capital Outlay		5,484
Total Operating Expenses	50,614	25,750
Operating Income	56,228	(9,471)
<u>Non-Operating Revenues</u>		
Interest	903	174
Change in Net Assets	57,131	(9,297)
Net Position - July 1, 2014	141,751	51,785
Net Position - June 30, 2015	\$ 198,882	\$ 42,488

**PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<i>Cash Flows From Operating Activities:</i>		
Cash Received from Services	\$ 68,301	\$ 20,474
Payments to Suppliers for Goods and Services	(50,614)	(23,017)
Net Cash Provided (Used) by Operating Activities	17,687	(2,543)
<i>Cash Flows From Investing Activities:</i>		
Interest	903	174
Net Cash Provided by Investing Activities	903	174
Net Increase (Decrease) in Cash	18,590	(2,369)
Deposits and Investments - July 1, 2014	139,636	37,421
Deposits and Investments - June 30, 2015	\$ 158,226	\$ 35,052
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i>		
Operating Income (Loss)	\$ 56,228	\$ (9,471)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation		5,484
Changes in Operating Assets and Liabilities:		
Receivables	(38,541)	4,195
Accounts Payable		(2,751)
Net Cash Provided (Used) by Operating Activities	\$ 17,687	\$ (2,543)

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	Private-Purpose Trust	Agency	Total Fiduciary Funds
	Scholarship Funds	Student Body Funds	
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 110,295	\$ 544,295	\$ 654,590
Total Assets	110,295	544,295	654,590
<u>Liabilities</u>			
Due to Student Groups		544,295	544,295
Total Liabilities	0	544,295	544,295
<u>Net Position</u>			
Restricted	110,295	0	110,295
Total Net Position	\$ 110,295	\$ 0	\$ 110,295

**PETALUMA CITY SCHOOLS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Private-Purpose Trust
	Scholarship Funds
<u>Additions</u>	
Gifts and Contributions	\$ 443
Interest	2,273
Total Additions	2,716
<u>Deductions</u>	
Scholarships Awarded	2,000
Total Deductions	2,000
Change in Net Position	716
<u>Net Position</u>	
Net Position - July 1, 2014	109,579
Net Position - June 30, 2015	\$ 110,295

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

These financial statements report the combined financial activities of the Petaluma City Elementary School District and the Petaluma Joint Union High School District. The districts share a common administration, and staff as permitted under Education Code Section 35110. These two entities are referred to collectively as Petaluma City Schools, and for purposes of these financial statement notes will be referred to collectively as the District.

The Petaluma City Schools (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Sonoma County. The District was established in 1857 and serves students in kindergarten through grade twelve.

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

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under Governmental Accounting Standards Board (GASB) Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that there are no organizations, with financial activities that benefit the District, which should be included within its financial reporting entity under GASB 61.

The District has also reviewed criteria to determine whether other organizations, for which the District is not financially accountable, should be reported within its financial reporting entity, based on the nature and significance of its relationship with the District, under GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. In order for an organization to be classified as a component unit, all of the GASB 39 criteria must be met, as follows:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity under GASB 39.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Implementation of New Accounting Pronouncements

In June 2012, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, with required implementation for the District during the year ended June 30, 2015. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regards to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

In November 2013, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date*, with required implementation for the District during the year ended June 30, 2015. The objective of this statement is to address an issue regarding application of the transition provisions of GASB 68. This issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB 68.

The effect on beginning net position that resulted from implementing GASB 68 and GASB 71 is presented in Note 18.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and 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 which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise 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. The Enterprise Fund is presented on the proprietary fund statements. 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.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fiduciary funds are reported using the economic resources measurement focus.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Proprietary and 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. Under the 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 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

Revenues – Exchange and Non-exchange Transactions (Concluded):

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.

Unearned Revenue:

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

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

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds - Proprietary funds focus on the determination of the changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

Fiduciary Funds - Fiduciary funds are classified as either *Private-Purpose Trust Funds*, which are used to account for assets held by the District as trustee, or *Agency Funds*, which are used to account for assets of others for which the District acts as an agent.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

The District's accounts are organized into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the District. It is used to account for and report all financial resources not accounted for and reported in another fund.

Bond Interest and Redemption Fund is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

Measure C - Building Fund is used to account for proceeds from the sale of Measure C bonds, which may only be expended on projects identified in the Measure C ballot measure.

Measure E - Building Fund is used to account for proceeds from the sale of Measure E bonds, which may only be expended on projects identified in the Measure E ballot measure.

Non-major Governmental Funds:

Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

Building Fund is used to account for proceeds from sale of bonds (Education Code Section 15146), which may not be used for any purpose other than those for which the bonds were issued.

County School Facilities Fund is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

Capital Projects - Special Reserve Fund is used to provide for the accumulation of General Fund monies for Capital Outlay purposes (Education Code Section 42840).

Proprietary Funds:

Self-Insurance Fund is an internal service fund that was established to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Proprietary Funds (Concluded):

Downtown Project Fund is an enterprise fund that was established to account for transactions of the Downtown Project, which are financed and operated in a manner similar to a business enterprise, where the intent is to recover the cost of providing the services through user charges.

Fiduciary Funds:

Scholarship Fund is a private-purpose trust fund, which is used to account for assets held by the District as trustee. The Scholarship Fund consists of the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, which are both used to provide financial assistance to students of the District.

Student Body Fund is an agency fund that is used to account for assets of others for which the District acts as an agent. The District maintains a Student Body Fund to account for the student body accounts at each school site, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information on page 67.

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 (See Note 3).

G. Use of Estimates

The preparation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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 at June 30.

I. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows for the District's proprietary fund, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

J. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Stores Inventory and Prepaid Expenses/Expenditures

Inventories are recorded using the consumption method in that inventory acquisitions are initially recorded in inventory asset accounts and are recorded as expenditures when the supplies are used. Inventories are valued at average cost and consist of expendable supplies held for consumption.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

2. Stores Inventory and Prepaid Expenses/Expenditures (Concluded)

Prepaid expenses/expenditures represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Reported inventories and prepaid expense/expenditures are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

3. Capital Assets

Furniture and equipment purchased or acquired with an original cost of \$5,000 or more, and capital improvement, acquisition, or construction with an original cost of \$50,000 or more, 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. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	10-30
Buildings and Improvements	25-40
Furniture and Equipment	5-15

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has two items that meet this criterion for reporting in this category. The first item is employer contributions made to the pension plans subsequent to the measurement date of the net pension liability and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. The second item is deferred amount on bond refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets this criterion for reporting in this category. This item is the net difference between projected and actual earnings on pension plan investments and will be recognized in pension expense over a closed period of five years.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

5. Unearned Revenue

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

6. Compensated Absences

All vacation pay and labor related benefits are accrued when incurred in the government-wide financial statements.

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.

7. Pensions

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

8. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums and discounts as well as refunding costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premiums, discounts, or refunding.

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

9. Fund Balance Classification

Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

9. Fund Balance Classification (Concluded)

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body or official that has been given the authority to assign funds. In accordance with board policy, only the governing board and the Chief Business Official / Assistant Superintendent of Business Services may assign amounts for specific purposes.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. In accordance with board policy, the District intends to maintain a Reserve for Economic Uncertainties of at least 3% of the General Fund's annual total expenditures and other financing uses.

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

10 Local Control Funding Formula (LCFF)//Property Tax

As part of the 2013-14 State Budget Act, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (LCFF). The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balances (Concluded)

10. Revenue Limit/Property Tax (Concluded)

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes to the District. 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 (January 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 alternative 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 LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 2,000		\$ 654,589
Cash in Revolving Fund	29,200		
County Pool Investments	<u>40,806,428</u>	<u>\$ 35,052</u>	<u>1</u>
Total Deposits and Investments	<u>\$ 40,837,628</u>	<u>\$ 35,052</u>	<u>\$ 654,590</u>

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are 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).

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 40,806,428	\$ 40,790,105	\$ 15,726,144	\$ 25,080,284

Segmented Time Distribution (Concluded)

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 35,052	\$ 35,038	\$ 13,508	\$ 21,544

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 40,806,428	\$ 40,790,105			\$ 40,806,428

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 35,052	\$ 35,038			\$ 35,052

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. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits

This 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.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2015, the District does not have any investments that are held by counterparties.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The excess of expenditures over appropriations in the General Fund were as follows:

	<u>Excess Expenditures</u>
Certificated Salaries	\$ 412,105
Employee Benefits	779,860
Capital Outlay	32,848
Debt Service: Interest and Fiscal Charges	1,894
Other Expenditures	126,003

The District incurred unanticipated expenditures in the above expenditure classifications for which the budget was not revised.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>	<u>Business- Type Activities</u>
Federal Government	\$ 1,645,604	\$ 212,209		\$ 1,857,813	
State Government	1,136,034	12,971		1,149,005	
Local Governments	1,028,530	15,135		1,043,665	
Miscellaneous	<u>319,584</u>	<u>307,205</u>	<u>\$ 40,656</u>	<u>667,445</u>	<u>\$ 133</u>
Totals	<u>\$ 4,129,752</u>	<u>\$ 547,520</u>	<u>\$ 40,656</u>	<u>\$ 4,717,928</u>	<u>\$ 133</u>

NOTE 5 - INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2015 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 578,895	\$ 568,670
Measure C - Building		191
Measure E - Building		22
Cafeteria	29,918	311,000
Adult Education		12,528
Capital Projects - Special Reserve	<u>538,752</u>	<u>255,154</u>
Totals	<u>\$ 1,147,565</u>	<u>\$ 1,147,565</u>

All interfund receivables and payables are scheduled to be paid within one year.

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2014-15 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 56,026
Bond Interest and Redemption	\$ 425,338	
Measure C - Building Fund	135,780	6,569,035
Measure E - Building Fund		166,303
Cafeteria	28,918	
Building		135,780
Capital Projects - Special Reserve	<u>6,337,108</u>	
Totals	<u>\$ 6,927,144</u>	<u>\$ 6,927,144</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

Transfer of \$28,918 from the General Fund to the Cafeteria Fund to supplement the child nutrition program.

Transfer of \$27,108 from the General Fund to the Capital Projects - Special Reserve Fund to provide funding for future capital outlay projects.

Transfer of \$259,035 from the Measure C - Building Fund to the Bond Interest and Redemption Fund to transfer the net bond premium from the sale of general obligation bonds.

Transfer of \$166,303 from the Measure E - Building Fund to the Bond Interest and Redemption Fund to transfer the net bond premium from the sale of general obligation bonds.

Transfer of \$6,310,000 from the Measure C - Building Fund to the Capital Projects - Special Reserve Fund to provide funding for the repayment of the outstanding 2010 Certificate of Participation.

Transfer of \$135,780 from the Building Fund to the Measure C - Building Fund to provide funding for approved capital projects.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

A. Governmental Activities

	Balances <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2015</u>
Land	\$ 4,266,886			\$ 4,266,886
Sites and Improvements	15,244,505	\$ 31,652		15,276,157
Buildings and Improvements	137,226,597	1,582,136		138,808,733
Furniture and Equipment	6,433,901	236,724		6,670,625
Work-in-Progress	199,695	7,506,395	\$ 1,850,512	5,855,578
Totals at Historical Cost	<u>163,371,584</u>	<u>9,356,907</u>	<u>1,850,512</u>	<u>170,877,979</u>
Less Accumulated Depreciation for:				
Sites and Improvements	7,440,312	732,432		8,172,744
Buildings and Improvements	58,624,565	4,109,011		62,733,576
Furniture and Equipment	5,711,335	283,162		5,994,497
Total Accumulated Depreciation	<u>71,776,212</u>	<u>5,124,605</u>	<u>0</u>	<u>76,900,817</u>
Governmental Activities Capital Assets, net	<u>\$ 91,595,372</u>	<u>\$ 4,232,302</u>	<u>\$ 1,850,512</u>	<u>\$ 93,977,162</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

A. Governmental Activities (Concluded)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,281,952
Supervision of Instruction	125,121
Instructional Library, Media, and Technology	50,981
School Site Administration	334,919
Home-to-School Transportation	155,641
Food Services	134,774
All Other Pupil Services	404,806
All Other General Administration	209,361
Plant Services	<u>427,050</u>
 Total Depreciation Expense	 <u><u>\$ 5,124,605</u></u>

B. Business-Type Activities

	Balances <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2015</u>
Furniture and Equipment	\$ 56,833			\$ 56,833
Totals at Historical Cost	<u>56,833</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>56,833</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	44,046	5,484		49,530
Total Accumulated Depreciation	<u>44,046</u>	<u>5,484</u>	<u>0</u>	<u>49,530</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 12,787</u>	<u>\$ (5,484)</u>	<u>\$ 0</u>	<u>\$ 7,303</u>

Depreciation expense was charged to business-type activities as follows:

Enterprise	<u><u>\$ 5,484</u></u>
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NOTE 7 - GENERAL OBLIGATION BONDS

On August 27, 2014, Petaluma City Elementary School District issued \$7 million of current interest bonds with interest rates ranging from 3.0 to 5.0 percent. The Election of 2014, Series A bonds were authorized at an election held on June 3, 2014, whereby the requisite 55% of the voters of the District approved the sale of up to \$21 million of general obligation bonds to finance various projects identified in the Measure E ballot measure. Principal and interest payments due on the bonds will be paid semiannually on February 1 and August 1 of each year until fully defeased on August 1, 2039.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

On August 27, 2014, Petaluma Joint Union High School District issued \$23 million of current interest bonds with interest rates ranging from 2.0 to 3.75 percent. The Election of 2014, Series A bonds were authorized at an election held on June 3, 2014, whereby the requisite 55% of the voters of the District approved the sale of up to \$68 million of general obligation bonds to finance various projects identified in the Measure C ballot measure. Principal and interest payments due on the bonds will be paid semiannually on February 1 and August 1 of each year until fully defeased on August 1, 2039.

The outstanding general obligation debt of the District as of June 30, 2015 is as follows:

A. Current Interest Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2014	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2015
<u>Elementary</u>							
2008 Refunding	2.00-3.80	2024	\$ 7,965,000	\$ 4,685,000		\$ 685,000	\$ 4,000,000
2011 Refunding	3.00-4.00	2027	8,470,000	6,770,000		875,000	5,895,000
2013 Refunding	2.00-4.00	2028	1,880,000	1,880,000		100,000	1,780,000
2014 Series A	3.00-5.00	2040	<u>7,000,000</u>	<u>0</u>	<u>\$ 7,000,000</u>	<u>0</u>	<u>7,000,000</u>
Total Elementary			<u>25,315,000</u>	<u>13,335,000</u>	<u>7,000,000</u>	<u>1,660,000</u>	<u>18,675,000</u>
<u>High School</u>							
1992 Series G	2.00-4.25	2025	2,418,791	2,415,000			2,415,000
2010 Refunding	2.00-4.00	2020	9,095,000	7,865,000		245,000	7,620,000
2012 Refunding	2.25-4.00	2024	12,845,000	12,215,000		650,000	11,565,000
2014 Series A	2.00-4.00	2040	<u>23,000,000</u>	<u>0</u>	<u>\$ 23,000,000</u>	<u>0</u>	<u>23,000,000</u>
Total High School			<u>24,358,791</u>	<u>22,495,000</u>	<u>23,000,000</u>	<u>895,000</u>	<u>44,600,000</u>
Total Current Interest Bonds			<u>\$ 49,673,791</u>	<u>\$ 35,830,000</u>	<u>\$ 30,000,000</u>	<u>\$ 2,555,000</u>	<u>\$ 63,275,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2015, are as follows:

Year Ended June 30	Principal	Interest	Totals
2016	\$ 5,495,000	\$ 2,041,574	\$ 7,536,574
2017	5,585,000	1,848,186	7,433,186
2018	3,070,000	1,679,324	4,749,324
2019	2,780,000	1,570,699	4,350,699
2020	6,025,000	1,420,711	7,445,711
2021-2025	19,160,000	4,811,720	23,971,720
2026-2030	5,020,000	3,174,594	8,194,594
2031-2035	6,385,000	2,302,219	8,687,219
2036-2040	<u>9,755,000</u>	<u>943,571</u>	<u>10,698,571</u>
Totals	<u>\$ 63,275,000</u>	<u>\$ 19,792,598</u>	<u>\$ 83,067,598</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds

Capital Appreciation Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2014	Accreted Current Year	Redeemed Current Year	Outstanding June 30, 2015
<u>High School</u>							
1995 Refunding	4.65-5.80	2018	\$ 8,972,019	\$ 12,337,211	\$ 599,565	\$ 2,125,000	\$ 10,811,776
Total Capital Appreciation Bonds			\$ 8,972,019	\$ 12,337,211	\$ 599,565	\$ 2,125,000	\$ 10,811,776

The outstanding obligation for the refunding capital appreciation bonds at June 30, 2015, is as follows:

Year Ended June 30	Rate %	Amount of Original Issue (Principal)	Accreted Interest	Totals
2016	5.65%	\$ 783,511	\$ 1,550,737	\$ 2,334,248
2017	5.70%	800,922	1,607,986	2,408,908
2018	5.70%	1,005,584	2,018,874	3,024,458
2019	5.70%	1,012,116	2,032,046	3,044,162
Totals		\$ 3,602,133	\$ 7,209,643	\$ 10,811,776

The annual requirements to amortize the refunding capital appreciation bonds at June 30, 2015, are as follows:

Year Ended June 30	Principal	Interest	Totals
2016	\$ 783,511	\$ 1,561,489	\$ 2,345,000
2017	800,922	1,759,078	2,560,000
2018	1,005,584	2,394,416	3,400,000
2019	1,012,116	2,607,884	3,620,000
Totals	\$ 3,602,133	\$ 8,322,867	\$ 11,925,000

NOTE 8 - CAPITAL LEASE

The District has entered into a lease-purchase agreement to finance the acquisition of a solar photovoltaic system valued at \$3,384,463, which provides for title to pass upon the expiration of the lease period.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 8 - CAPITAL LEASE (CONCLUDED)

Future minimum lease payments under these agreements are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 205,500	\$ 148,843	\$ 354,343
2017	213,797	136,077	349,874
2018	222,430	122,796	345,226
2019	231,412	108,978	340,390
2020	240,756	94,603	335,359
2021-2025	1,357,692	236,225	1,593,917
Totals	<u>\$ 2,471,587</u>	<u>\$ 847,522</u>	<u>\$ 3,319,109</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the leased assets.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Descriptions: The Post Employment Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by Petaluma City Schools. The Plan provides medical insurance benefits to eligible retirees and their spouses. Eligible employees are those who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65 and are capped at negotiated amounts. As of June 30, 2015, membership of the Plan consists of 7 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no active plan members.

Contribution Information: The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to refund benefits as determined annually through the agreements between the District, CEA, CSEA and the unrepresented groups. For fiscal year 2014-15, the District contributed \$29,922 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums). The remainder of the premiums were funded from beginning net position and interest earnings.

Future estimated payments required under the plan are as follows:

Year Ended <u>June 30</u>	Other Post-Employment <u>Benefits</u>
2016	\$ 29,089
2017	27,946
Total	<u>\$ 57,035</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

Funding Status and Funding Progress: The District uses the Alternative Measurement Method for valuations of the ongoing plan and the measurement methods involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Valuation Methods and Assumptions: The projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the valuation measurement, the alternative measure method was used. Healthcare cost trend rates ranged from current actual amounts up to the agreed upon caps. Mortality estimates were not included as the District pays the healthcare benefits only to age 65. The UAAL was fully amortized and no phase in is being applied. There were no assets set aside to fund future amounts.

NOTE 10 - RETIREMENT PLANS

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

A. California State Teachers' Retirement System (CalSTRS)

Plan Descriptions, Benefits Provided and Employees Covered

The California State Teachers Retirement System (CalSTRS) administers a defined benefit plan, the State Teachers' Retirement Plan, which provides pension benefits to California full-time and part-time public school teachers and certain other employees of the public school system. The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. The Teachers' Retirement Board (board) has exclusive control over the administration of the retirement system plans and the investment of funds.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS)

Plan Descriptions, Benefits Provided and Employees Covered (Completed)

Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website

Defined Benefit Program:

The Defined Benefit Program has two benefit formulas: (1) CalSTRS 2% at 60 with members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS and (2) CalSTRS 2% at 62 with members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS. Members are eligible for normal retirement at age 60 (CalSTRS 2% at 60) or age 62 (CalSTRS 2% at 62), with a minimum of five years of credited service. After earning five years of credited service, members become fully vested in retirement benefits. There is a postretirement annual benefit adjustment increase of 2.0 percent per year on a simple basis and this benefit is vested for members who pay the higher contribution rates enacted in AB 1469, or retired in 2014. The Defined Benefit Program provides retirement benefits based on a members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The Teachers' Retirement Law (Education Code Section 22000 et. seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation.

Purchasing power protection is provided to members of the Defined Benefit Program through the Purchasing Power Protection Program. Quarterly annual distributions to retired and disabled members and beneficiaries restore purchasing power up to 85% of the initial monthly allowance. Funding for this program is from School Lands Revenue and the Supplemental Benefit Maintenance Account.

Defined Benefit Supplement Program:

The Defined Benefit Supplement Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension program that operates within the STRP. All members of the Defined Benefit Program who make contributions to CalSTRS on creditable compensation earned on and after January 1, 2001, have an account under the Defined Benefit Supplement Program and are eligible to receive a Defined Benefit Supplement benefit based on the amount of funds contributed to the Defined Benefit Supplement account. Membership in the Defined Benefit Supplement Program is mandatory. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 3% for the fiscal year ended June 30, 2014. The board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet the criteria set out in board policy.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS)

Plan Descriptions, Benefits Provided and Employees Covered (Concluded)

Cash Balance Benefit Program:

The Cash Balance Benefit Program, established under Chapter 592, Statutes of 1995 (AB 1298), and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension program. The Cash Balance Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Participation in the Cash Balance Benefit Program is optional; a school district or county office of education may elect to offer the Cash Balance Benefit Program. The District has not elected to offer this program.

STRP Replacement Benefits Program:

The STRP Replacement Benefits Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three STRP programs and is established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS members varies based on the age at which they retire. In 2014, the federal dollar limit for retirees is \$210,000, without considering the member's retirement age. Under CalSTRS 2% at 62, members will not receive any benefits in excess of the IRC Section 415(b) limit.

Contributions

Defined Benefit Program:

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law (Education Code Section 22000 et seq.) Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Under CalSTRS 2% at 60, the member contribution rate was 8.0% of applicable member earnings. Under CalSTRS 2% at 62, members contribute 50% of the normal cost of their retirement plan, which resulted in a contribution rate of 8.0% of applicable member earnings. In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2% annual benefit adjustment increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2% annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers the portion of the 2% annual benefit adjustment.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Contributions (Concluded)

Employers: The required contribution rate was 8.25% of applicable member earnings. In accordance with AB 1469, employer contributions will increase from 8.25% to a total of 19.1% of applicable member earnings phased in over the next seven years, beginning in fiscal year 2014-15. The contribution rate for fiscal year 2014-15 was 8.88%.

State: The required contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. In addition, beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments beginning in October 1, 2013, at an additional contribution rate of 1.024%.

The amount of District contributions to CalSTRS for the fiscal year ended June 30, 2015, was 8.88% of applicable member earnings in the fiscal year. The District's contribution to CalSTRS for the fiscal year ended June 30, 2015 was \$2,871,580.

Defined Benefit Supplement Program

Beginning July 1, 2002, for creditable service in excess of one year credit within one fiscal year, member contributions of 2% and employer contributions of 8% are credited to the members nominal Defined Benefit Supplement Program account (up to the compensation cap). Contributions for compensation as a result of retirement incentives or limited-term enhancements are credited to the members' Defined Benefit Supplement Program accounts for CalSTRS 2% at 60 members.

Cash Balance Benefit Program

The District does not participate in this program.

STRP Replacement Benefits Program

The program is funded as needed. Contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the Replacement Benefits Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014.

The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

¹ Net of investment expenses, but gross of administrative expenses. CalSTRS uses a 7.5% assumed investment rate of return for funding purposes, which is net of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. Refer to CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis available on CalSTRS website for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Concluded)

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash / Liquidity	1%	0.00%
Total	100%	

* 10-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.60%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	Discount Rate 1% Decrease 6.60%	Discount Rate Current Rate 7.60%	Discount Rate 1% Increase 8.60%
District's proportionate share of the net pension liability	\$ 58,202,106	\$ 37,339,238	\$ 19,943,397

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

The State of California is considered to be a nonemployer contributing entity of the STRP. The state's proportionate share of the collective net pension liability used in the proportionate share calculation was 37.65% for the year ended June 30, 2014. The District's proportionate share of the STRP net pension liability and deferred items was calculated by multiplying the District's proportionate share of contributions for employers and nonemployer contributing entity by the aggregate amounts reported by CalSTRS as of June 30, 2014. As of June 30, 2015, the District reported a liability of \$37,339,236 for its proportionate share of the net pension liability.

The District's proportionate share of the net pension liability as of June 30, 2013 and June 30, 2014 was as follows:

	CalSTRS
Proportion - June 30, 2013	0.0639%
Proportion - June 30, 2014	0.0639%
Change - Increase (Decrease)	0.0000%

For the fiscal year ended June 30, 2015, the District recognized pension expense of \$3,223,326. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to measurement date	\$ 2,871,580	
District's Proportionate share of State On-Behalf payments subsequent to measurement date	1,608,193	
Net difference between projected and actual earnings on plan investments *		\$ 9,194,461
Totals	\$ 4,479,773	\$ 9,194,461

* Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

\$2,871,580 reported as deferred outflows of resources were related to District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. The District also recognized revenue in the amount of \$1,608,193 for their proportionate support provided by the state as on-behalf payments subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

Year Ended June 30	
2016	\$ 2,298,615
2017	2,298,615
2018	2,298,615
2019	2,298,616

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the comprehensive annual financial report issued by CalSTRS available on their website. The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. CalSTRS maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are earned. CalSTRS recognizes employer and state contributions when earned and the employer or state has made a formal commitment to provide the contributions.

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the Employers Schools Pool Plan (the Plan) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire. The Plan provides retirement, disability, and disability benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Contributions (Concluded)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 shall pay the higher of fifty percent of normal costs or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2015 was 11.771% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2015 was \$1,354,896.

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

As of June 30, 2015, the District reported a liability of \$11,782,491 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2013 and June 30, 2014 was as follows:

	CalPERS
Proportion - June 30, 2013	0.1038%
Proportion - June 30, 2014	0.1038%
Change - Increase (Decrease)	0.0000%

For the fiscal year ended June 30, 2015, the District recognized pension expense of \$1,047,223. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,354,896	
Net difference between projected and actual earnings on pension plan investments		\$ 4,048,596
Totals	\$ 1,354,896	\$ 4,048,596

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)

\$1,354,896 reported as deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	\$ 1,012,149
2017	1,012,149
2018	1,012,149
2019	1,012,149

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuations were determined using the following actuarial methods and assumptions:

	CalPERS
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases (1)	
Investment Rate of Return (2)	7.50%
Post Retirement Benefit Increase (3)	

(1) Varies by entry age and service

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

(3) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS' website.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Pool. The results of the crossover testing for the Pool are presented in a detailed report that can be obtained at CalPERS's website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. For the Pool, this difference was deemed immaterial.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

Discount Rate (Concluded)

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	Discount Rate -1% 6.50%	Current Discount Rate 7.5%	Discount Rate +1% 8.50%
District's proportionate share of the net pension liability	\$ 20,669,178	\$ 11,782,491	\$ 4,356,767

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - RETIREMENT PLANS (CONCLUDED)

C. Social Security / Tax Deferred Annuity

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District and participating employees are both required to contribute 6.2% of employee gross earnings.

The District also has a 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The 403(b) plan is available for salary deferrals; however, no District contributions are made.

NOTE 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2015, is shown below:

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015	Due within One Year
Compensated Absences	\$ 536,828	\$ 477,039	\$ 536,828	\$ 477,039	\$ 477,039
General Obligation Bonds:					
Current Interest	35,830,000	30,000,000	2,555,000	63,275,000	5,495,000
Capital Appreciation	12,337,211	599,565	2,125,000	10,811,776	2,334,248
Bond Premium	1,020,442	425,338	113,877	1,331,903	116,722
Certificates of Participation	6,615,000		6,615,000	0	
Capital Leases	2,721,154		249,567	2,471,587	205,500
Early Retirement Incentives	188,063		188,063	0	
Other Post-Employment Benefits	86,957		29,922	57,035	29,089
Net Pension Liability - CalSTRS *	45,645,791		8,306,555	37,339,236	
Net Pension Liability - CalPERS *	16,032,510		4,250,019	11,782,491	
Totals *	\$ 121,013,956	\$ 31,501,942	\$ 24,969,831	\$ 127,546,067	\$ 8,657,598

* The prior year balances have been adjusted to reflect the restatement discussed at Note 18 in these financial statements.

The general obligation bonds are an obligation of the Bond Interest and Redemption Fund.

All other long-term liabilities are primarily obligations of the General Fund.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - FUND BALANCES

The fund balances as of June 30, 2015 are as follows:

	General <u>Fund</u>	Bond Interest & Redemption <u>Fund</u>	Measure C - Building <u>Fund</u>	Measure E - Building <u>Fund</u>	Non-Major Governmental <u>Funds</u>	<u>Totals</u>
Nonspendable	\$ 128,645				\$ 22,494	\$ 151,139
Restricted	2,127,776	\$ 10,068,267	\$ 12,583,115	\$ 5,117,175	1,504,274	31,400,607
Assigned	351,638				642,000	993,638
Unassigned:						
Economic Uncertainties	2,244,371					2,244,371
Other	<u>3,926,069</u>					<u>3,926,069</u>
Total Fund Balances	<u>\$ 8,778,499</u>	<u>\$ 10,068,267</u>	<u>\$ 12,583,115</u>	<u>\$ 5,117,175</u>	<u>\$ 2,168,768</u>	<u>\$ 38,715,824</u>

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$1,608,193 to CalSTRS (5.678848% of creditable compensation subject to CalSTRS).

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014-15, the District participated in Redwood Empire Schools Insurance Group (RESIG) for purposes of pooling risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 15 - JOINT VENTURES

The District participates in three joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools Insurance Group (RESIG) for workers' compensation, property and liability, and dental coverage, the Schools Excess Liability Fund public entity risk pools for excess liability, and the School Project for Utility Rate Reduction joint powers authority (JPA) for direct purchase of gas, electricity, and other utility services. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

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

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 16 - CHARTER SCHOOL

The District has approved Charters for the Live Oak Charter School, 6th Grade Charter Academy, Mary Collins School at Cherry Valley, Penngrove, and Gateway to College pursuant to Education Code Section 47605. The 6th Grade Charter Academy, Mary Collins School at Cherry Valley, Penngrove, and Gateway to College charter schools are operated by the District, and its financial activities are presented in the General Fund. The Live Oak Charter School is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted accounting principles and is not considered a component unit of the District. The District receives revenue on behalf of the Live Oak Charter School which it passes on to the Charter School.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is subject to various other legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these other actions will not materially affect the financial position or results of operations of the District.

B. State and Federal Allowances, Awards and Grants

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

C. Questioned Cost

As discussed in **Finding 14-5** in the Findings and Questioned Costs Section of the prior year audit report, the pupils who attended the Gateway to College Academy Charter School, during the 2013-14 school-year, were not under the immediate supervision and control of an employee of the charter school who possessed a valid teaching certification in accordance with subdivision (l) of Education Code Section 47605. As a result, the average daily attendance reported as classroom-based instruction on the charter school's P-2 attendance reports, was overstated by 36.26 ADA, which resulted in questioned costs of \$272,024.

As discussed in **Finding 15-4** in the Findings and Questioned Costs Section of this report, the pupils who attended the Gateway to College Academy Charter School during the first semester of the 2014-15 school-year, were not under the immediate supervision and control of an employee of the charter school who possessed a valid teaching certification in accordance with subdivision (l) of Education Code Section 47605. As a result, the average daily attendance reported as classroom-based instruction on the charter school's P-2 attendance reports, was overstated by 42.51 ADA, which resulted in questioned costs of \$345,348.

The District has submitted a request for summary review to the Education Audit Appeals Panel, for prior year **Finding 14-5**, claiming substantial compliance. In addition, the District plans on submitting a similar request for current year **Finding 15-4**. As of the completion of the fiscal year 2014-15 annual audit, both of these issues remain unresolved. Accordingly, since there is no way to determine the outcome of the District's request for a summary review, these financial statements do not contain any adjustments as a result of either finding.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 18 - RESTATEMENT OF NET POSITION

During fiscal year 2014-15, the District implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68) and Statement No. 71 (GASB 71), as discussed in Note 1B. As a result, the beginning net position of the District has been restated to reflect the District's proportionate share of the net pension liability related to its participation in the CalSTRS and CalPERS pension plans, and the deferral of the District's proportionate share of prior year contributions made to CalSTRS and CalPERS, which were previously reported as a component of pension expense in the prior fiscal year. (In accordance with GASB 71, the beginning net position restatement does not reflect any other adjustments related to deferred inflows or outflows of resources related to pensions, which result from differences between expected and actual, projected and actual earnings on investments, or changes in assumptions, as the information required to determine such amounts was not available during the first year implementation of GASB 68.)

The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2014 (as originally stated)	<u>\$ 52,551,797</u>
Understatement of Net Pension Liability - CalSTRS	(45,645,791)
Understatement of Net Pension Liability - CalPERS	(16,032,510)
Understatement of Deferred Outflow of Resources - CalSTRS	2,335,420
Understatement of Deferred Outflow of Resources - CalPERS	<u>1,248,646</u>
Net Restatement	<u>(58,094,235)</u>
Net Position - July 1, 2014 (as restated)	<u>\$ (5,542,438)</u>

NOTE 19 - SUBSEQUENT EVENT

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 7, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

SUPPLEMENTARY INFORMATION SECTION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 30,885,056	\$ 25,049,865	\$ 25,048,751	\$ (1,114)
Local Sources	25,486,898	31,071,092	31,071,093	1
Total LCFF Sources	56,371,954	56,120,957	56,119,844	(1,113)
Federal Revenue	2,854,223	3,160,249	2,916,369	(243,880)
Other State Revenue	2,590,594	4,751,113	4,743,686	(7,427)
Other Local Revenue	6,886,464	7,954,133	8,754,345	800,212
Total Revenues	68,703,235	71,986,452	72,534,244	547,792
<u>Expenditures</u>				
Certificated Salaries	32,838,005	32,354,783	32,766,888	(412,105)
Classified Salaries	10,911,170	10,866,015	10,793,423	72,592
Employee Benefits	15,852,658	16,717,298	17,497,158	(779,860)
Books and Supplies	2,504,660	4,003,514	2,503,231	1,500,283
Services and Other				
Operating Expenditures	8,796,018	11,015,092	9,955,965	1,059,127
Capital Outlay	18,288	262,770	295,618	(32,848)
Debt Service:				
Principal Retirement	230,274	246,803	241,083	5,720
Interest and Fiscal Charges	187,199	187,606	189,500	(1,894)
Other Expenditures	(62,791)	(62,893)	63,110	(126,003)
Total Expenditures	71,275,481	75,590,988	74,305,976	1,285,012
Excess of Revenues (Under) Expenditures	(2,572,246)	(3,604,536)	(1,771,732)	1,832,804
<u>Other Financing (Uses)</u>				
Operating Transfers Out	0	(27,107)	(56,026)	(28,919)
Net Change in Fund Balances	(2,572,246)	(3,631,643)	(1,827,758)	\$ 1,803,885
Fund Balances - July 1, 2014	10,606,257	10,606,257	10,606,257	
Fund Balances - June 30, 2015	\$ 8,034,011	\$ 6,974,614	\$ 8,778,499	

**PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<u>Assets</u>			
Deposits and Investments	\$ 697,393	\$ 112,824	\$ 586,490
Receivables		179,872	115,120
Due from Other Funds		29,918	
Stores Inventory		21,494	
Total Assets	<u>\$ 697,393</u>	<u>\$ 344,108</u>	<u>\$ 701,610</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 69,695	\$ 11,614	\$ 150,267
Due to Other Funds		311,000	12,528
Total Liabilities	<u>69,695</u>	<u>322,614</u>	<u>162,795</u>
Fund Balances:			
Nonspendable		21,494	1,000
Restricted	627,698		
Assigned			537,815
Total Fund Balances	<u>627,698</u>	<u>21,494</u>	<u>538,815</u>
Total Liabilities and Fund Balances	<u>\$ 697,393</u>	<u>\$ 344,108</u>	<u>\$ 701,610</u>

Capital Facilities	Building	County School Facilities	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
\$ 453,455		\$ 162	\$ 107,349	\$ 1,957,673
252,469			59	547,520
			538,752	568,670
				21,494
<u>\$ 705,924</u>	<u>\$ 0</u>	<u>\$ 162</u>	<u>\$ 646,160</u>	<u>\$ 3,095,357</u>
\$ 116,331				\$ 347,907
			\$ 255,154	578,682
<u>116,331</u>			<u>255,154</u>	<u>926,589</u>
589,593		\$ 162	286,821	22,494
			104,185	1,504,274
<u>589,593</u>		<u>162</u>	<u>391,006</u>	<u>642,000</u>
<u>\$ 705,924</u>	<u>\$ 0</u>	<u>\$ 162</u>	<u>\$ 646,160</u>	<u>\$ 3,095,357</u>

PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<u>Revenues</u>			
LCFF Sources:			
State Apportionment / Transfers			\$ 643,428
Federal Revenue		\$ 1,096,153	62,690
State Revenue		111,611	
Local Revenue	\$ 2,837	705,884	255,206
Total Revenues	<u>2,837</u>	<u>1,913,648</u>	<u>961,324</u>
<u>Expenditures</u>			
Current:			
Instruction			645,823
School Site Administration			318,278
Food Services		1,972,999	
Other Pupil Services			118,129
Other General Administration			66,281
Plant Services	302,478	5,140	15,750
Facilities Acquisition and Construction			
Debt Service:			
Principal Retirement			8,484
Interest and Issuance Costs			747
Total Expenditures	<u>302,478</u>	<u>1,978,139</u>	<u>1,173,492</u>
Excess of Revenues Over (Under) Expenditures	<u>(299,641)</u>	<u>(64,491)</u>	<u>(212,168)</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In		28,918	
Operating Transfers Out			
Total Other Financing Sources (Uses)	<u>0</u>	<u>28,918</u>	<u>0</u>
Net Change in Fund Balances	(299,641)	(35,573)	(212,168)
Fund Balances - July 1, 2014	<u>927,339</u>	<u>57,067</u>	<u>750,983</u>
Fund Balances - June 30, 2015	<u>\$ 627,698</u>	<u>\$ 21,494</u>	<u>\$ 538,815</u>

<u>Capital Facilities</u>	<u>Building</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
				\$ 643,428
				1,158,843
				111,611
\$ 795,359		\$ 1	\$ 341,296	2,100,583
<u>795,359</u>		<u>1</u>	<u>341,296</u>	<u>4,014,465</u>
				645,823
				318,278
				1,972,999
				118,129
57,238				123,519
134,497			69,262	527,127
1,363,500			86,288	1,449,788
			6,615,000	6,623,484
			54,757	55,504
<u>1,555,235</u>		<u>0</u>	<u>6,825,307</u>	<u>11,834,651</u>
<u>(759,876)</u>		<u>1</u>	<u>(6,484,011)</u>	<u>(7,820,186)</u>
	\$ (135,780)		6,337,108	6,366,026
				(135,780)
<u>0</u>	<u>(135,780)</u>	<u>0</u>	<u>6,337,108</u>	<u>6,230,246</u>
(759,876)	(135,780)	1	(146,903)	(1,589,940)
1,349,469	135,780	161	537,909	3,758,708
<u>\$ 589,593</u>	<u>\$ 0</u>	<u>\$ 162</u>	<u>\$ 391,006</u>	<u>\$ 2,168,768</u>

PETALUMA CITY SCHOOLS
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
06/30/15	\$ 0	\$ 57,035	\$ 57,035	0%	\$ 0	0%
06/30/14	0	86,957	86,957	0%	0	0%
06/30/13	0	122,347	122,347	0%	0	0%

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS

JUNE 30, 2015

<u>CalSTRS</u>	<u>6/30/14 *</u>
District's proportion of the collective net pension liability	0.0639%
District's proportionate share of the collective net pension liability	\$ 37,339,236
Portion of state's total proportionate share of the collective net pension liability associated with the District	<u>883,989</u>
Total collective net pension liability attributed to District	<u>\$ 38,223,225</u>
District's covered-employee payroll	\$ 28,459,709
District's proportionate share of the collective net pension liability as a percentage of covered-employee payroll	131.20%
Plan fiduciary net position as a percentage of the total pension liability	76.52%

* The information presented above is determined as of the measurement date of the collective net pension liability. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, additional years will be added to this schedule as information becomes available until 10-years are presented.

PETALUMA CITY SCHOOLS

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS

JUNE 30, 2015

<u>CalPERS</u>	<u>6/30/14 *</u>
District's proportion of the collective net pension liability	0.1038%
District's proportionate share of the collective net pension liability	\$ 11,782,491
District's covered-employee payroll	\$ 10,895,176
District's proportionate share of the collective net pension liability as a percentage of covered-employee payroll	108.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%

* The information presented above is determined as of the measurement date of the collective net pension liability. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, additional years will be added to this schedule as information becomes available until 10-years are presented.

PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALSTRS

JUNE 30, 2015

<u>CalSTRS</u>	<u>6/30/14 *</u>
Statutorily required District contributions (actuarially determined)	\$ 2,871,580
Contributions recognized by pension plan in relation to the statutorily required District contributions	<u>2,871,580</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 32,337,613
Contributions recognized by pension plan in relation to statutorily required District contribution as a percentage of covered-employee payroll	8.880%

Methods and Assumptions Used to Determine Contribution Rates

The following actuarial methods and assumptions were used to determine the actuarially determined contribution for the STRP presented above:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll basis
Amortization Period	Open
Remaining Amortization Period	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Interest on Accounts	4.50%
Wage Growth	3.75%
Consumer Price Inflation	3.00%
Post-retirement Benefit Increases	2.00% simple

Changes in Benefit Terms

The California Public Employees' Pension Reform Act of 2013 (PEPRA) resulted in a new benefit formula. CalSTRS 2% at 62, for members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. Significant changes compared to CalSTRS 2% at 60 benefit formula include raising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120 percent of the Social Security wage base, annually adjusted for changes to the Consumer Price Index.

Changes of Assumptions

There were no changes in major assumptions from the June 30, 2012, actuarial valuation.

* This information is determined as of June 30, 2014, reflecting the most recent information available from the pension plan. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, additional years will be added to this schedule as information becomes available until 10-years are presented.

PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALPERS

JUNE 30, 2015

<u>CalPERS</u>	<u>6/30/14 *</u>
Contractually required District contribution (actuarially determined)	\$ 1,354,896
Contributions recognized by pension plan in relation to the contractually required District contributions	<u>1,354,896</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 11,510,458
Contributions recognized by pension plan in relation to contractually required District contribution as a percentage of covered-employee payroll	11.771%

Methods and Assumptions Used to Determine Contribution Rates

Valuation Date	June 30, 2013
Funding Method	Individual Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Varies
Asset Valuation Method	Expected Value of Assets Smoothing Technique
Inflation	2.75%
Salary Increases	5.06% Average, Including Inflation of 3.00%
Investment Rate of Return	7.50%, net of Administrative Expenses
Retirement Age	CalPERS Experience Study
Mortality	CalPERS Experience Study

Changes in Benefit Terms

There were no changes to benefit terms that applied to all members of the CalPERS.

Changes of Assumptions

There were no changes in assumptions.

* This information is determined as of June 30, 2014, reflecting the most recent information available from the pension plan. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, additional years will be added to this schedule as information becomes available until 10-years are presented.

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

ORGANIZATION

Petaluma City Schools was established in 1857 under the laws of the State of California. The District operates five elementary schools, two junior high schools, two comprehensive high schools, three continuation schools, a community day school, and four charter schools. The District also operates an independent study school and an adult school. There were no boundary changes during the year.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Michael Baddeley	President	November 2018
Sheri Chlebowski	Clerk	November 2018
Phoebe Ellis	Member	November 2018
Troy Sanderson	Member	November 2016
Mary Schafer	Member	November 2016

ADMINISTRATION

Steve Bolman
Superintendent

Rae Poole
Interim Chief Business Official

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	P-2 Report (Original)				
	TK / K - 3	4 - 6	7 - 8	9 - 12	Total
Regular	871.15	705.38	1,533.70	3,083.37	6,193.60
Extended Year - Special Education	0.50	0.54	0.26	0.16	1.46
Special Education - Nonpublic	1.07	5.66	5.77	21.19	33.69
Extended Year - Nonpublic		0.67	0.58	2.24	3.49
Community Day School			7.41	9.77	17.18
Totals	<u>872.72</u>	<u>712.25</u>	<u>1,547.72</u>	<u>3,116.73</u>	<u>6,249.42</u>

	P-2 Report (Audited)				
	TK / K - 3	4 - 6	7 - 8	9 - 12	Total
Regular **	865.15	705.38	1,533.70	3,083.37	6,187.60
Extended Year - Special Education	0.50	0.54	0.26	0.16	1.46
Special Education - Nonpublic	1.07	5.66	5.77	21.19	33.69
Extended Year - Nonpublic		0.67	0.58	2.24	3.49
Community Day School			7.41	9.77	17.18
Totals	<u>866.72</u>	<u>712.25</u>	<u>1,547.72</u>	<u>3,116.73</u>	<u>6,243.42</u>

	Annual Report (Original)				
	TK / K - 3	4 - 6	7 - 8	9 - 12	Total
Regular	870.13	704.80	1,526.97	3,056.57	6,158.47
Extended Year - Special Education	0.50	0.54	0.26	0.16	1.46
Special Education - Nonpublic	1.26	5.69	5.73	21.36	34.04
Extended Year - Nonpublic	0.02	0.74	0.62	2.43	3.81
Community Day School			9.35	10.39	19.74
Totals	<u>871.91</u>	<u>711.77</u>	<u>1,542.93</u>	<u>3,090.91</u>	<u>6,217.52</u>

	Annual Report (Audited)				
	TK / K - 3	4 - 6	7 - 8	9 - 12	Total
Regular **	865.79	704.80	1,526.97	3,056.57	6,154.13
Special Education	0.50	0.54	0.26	0.16	1.46
Special Education - Nonpublic	1.26	5.69	5.73	21.36	34.04
Extended Year - Nonpublic	0.02	0.74	0.62	2.43	3.81
Community Day School			9.35	10.39	19.74
Totals	<u>867.57</u>	<u>711.77</u>	<u>1,542.93</u>	<u>3,090.91</u>	<u>6,213.18</u>

** See Finding 15 - 5 in the Findings and Questioned Costs Section of this report.

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>P-2 Report</u>				<u>Annual Report</u>			
	<u>(Original)</u>		<u>(Audited)</u>		<u>(Original)</u>		<u>(Audited)</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
<u>Penngrove</u>								
TK / K - 3	210.46	210.54	210.46	210.54	209.97	210.03	209.97	210.03
Grades 4 - 6	161.73	161.90	161.73	161.90	161.27	161.42	161.27	161.42
<u>Sixth Grade Charter Academy</u>								
Grades 4 - 6	58.33	58.60	58.33	58.60	58.24	58.50	58.24	58.50
<u>Mary Collins School at Cherry Valley</u>								
TK / K - 3	182.84	183.40	182.84	183.40	182.76	183.17	182.76	183.17
Grades 4 - 6	151.65	151.72	151.65	151.72	151.41	151.46	151.41	151.46
Grades 7 - 8	77.59	77.66	77.59	77.66	77.44	77.49	77.44	77.49
<u>Gateway to College Academy</u>								
Grades 9 - 12 **	42.51	42.51	0	0	39.10	39.10	0	0
Totals	<u>885.11</u>	<u>886.33</u>	<u>842.60</u>	<u>843.82</u>	<u>880.19</u>	<u>881.17</u>	<u>841.09</u>	<u>842.07</u>

** See **Finding 15 - 4** in the Findings and Questioned Costs Section of this report.

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2014-15 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	45,675	180	N/A	In Compliance
Grade 1	50,400	49,000	50,401	180	N/A	In Compliance
Grade 2	50,400	49,000	50,401	180	N/A	In Compliance
Grade 3	50,400	49,000	50,401	180	N/A	In Compliance
Grade 4	54,000	52,500	54,025	180	N/A	In Compliance
Grade 5	54,000	52,500	54,025	180	N/A	In Compliance
Grade 6	54,000	52,500	54,025	180	N/A	In Compliance
Grade 7	54,000	52,500	54,105	180	N/A	In Compliance
Grade 8	54,000	52,500	54,105	180	N/A	In Compliance
Grade 9	64,800	63,000	64,040	177	N/A	In Compliance
Grade 10	64,800	63,000	64,540	180	N/A	In Compliance
Grade 11	64,800	63,000	63,950	177	N/A	In Compliance
Grade 12	64,800	63,000	63,950	177	N/A	In Compliance

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2014-15 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
<u>Penngrove</u>						
Kindergarten	36,000	34,971	47,160	178	N/A	In Compliance
Grade 1	50,400	48,960	50,195	178	N/A	In Compliance
Grade 2	50,400	48,960	50,195	178	N/A	In Compliance
Grade 3	50,400	48,960	50,195	178	N/A	In Compliance
Grade 4	54,000	52,457	53,707	178	N/A	In Compliance
Grade 5	54,000	52,457	53,707	178	N/A	In Compliance
Grade 6	54,000	52,457	53,707	178	N/A	In Compliance
<u>6th Grade Charter Academy</u>						
Grade 6	54,000	52,457	53,425	178	N/A	In Compliance
<u>Mary Collins School at Cherry Valley</u>						
Kindergarten	36,000	34,971	37,240	178	N/A	In Compliance
Grade 1	50,400	48,960	49,930	178	N/A	In Compliance
Grade 2	50,400	48,960	49,930	178	N/A	In Compliance
Grade 3	50,400	48,960	49,930	178	N/A	In Compliance
Grade 4	54,000	52,457	54,394	178	N/A	In Compliance
Grade 5	54,000	52,457	54,394	178	N/A	In Compliance
Grade 6	54,000	52,457	54,394	178	N/A	In Compliance
Grade 7	54,000	52,457	54,394	178	N/A	In Compliance
Grade 8	54,000	52,457	54,394	178	N/A	In Compliance
<u>Gateway to College Academy</u>						

(Gateway to College did not comply with the requirements of Education Code Section 47612.5(e)(1). (See **Finding 15-4** in the Findings an Questioned Costs Section of this report.)

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
<i>Child Nutrition Cluster:</i>			
National School Lunch	10.555	13524	\$ 803,787
School Basic Breakfast	10.553	13525	2,705
School Needy Breakfast	10.553	13526	289,661
U.S. Department of Education:			
Passed through CDE:			
<i>Adult Education Cluster:</i>			
Adult Basic Education & ESL	84.002A	14508	27,669
Adult Secondary Education	84.002	13978	20,263
English Literacy & Civics	84.002A	14109	14,758
NCLB: Title I Basic Grant	84.010	14329	746,060
NCLB: Title II Improving Teacher Quality	84.367	14341	154,097
NCLB: Title III Immigrant Education Program	84.365	14346	8,902
NCLB: Title III Limited English Proficient	84.365	10084	78,790
NCLB: Title X McKinney-Vento Homeless Assistance	84.196	14332	12,195
Carl D. Perkins Career and Technical Education	84.048	14894	62,711
Passed through Sonoma County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Local Assistance	84.027	13379	1,548,581
IDEA Part B Preschool Grants	84.173	13430	87,888
IDEA Part B Preschool Local Entitlement	84.027A	13682	122,084
IDEA Part B Mental Health Allocation	84.027	14468	81,396
U.S. Department of Health and Human Services:			
Passed through Sonoma County Office of Education:			
Medi-Cal Administrative Activities	93.778	10060	13,665
Total			<u>\$ 4,075,212</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>
June 30, 2015 Annual Financial and Budget Report Fund Balance	\$ 9,360,433
Adjustment (Decreasing) Fund Balance:	
Understatement of Employee Benefit Expenditures	<u>(581,934)</u>
June 30, 2015 Audited Financial Statements Fund Balance	<u>\$ 8,778,499</u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2015.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND			
	(Budget) (1) 2015-16	2014-15	2013-14	2012-13
Revenues and Other Financial Sources	\$ 79,243,873	\$ 72,534,244	\$ 67,782,823	\$ 64,181,694
Expenditures	78,623,020	74,305,976	68,639,651	65,153,968
Other Uses and Transfers Out	0	56,026	100	0
Total Outgo	78,623,020	74,362,002	68,639,751	65,153,968
Change in Fund Balance	620,853	(1,827,758)	(856,928)	(972,274)
Ending Fund Balance	\$ 9,399,352	\$ 8,778,499	\$ 10,606,257	\$ 11,463,185
Available Reserves	\$ 7,110,184	\$ 6,170,440	\$ 7,353,491	\$ 8,800,624
Reserve for Economic Uncertainties (2)	\$ 2,358,691	\$ 2,244,371	\$ 2,057,671	\$ 1,954,619
Available Reserves as a Percentage of Total Outgo	9.0%	8.3%	10.7%	13.5%
Total Long-Term Liabilities (3)	\$ 118,888,469	\$ 127,546,067	\$ 121,013,956	\$ 63,826,904
Average Daily Attendance (ADA at P-2) (Inclusive of Charter School ADA)	7,026	7,130 (4)	7,303 (5)	7,231

(1) The fiscal year 2015-16 budget information is presented for analytical purposes only and has not been audited.

(2) The reported balances are a component of available reserves.

(3) The 2013-14 year balance has been adjusted to reflect the restatement discussed at Note 18 of these financial statements.

(4) Includes 42.51 ADA disallowed as a result of **Finding 15-4** in the Findings and Questioned Costs Section of this report.

(5) Includes 36.26 ADA disallowed as a result of **Finding 14-4** in the Findings and Questioned Costs Section of the prior year audit report.

The fund balance of the General Fund decreased \$2,684,686 (23.4%) over the past two years. The fiscal year 2015-16 budget projects an increase of \$620,853 (7%). 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).

The District has incurred operating deficits of \$972,274, 856,928, and \$1,827,758, during fiscal years 2012-13, 2013-14, and 2014-15, respectively. (See **Finding 15-1** in the Findings and Questioned Costs Section of this report.)

Total long-term liabilities have increased \$63,719,163 over the past two years due primarily to the current year issuance of \$30 million of general obligation bonds and the current year implementation of Governmental Accounting Standards Board Statement No. 68 (GASB 68), which resulted in the recognition of net pension liabilities of more than \$49.1 million.

Average daily attendance (ADA) decreased 101 ADA over the past two years. The District anticipates a further decrease of 104 ADA during fiscal year 2015-16.

PETALUMA CITY SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Charter Schools</u>	<u>District Audit</u>
Penngrove	Included
6 th Grade Charter Academy	Included
Mary Collins School at Cherry Valley	Included
Gateway to College Academy	Included
Live Oak Charter	Excluded

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MEASURE D & MEASURE C - PARCEL TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Elementary Measure D</u>	<u>High School Measure C</u>	<u>Totals</u>
<u>Revenues</u>			
Parcel Tax Revenue, Net	\$ 755,199	\$ 1,140,378	\$ 1,895,577
<u>Expenditures</u>			
Certificated Salaries	510,331	534,187	1,044,518
Classified Salaries	123,076	129,933	253,009
Employee Benefits	218,930	219,788	438,718
Books and Supplies	25,722	202,230	227,952
Services and Operating Expenditures	8,933	110,000	118,933
Other Outgo	9,497	2,178	11,675
Total Expenditures	896,489	1,198,316	2,094,805
Net Change in Fund Balances	(141,290)	(57,938)	(199,228)
Fund Balances - Beginning	324,400	1,058,537	1,382,937
Fund Balances - Ending	<u>\$ 183,110</u>	<u>\$ 1,000,599</u>	<u>\$ 1,183,709</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in the Fund Balances budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object. See Note 3 for any excess of expenditures over appropriations.

B. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

C. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

D. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered-employee payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

E. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered-employee payroll.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONTINUED)

F. Schedule of Average Daily Attendance

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

G. Schedule of Average Daily Attendance - Charter Schools

The average daily attendance is a measurement of the number of pupils attending classes at District operated Charter Schools. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to the charter school. This schedule provides information regarding the attendance of classroom-based and nonclassroom-based students at the various grade spans.

H. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year, but the District did not meet or exceed its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

I. Schedule of Instructional Time - Charter Schools

Education Code Section 47612.5 requires classroom-based charter schools to offer a minimum number of minutes of instruction. For fiscal year 2014-15, the minimum amount of instructional time is reduced pursuant to the provisions of Education Code Section 46201.2. This schedule presents information on the amount of instructional time offered by each of the District's charter schools and whether they complied with the provisions of Education Code Section 47612.5(a)(1), as reduced by the provisions of Education Code Sections 46201.2.

J. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities 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*.

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

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

L. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

M. Schedule of Charter Schools

This schedule lists all charter schools chartered by the District and identifies whether or not the charter schools were included or excluded from the audit of the District.

N. Schedule of Parcel Tax

These statements provide information regarding the receipt and use of funds related to the District's Measure D and Measure C parcel taxes.

Previous Measure C and Measure K parcel tax measures were approved by the voters on November 2, 2004 for the Petaluma Elementary School District and the Petaluma High School District, respectively. On May 8, 2007, Measure D and Measure C, otherwise known as the Maintaining Excellence in Schools Act of 2007 Tax, were approved by the voters of the District as revisions that retained the same purposes and other terms as the previous measures but extended the time frame from four years to indefinite.

The Elementary School parcel tax is used for the following: keeping libraries open; continuing to provide reading specialists; continuing smaller class sizes, music and art programs; computer and technology programs; providing necessary educational programs and materials; and attracting and retaining qualified teachers.

The High School parcel tax is used for the following: keeping libraries open; continuing smaller class sizes; computer and technology programs; music and fine art programs; and attracting and retaining qualified teachers.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

Report on State Compliance

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* for the fiscal year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting (K-12 Audit Guide)*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' 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 Petaluma City Schools' compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/ Independent Study	No (see below)
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

We did not perform procedures related to non-classroom based instruction at the charter schools because the non-classroom based ADA claimed by the District did not exceed the ADA threshold, which requires testing to be performed.

Basis for Qualified Opinion on State Compliance

As describe in the accompanying Schedule of Findings and Questioned Costs, Petaluma City Schools did not comply with the requirements regarding charter school mode of instruction, as noted in **Finding 15-4**. Compliance with such requirements is necessary in our opinion, for Petaluma City Schools to comply with the state laws and regulations referred to above.

Opinion on State Compliance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Findings 15-5** and **15-6**. Our opinion on state compliance on the programs previously identified is not modified with respect to this matter.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* for the fiscal year ended June 30, 2015. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2015

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**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 Education
Petaluma City Schools
Petaluma, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weaknesses and certain other deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses, as noted in **Finding 15-2**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies, as noted in **Findings 15-1 and 15-3**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, except as noted in **Finding 15-4**.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2015

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

Board of Education
Petaluma City Schools
Petaluma, California

Report on Compliance for Each Major Federal Program

We have audited Petaluma City Schools' 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 Petaluma City Schools' major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2015

FINDINGS AND QUESTIONED COSTS SECTION

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u>	Yes	<u> </u>	None Reported
Noncompliance material to financial statements noted?	<u> X </u>	Yes	<u> </u>	No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)

	<u> </u>	Yes	<u> X </u>	No
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.027 / 84.027A / 84.173	Special Education Cluster
84.010	NCLB: Title I Basic Grant
84.367	NCLB: Title II Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?

	<u> </u>	Yes	<u> X </u>	No
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State Awards

Type of auditor's report issued on compliance for state programs: Qualified

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

15 - 1 / 30000

SIGNIFICANT DEFICIENCY

DEFICIT SPENDING

Criteria: In accordance with Title 5, CCR, Section 15483, the State recommends the District maintain available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

Condition: Although the District currently maintains an available reserve that exceeds the state recommended minimum, the District has incurred operating deficits of \$972,274, \$856,928, and \$1,827,758, during fiscal years 2012-13, 2013-14 and 2014-15, respectively. As a result, the fund balance of the General Fund has decreased \$3,656,960 over the past three fiscal years.

Questioned Costs: None.

Context: The District's available reserves as a percentage of total outgo have declined from 13.5% down to 8.3%, over the past three fiscal years.

Effect: If appropriate program cuts are not made in a timely manner, and available reserves are allowed to continue to decline, it may impair the District's ability to meet its obligations as they become due in future years.

Cause: The District has not reduced its program spending down to a level, which can be supported by the amount of revenue received by the District.

Recommendation: The District should take appropriate action to reduce its program spending down to a level, which can be supported by the amount of revenue received by the District.

District Response: The District concurs with the recommendation. In 2015-16 and subsequent fiscal years, the District is taking steps to reduce its spending level.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

15 - 2 / 30000

MATERIAL WEAKNESS

EXPENDITURE RECOGNITION

Criteria: Under the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, regardless of when the related invoice is received or paid. Accordingly, districts should have effective procedures in place to ensure that all significant expenditures are recorded in the appropriate financial reporting period.

Condition: The District does not currently have appropriate procedures in place to ensure that all significant expenditures are recorded in the appropriate financial reporting period. As a result, the fiscal year 2014-15 "Unaudited Actuals" Financial and Budget Report, prepared by the District, did not include a \$581,934 expenditure that was properly chargeable to fiscal year 2014-15.

Questioned Costs: None.

Context: The District's failure to record the expenditure made the General Fund operating deficit appear less severe than it actual was.

Effect: The financial statements presented in the "Unaudited Actuals" that were approved by the Board, contained an error that was material to the financial statements of the District. The adjustment that was made to ensure that the financial statements are fairly stated is presented on page 83.

Cause: The District's current procedures did not adequately ensure that all significant expenditures are recorded in the appropriate financial reporting period.

Recommendation: The District should establish appropriate procedures to ensure that all significant expenditures are recorded in the appropriate financial reporting period.

District Response: The District concurs with the recommendation, and will establish procedures to ensure that all significant expenditures are recorded in the appropriate financial reporting period.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

15 - 3 / 30000

SIGNIFICANT DEFICIENCY

CLEARING ACCOUNTS

Criteria: An appropriate system of internal control over financial reporting requires that clearing accounts used to facilitate the payment of items such as health and welfare benefits, taxes, and insurance, should be reconciled on a periodic basis, to ensure that all liabilities and expenditures are properly reported, and extraneous balances are cleared from the clearing accounts, if appropriate.

Condition: We noted several instances where the same balance has been reported in general ledger clearing accounts for more than one year without being cleared.

Questioned Costs: None.

Context: The balances involved are not currently material to the financial statements, but should be adjusted if the balances are unsupported and serve no accounting purpose.

Effect: Clearing account balances that are not supported by specific appropriate transactions are usually an indication that a financial transaction was not properly accounted for at some point in time.

Cause: The business office has been understaffed during the past several years and performing a detailed review of the general ledger clearing account balances has not been a priority.

Recommendation: The District should establish appropriate procedures to ensure that all general ledger clearing accounts are reconciled on a periodic basis and unsupported balances are investigated and removed the clearing accounts, if appropriate.

District Response: The District concurs with the recommendation, and will establish appropriate procedures to ensure that all general ledger clearing accounts are reconciled on a periodic basis, and unsupported balances are investigated and removed the clearing accounts, if appropriate.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2015.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

15 - 4 / 40000 / 30000

MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES

Criteria: In accordance with California Education Code Section 47612.5, notwithstanding any other provision of law, and as a condition of apportionment, "classroom-based instruction" in a charter school occurs only when charter school pupils are engaged in educational activities required of those pupils and are under the immediate supervision and control of an employee of the charter school who possesses a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605.

Condition: Pupils who attended the Gateway to College Academy Charter School, during the first semester, were engaged in educational activities required of those pupils. However, the pupils were not under the control and immediate supervision of an employee of the charter school, who possessed a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605. As a result, the Charter School did not require that at least 80% of the instructional time that is required to be provided by the Charter School, is actually provided at the Charter School by properly credentialed Charter School employees. Accordingly, the Charter School did not qualify as a classroom-based charter school. Since the Charter School did not provide nonclassroom-based instruction, the average daily attendance reported as classroom-based instruction on the charter school's P-2 and Annual attendance reports for fiscal year 2014-15, was overstated by 42.51 ADA and 39.10 ADA, respectively. In addition, as a result of the lack of valid teaching certifications for the instructors, the Charter School also did not comply with the annual instruction minute provisions of Education Code Section 47612.5(a)(1), as reduced by the provisions of Education Code Sections 46201.2.

Questioned Costs: \$345,348. (The Charter School's LCFF transition entitlement based on 42.51 P-2 ADA.)

Context: During the first semester, Charter School pupils were instructed by community college instructors who were not employed by the Charter School, and who did not possess a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605.

Effect: Similar to fiscal year 2013-14, the Charter School incurred substantial costs to provide education to pupils, but did not qualify to receive funding for doing so, by not complying with one of the basic requirements that is a condition of apportionment.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES (CONCLUDED)

Cause: The Charter School was initially established in a manner that directly conflicts with the requirements of Education Code Section 47612.5, and an appropriate waiver was not obtained to address the conflict.

Recommendation: The Charter School should perform a thorough review of all of its policies and procedures to ensure that it complies with all applicable requirements. In addition, if conflicts are noted, the Charter School should take immediate action to ensure that any adverse fiscal impact is minimized. Since the District plans on submitting a request for summary review of this finding to the Education Audit Appeals Panel, claiming substantial compliance, no further action is required at this time. However, once a determination is made, the District should take appropriate timely action to ensure that future financial statements properly reflect the resolution of this finding and the related prior year finding.

District Response: The District concurs with the recommendation. The District has also set aside reserves to cover the potential loss of ADA funding.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

15 - 5 / 10000 / 40000

TRANSITIONAL KINDERGARTEN /
UNDUPLICATED LOCAL CONTROL
FUNDING FORMULA PUPIL COUNTS

Criteria:

In accordance with California Education Code Section 48000 (c), as a condition of receiving apportionments for pupils enrolled in a transitional kindergarten program, pursuant to Section 46300, and Chapter 3 (commencing with Section 47610) of Part 26.8, a school district shall ensure, for the 2014-15 school year, that a child who will have his or her fifth birthday between September 2 and December 2 shall be admitted to a transitional kindergarten program of the District. Although districts may admit children who are not age eligible (children who turn age five after December 2) for transitional kindergarten, if they meet certain criteria, these children may not be admitted until they turn five years of age. Accordingly, a district cannot claim apportionment funding for any child enrolled in transitional kindergarten that is not age eligible until that child reaches the age of five.

Condition:

The District admitted pupils at the beginning of the school year that were not age eligible for admittance into transitional kindergarten. In addition these pupils were included in the District's calculation of average daily attendance (ADA) and unduplicated local control funding formula pupil counts. As a result, transitional kindergarten average daily attendance was overstated by 6.00 P-2 ADA and 4.34 Annual ADA, and the enrollment and unduplicated pupil counts that were reported in the California Longitudinal Pupil Achievement Data System were overstated by 11 and 7, respectively.

Questioned Costs:

Disallowed ADA was computed by excluding all days of attendance generated by students, prior to reaching age five, who were not age eligible for transitional kindergarten, from the calculation of P-2 and Annual ADA.

The disallowed ADA has no impact on current year LCFF funding as the District is experiencing declining enrollment and is funded based on prior year ADA which was higher. The disallowed ADA may impact EPA, categorical, or SELPA funding, however, the potential effects have not been determined as the amounts involved are deemed insignificant.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

TRANSITIONAL KINDERGARTEN /
UNDUPLICATED LOCAL CONTROL
FUNDING FORMULA PUPIL COUNTS
(CONTINUED)

Questioned Costs
(Concluded):

A summary of the original reported ADA and audit determined ADA, is as follows:

	P-2	Annual
Original Regular TK / K - 3 ADA	871.15	870.13
Audited Regular TK / K - 3 ADA	865.15	865.79
Disallowed ADA	6.00	4.34

The overstatement of enrollment and unduplicated pupil counts resulted in a .0006 overstatement of the unduplicated pupil count percentage, which results in supplemental grant questioned costs of less than \$500.

A summary of certified enrollment, unduplicated pupil counts, audit adjustments, and audited unduplicated pupil counts for Petaluma City Elementary School District are as follows.

	Total Enrollment	Total Unduplicated Eligible Free/Reduced Meal Counts	EL Funding Eligible	Unduplicated FRPM/EL Eligible Count
<u>Certified Pupil Counts:</u>				
Grant Elementary	385	37	7	43
McDowell Elementary	249	241	204	245
Mckinley Elementary	262	202	132	205
McNear Elementary	398	87	53	97
NPS School	7	0	0	0
Valley Vista Elementary	345	147	105	165
Totals	1,646	714	501	755
<u>Audit Adjustments:</u>				
Grant Elementary	0	0	0	0
McDowell Elementary	0	0	0	0
Mckinley Elementary	(11)	(7)	(5)	(7)
McNear Elementary	0	0	0	0
NPS School	0	0	0	0
Valley Vista Elementary	0	0	0	0
Totals	(11)	(7)	(5)	(7)
<u>Adjusted Pupil Counts:</u>				
Grant Elementary	385	37	7	43
McDowell Elementary	249	241	204	245
Mckinley Elementary	251	195	127	198
McNear Elementary	398	87	53	97
NPS School	7	0	0	0
Valley Vista Elementary	345	147	105	165
Totals	1,635	707	496	748

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

TRANSITIONAL KINDERGARTEN /
UNDUPLICATED LOCAL CONTROL
FUNDING FORMULA PUPIL COUNTS
(CONCLUDED)

<u>Context:</u>	The condition appears to be limited to McKinley Elementary School, which operates one of the two District sites that provide transitional kindergarten.
<u>Effect:</u>	The District incurred costs to educate 11 students who were not eligible to be admitted to the transitional kindergarten program, prior to turning age five, and did not qualify to receive funding for providing the service.
<u>Cause:</u>	District personnel were unaware of the eligibility requirements for admitting students into the transitional kindergarten program.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that only age eligible students are allowed to enter the transitional kindergarten program. In addition, the P-2 and Annual attendance reports and the apportionment software should be revised to reflect the audited ADA, enrollment, and unduplicated pupil counts that are presented on the previous page.
<u>District Response:</u>	The District concurs with the recommendation, and will establish procedures to ensure that only age eligible students are allowed to enter the transitional kindergarten program.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

15 - 6 / 10000 / 40000

INSTRUCTIONAL TIME

- Criteria:** In accordance with Education Code Section 46141, the minimum school day in a high school is 240 minutes of instruction. In accordance with Education Code Section 46142, the minimum school day in a high school may be computed by determining the number of minutes of attendance in any two consecutive school days and dividing that number by two. If the resulting quotient is 240 or more, the pupils shall be deemed to have complied with Section 46141, even if the number of minutes attended in any one school day is less than 240, but not less than 180.
- Condition:** The students in grades 9, 11, and 12 at Casa Grande High School were not provided with at least 180 minutes of instruction on three school days where the 10th grade students were scheduled to participate in either the California High School Exit Exam or the Preliminary SAT exam. As a result, the three school days did not qualify as instructional days for average daily attendance (ADA) or instructional time purposes.
- Questioned Costs:** None. The District recomputed average daily attendance after excluding the three noncompliant school days for grades 9, 11, and 12, and determined that P-2 ADA was understated by .09 ADA. Accordingly, since the District provided at least 175 compliant school days and a sufficient number of instructional minutes to satisfy the reduced annual instructional minute requirement, there is no fiscal impact associated with this finding.
- Context:** During fiscal year 2014-15, all district schools provided at least 175 compliant school days for average daily attendance purposes, and at least 177 compliant school days for instructional time purposes, due to obtaining an approved school closure waiver for two scheduled school days.
- Effect:** If the State had not reduced the instructional time requirements for fiscal year 2014-15, the District would not have been in compliance and would have been assessed a significant instructional time penalty for not providing a total of 120 minutes of instruction.
- Cause:** The high school utilizes a significant number of different class schedules throughout the year, and did not realize that the instructional time offered on the three shortened days fell below the absolute minimum day instructional time requirement for students in grades 9, 11, and 12.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

INSTRUCTIONAL TIME (CONCLUDED)

Recommendation: Each school should minimize the number of different class schedules used throughout the year, and establish appropriate procedures to ensure that students in all grades receive at least the absolute minimum number of instructional minutes on a daily and annual basis. Since the District has elected to forego filing a revised report to claim the additional .09 P-2 ADA, no further action is required.

District Response: The District concurs with the recommendation. The responsibility for calculating instructional minutes now resides in the Business office where staff will ensure that instructional minutes offered at each site meets the minimum school day requirement.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
14 - 1 / 30000		
SIGNIFICANT DEFICIENCY		
<u>DEFICIT SPENDING</u>		
The District should take appropriate action to reduce its program spending down to a level, which can be supported by the amount of revenue received by the District.	Not Implemented	Comment Repeated (See Finding 15 - 1)
14 - 2 / 30000		
SIGNIFICANT DEFICIENCY		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</u>		
The District should establish procedures to ensure that future "Unaudited Actuals" financial reports do not contain any material misstatements.	Partially Implemented	Comment Repeated (See Finding 15 - 2)
14 - 3 / 30000		
SIGNIFICANT DEFICIENCY		
<u>FINANCIAL REPORTING - CHARTER SCHOOLS</u>		
The District should establish appropriate procedures to ensure that the financial information maintained in the accounting system is current accurate and complete on both a fund basis and an individual entity basis.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONCLUDED)</u>		
14 - 4 / 30000		
<u>SIGNIFICANT DEFICIENCY</u>		
<u>BOOSTER ORGANIZATIONS</u>		
The District should establish appropriate procedures to ensure that all booster organization financial and fundraising activities are not accounted for by student body personnel or processed through student body bank accounts.	Implemented	
<u>STATE AWARDS</u>		
14 - 5 / 40000		
<u>MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES</u>		
The District should establish appropriate procedures that will detect and resolve potential conflicts in a timely manner. The District should also modify its current Charter School operations to ensure that it will comply with all relevant requirements during future years.	Partially Implemented	Comment Repeated (See Finding 15 - 4)