

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

**AUDIT REPORT**

**JUNE 30, 2017**

PETALUMA CITY SCHOOLS

JUNE 30, 2017

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

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 63, the schedules of proportionate share of the net pension liability on pages 64 and 65, and the schedules of contributions on pages 66 and 67, 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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information listed in the table of contents and 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 supplementary information listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018 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

January 19, 2018

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

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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, 2017. 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 24, 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:*

- The District's overall financial status improved during the course of the year, as total net position increased \$3,613,192.
- Net capital assets increased \$2,141,950, due to the current year addition of \$3,839,555 of new capital assets and improvements, and the current year recognition of \$5,981,505 of depreciation expense.
- Total long-term liabilities increased \$32,657,398, due primarily to the current year issuance of \$20 million of general obligation bonds and an increase in the net pension liabilities related to the District's participation in the CalSTRS and CalPERS pension plans.
- The District's P-2 average daily attendance (ADA), inclusive of charter school ADA, decreased 7 ADA from the prior year, a decrease of less than 1%.
- The District's General Fund produced an operating surplus of \$2,770,942, but reported a \$1,538,048 decrease in available reserves due to a larger portion of the ending fund balance being assigned for specific future uses.
- 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 2016-17, General Fund total outgo was \$80,186,737. At June 30, 2017, the District had available reserves of \$4,907,554, which represents an available reserve of 6.1%.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

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**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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

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**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, and Measure C - 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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

<b>Comparative Statement of Net Position</b>						
	Governmental Activities		Business-Type Activities		Totals	
	2016	2017	2016	2017	2016	2017
<b>Assets:</b>						
Deposits and Investments	\$ 36,075,148	\$ 55,566,936	\$ 30,207	\$ 8,745	\$ 36,105,355	\$ 55,575,681
Receivables	3,968,753	5,144,917			3,968,753	5,144,917
Due from Enterprise Fund	19,792	0			19,792	0
Stores Inventory	62,085	24,247			62,085	24,247
Prepaid Expenses	7,730	117			7,730	117
Capital Assets, net	93,829,790	91,687,840	1,421	1,421	93,831,211	91,689,261
<b>Total Assets</b>	<b>133,963,298</b>	<b>152,424,057</b>	<b>31,628</b>	<b>10,166</b>	<b>133,994,926</b>	<b>152,434,223</b>
<b>Deferred Outflows of Resources:</b>						
Pension Deferrals	5,930,446	22,427,912			5,930,446	22,427,912
Bond Refunding	367,312	290,422			367,312	290,422
<b>Total Deferred Outflows of Resources</b>	<b>6,297,758</b>	<b>22,718,334</b>	<b>0</b>	<b>0</b>	<b>6,297,758</b>	<b>22,718,334</b>
<b>Liabilities:</b>						
Current	15,884,952	16,860,747	19,834		15,904,786	16,860,747
Long-Term	114,971,049	149,531,934			114,971,049	149,531,934
<b>Total Liabilities</b>	<b>130,856,001</b>	<b>166,392,681</b>	<b>19,834</b>	<b>0</b>	<b>130,875,835</b>	<b>166,392,681</b>
<b>Deferred Outflows of Resources:</b>						
Pension Deferrals	10,494,757	6,226,220	0	0	10,494,757	6,226,220
<b>Net Position:</b>						
Net Investment in Capital Assets	34,901,925	38,314,122	1,421	1,421	34,903,346	38,315,543
<b>Restricted:</b>						
Capital Projects	4,388,248	3,456,310			4,388,248	3,456,310
Debt Service	3,204,983	3,086,897			3,204,983	3,086,897
Educational Programs	3,295,191	5,049,140			3,295,191	5,049,140
Other	98,005	76,487			98,005	76,487
Unrestricted (Deficit)	(46,978,054)	(47,459,466)	10,373	8,745	(46,967,681)	(47,450,721)
<b>Total Net Position (Deficit)</b>	<b>\$ (1,089,702)</b>	<b>\$ 2,523,490</b>	<b>\$ 11,794</b>	<b>\$ 10,166</b>	<b>\$ (1,077,908)</b>	<b>\$ 2,533,656</b>

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

**Governmental Activities:**

The Unrestricted deficit balances, presented above, are primarily due 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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)**

<b>Comparative Statement of Changes in Net Position</b>						
	Governmental Activities		Business-Type Activities		Totals	
	2016	2017	2016	2017	2016	2017
Program Revenues:						
Charges for Services	\$ 2,648,675	\$ 2,544,389			\$ 2,648,675	\$ 2,544,389
Operating Grants & Contributions	13,571,671	15,095,188			13,571,671	15,095,188
General Revenues:						
Taxes Levied	46,627,889	47,550,817			46,627,889	47,550,817
Federal & State Aid	31,727,182	29,512,638			31,727,182	29,512,638
Interest & Investment Earnings	230,519	418,372	\$ 239	\$ 175	230,758	418,547
Transfers	0	418,351			0	418,351
Miscellaneous	3,982,429	2,153,546	(7,549)		3,974,880	2,153,546
<b>Total Revenues</b>	<b>98,788,365</b>	<b>97,693,301</b>	<b>(7,310)</b>	<b>175</b>	<b>98,781,055</b>	<b>97,693,476</b>
Expenses:						
Instruction	63,043,903	56,186,165			63,043,903	56,186,165
Instruction-Related Services	9,298,945	9,784,696			9,298,945	9,784,696
Pupil Services	11,036,286	11,613,901			11,036,286	11,613,901
General Administration	3,853,156	4,672,199			3,853,156	4,672,199
Plant Services	6,233,339	7,922,548			6,233,339	7,922,548
Ancillary Services	356,499	647,169			356,499	647,169
Community Services	396,828	316,785			396,828	316,785
Enterprise Activities	391,820	117,815	23,384	1,803	415,204	119,618
Interest on Long-Term Debt	2,574,093	2,465,901			2,574,093	2,465,901
Other Outgo	221,885	352,930			221,885	352,930
<b>Total Expenses</b>	<b>97,406,754</b>	<b>94,080,109</b>	<b>23,384</b>	<b>1,803</b>	<b>97,430,138</b>	<b>94,081,912</b>
<b>Changes in Net Position</b>	<b>1,381,611</b>	<b>3,613,192</b>	<b>(30,694)</b>	<b>(1,628)</b>	<b>1,350,917</b>	<b>3,611,564</b>
Net Position, Beginning (Deficit)	(2,471,313)	(1,089,702)	42,488	11,794	(2,428,825)	(1,077,908)
<b>Net Position, Ending (Deficit)</b>	<b>\$ (1,089,702)</b>	<b>\$ 2,523,490</b>	<b>\$ 11,794</b>	<b>\$ 10,166</b>	<b>\$ (1,077,908)</b>	<b>\$ 2,533,656</b>

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

**Governmental Activities:**

The District's overall financial status improved during the course of the year, as total net position increased \$3,613,192.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

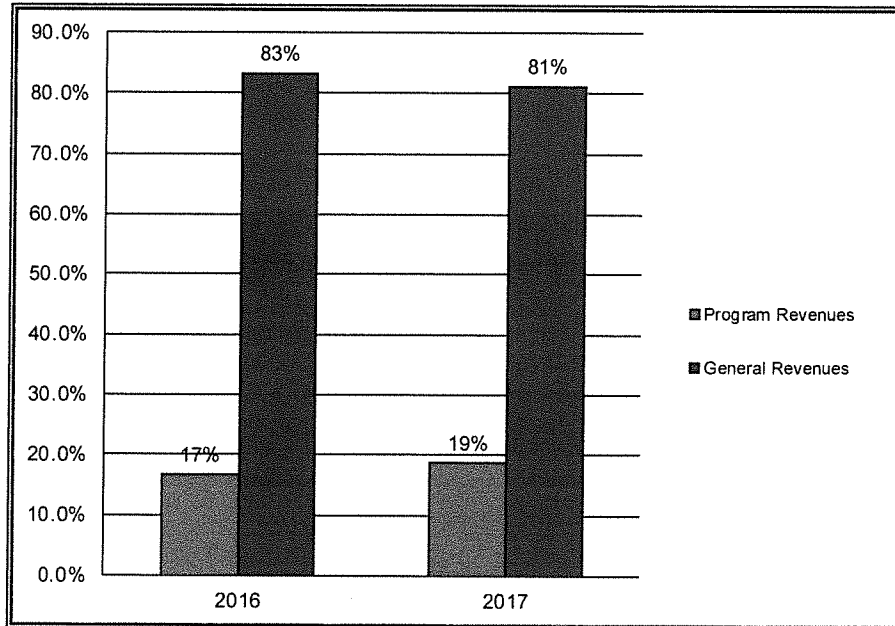
(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2016	2017	2016	2017
Instruction	\$ 63,043,903	\$ 56,186,165	\$ 53,346,191	\$ 45,532,668
Instruction-Related Services	9,298,945	9,784,696	7,491,192	8,207,711
Pupil Services	11,036,286	11,613,901	7,782,201	7,939,897
General Administration	3,853,156	4,672,199	3,481,281	4,321,373
Plant Services	6,233,339	7,922,548	5,267,341	7,317,533
Ancillary Services	356,499	647,169	347,445	595,054
Community Services	396,828	316,785	361,933	211,365
Enterprise Activities	391,820	117,815	363,912	101,690
Interest on Long-Term Debt	2,574,093	2,465,901	2,574,093	2,465,901
Other Expenses	221,885	352,930	170,819	(252,660)
<b>Totals</b>	<b>\$ 97,406,754</b>	<b>\$ 94,080,109</b>	<b>\$ 81,186,408</b>	<b>\$ 76,440,532</b>

*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 \$76,440,532 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 19% of the total cost of providing the services listed above, while the remaining 81% was financed by the general revenues of the District.

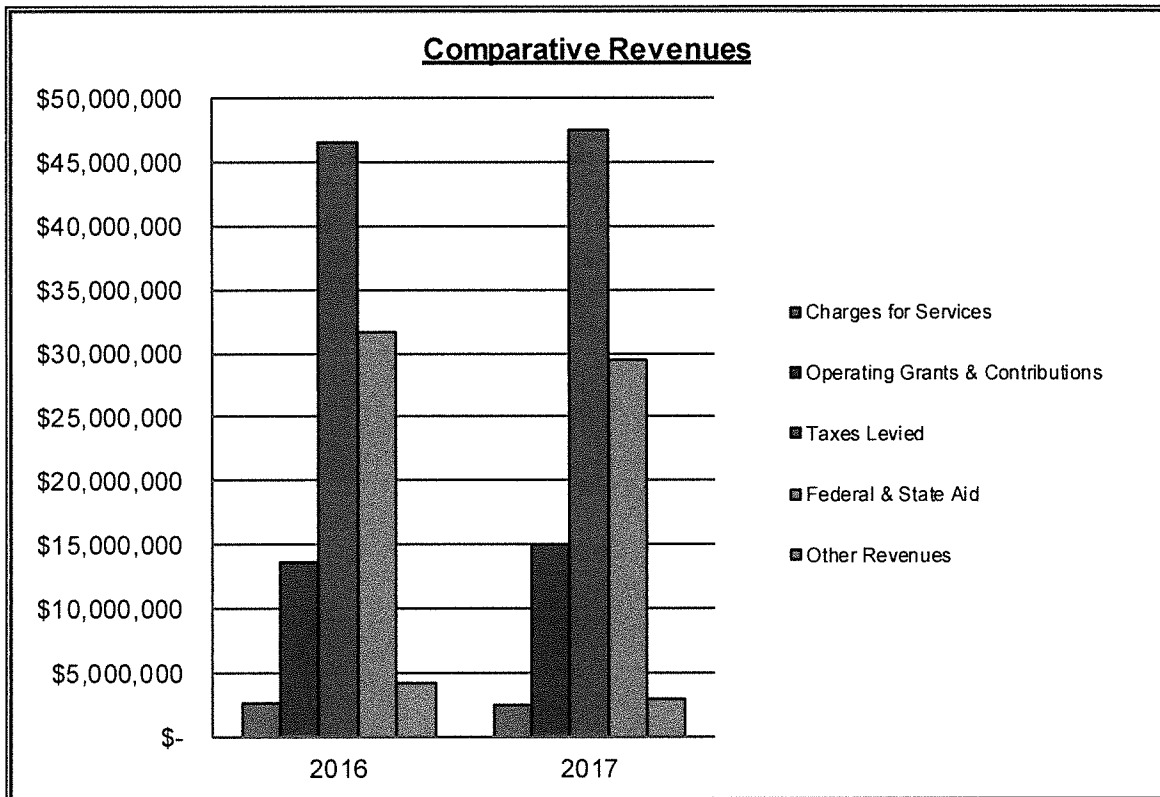
**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)**

<b><u>Summary of Revenues For Governmental Functions</u></b>				
	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>
<b><u>Program Revenues</u></b>				
Charges for Services	\$ 2,648,675	2.68%	\$ 2,544,389	2.60%
Operating Grants & Contributions	13,571,671	13.74%	15,095,188	15.45%
<b><u>General Revenues</u></b>				
Taxes Levied	46,627,889	47.20%	47,550,817	48.67%
Federal & State Aid	31,727,182	32.12%	29,512,638	30.21%
Other Revenues	4,212,948	4.26%	2,990,269	3.06%
<b>Total Revenues</b>	<b><u>\$ 98,788,365</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 97,693,301</u></b>	<b><u>100.00%</u></b>

*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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

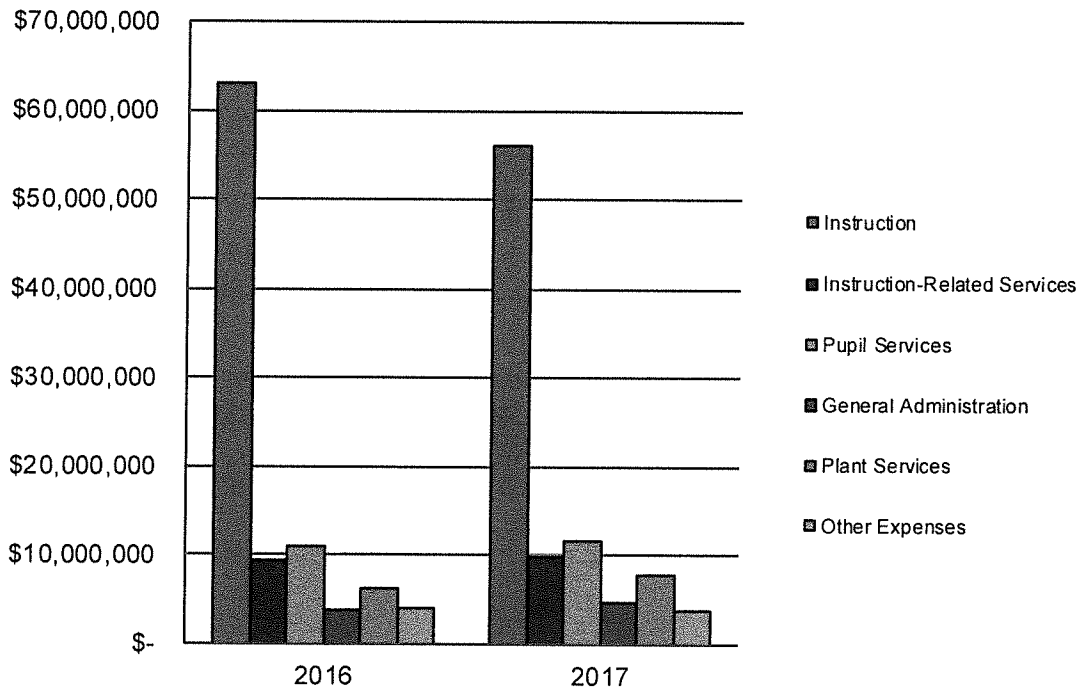
**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONCLUDED)**

**Schedule of Expenses For Governmental Functions**

<u>Expenses</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 63,043,903	64.72%	\$ 56,186,165	59.72%
Instruction-Related Services	9,298,945	9.55%	9,784,696	10.40%
Pupil Services	11,036,286	11.33%	11,613,901	12.34%
General Administration	3,853,156	3.96%	4,672,199	4.97%
Plant Services	6,233,339	6.40%	7,922,548	8.42%
Other Expenses	3,941,125	4.05%	3,900,600	4.15%
<b>Total Expenses</b>	<b>\$ 97,406,754</b>	<b>100.00%</b>	<b>\$ 94,080,109</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*

**Comparative Expenses**



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE CAPITAL ASSETS & LONG-TERM LIABILITIES**

*Governmental Activities:*

<b><u>Comparative Schedule of Capital Assets</u></b>		
	2016	2017
Land	\$ 4,266,886	\$ 4,266,886
Sites & Improvements	19,419,873	22,786,674
Buildings & Improvements	143,906,370	144,521,656
Furniture & Equipment	6,722,281	6,796,770
Work-in-Progress	<u>1,750,900</u>	<u>1,533,879</u>
Totals at Historical Cost	176,066,310	179,905,865
Less: Accumulated Depreciation	<u>(82,236,520)</u>	<u>(88,218,025)</u>
Capital Assets, net	<u>\$ 93,829,790</u>	<u>\$ 91,687,840</u>

Net capital assets decreased \$2,141,950, due to the current year addition of \$3,839,555 of new capital assets and improvements, and the current year recognition of \$5,981,505 of depreciation expense.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	2016	2017
Compensated Absences	\$ 458,330	\$ 444,367
General Obligation Bonds	68,129,502	80,684,876
Capital Leases	2,266,087	0
Other Post Employment Benefits	27,946	0
Net Pension Liability - CalSTRS	37,738,597	56,036,666
Net Pension Liability - CalPERS	<u>15,329,711</u>	<u>19,441,662</u>
Totals	<u>\$ 123,950,173</u>	<u>\$ 156,607,571</u>

Total long-term liabilities increased \$32,657,398, due primarily to the current year issuance of \$20 million of general obligation bonds and an increase in the net pension liabilities related to the District's participation in the CalSTRS and CalPERS pension plans.

The general obligation bonds are financed by the local taxpayers and represent 52% 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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS**

**Comparative Schedule of Fund Balances**

	Fund Balances June 30, 2016	Fund Balances June 30, 2017	Increase (Decrease)
General *	\$ 12,389,932	\$ 15,160,874	\$ 2,770,942
Bond Interest & Redemption	10,169,642	8,886,767	(1,282,875)
Measure C - Building	4,951,392	22,247,824	17,296,432
Cafeteria	6,516	41,774	35,258
Adult Education	1,247,949	1,534,870	286,921
Capital Facilities	1,127,685	1,612,239	484,554
Measure E - Building	2,844,067	1,844,071	(999,996)
Capital Projects - Special Reserve	1,081,609	384,732	(696,877)
Totals	<u>\$ 33,818,792</u>	<u>\$ 51,713,151</u>	<u>\$ 17,894,359</u>

\* The prior year balance has been adjusted to reflect the reclassification of fund balance discussed in Note 16 of these financial statements.

The fund balance of the General Fund increased \$2,770,942, and the combined fund balances of all other District governmental funds increased \$15,123,417. The large decrease recognized in the Measure C - Building Fund and Measure E - Building Fund was due to the current year spending down of bond proceeds received in the prior fiscal year.

**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 Revised 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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

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**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

Student enrollment and average daily attendance (ADA) are primary factors in the computation of most funding formulas for public schools in the State of California. The District's fiscal year 2017-18 budget includes a projected increase of 71 ADA but is projecting flat enrollment for the subsequent fiscal years.

The employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the foreseeable future. In addition, the economy has finished its eighth year of expansion, lasting three years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislature and local governments, including local education agencies, to plan for the next recession.

Accordingly, the District's budget will 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, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b><u>Assets</u></b>			
Deposits and Investments (Note 2)	\$ 55,566,936	\$ 8,745	\$ 55,575,681
Receivables (Note 3)	5,144,917		5,144,917
Stores Inventory (Note 11)	24,247		24,247
Prepaid Expenses (Note 11)	117		117
Capital Assets (Note 5)			
Land	4,266,886		4,266,886
Sites and Improvements	22,786,674		22,786,674
Buildings and Improvements	144,521,656		144,521,656
Furniture and Equipment	6,796,770	56,833	6,853,603
Work-in-Progress	1,533,879		1,533,879
Less: Accumulated Depreciation	<u>(88,218,025)</u>	<u>(55,412)</u>	<u>(88,273,437)</u>
Total Assets	<u>152,424,057</u>	<u>10,166</u>	<u>152,434,223</u>
<b><u>Deferred Outflows of Resources</u></b>			
Pension Deferrals (Note 7)	22,427,912		22,427,912
Bond Refunding (Note 11)	290,422		290,422
Total Deferred Outflows of Resources	<u>22,718,334</u>	<u>0</u>	<u>22,718,334</u>
<b><u>Liabilities</u></b>			
Accounts Payable and Other Current Liabilities	7,809,625		7,809,625
Accrued Interest Payable	1,026,958		1,026,958
Unearned Revenue (Note 11)	948,527		948,527
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Compensated Absences	444,367		444,367
General Obligation Bonds			
Current Interest	3,080,000		3,080,000
Capital Appreciation	3,384,264		3,384,264
Bond Premium	167,006		167,006
<i>Portion Due or Payable After One Year:</i>			
General Obligation Bonds (Note 6)			
Current Interest	69,030,000		69,030,000
Capital Appreciation	3,406,347		3,406,347
Bond Premium	1,617,259		1,617,259
Net Pension Liabilities (Note 7)	<u>75,478,328</u>		<u>75,478,328</u>
Total Liabilities	<u>166,392,681</u>	<u>0</u>	<u>166,392,681</u>
<b><u>Deferred Inflows of Resources</u></b>			
Pension Deferrals (Note 7)	6,226,220		6,226,220
Total Deferred Inflows of Resources	<u>6,226,220</u>	<u>0</u>	<u>6,226,220</u>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	38,314,122	1,421	38,315,543
Restricted:			
For Capital Projects	3,456,310		3,456,310
For Debt Service	3,086,897		3,086,897
For Educational Programs	5,049,140		5,049,140
For Other Purposes	76,487		76,487
Unrestricted (Deficit)	<u>(47,459,466)</u>	<u>8,745</u>	<u>(47,450,721)</u>
Total Net Position	<u>\$ 2,523,490</u>	<u>\$ 10,166</u>	<u>\$ 2,533,656</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b><u>Governmental Activities</u></b>						
Instruction	\$ 56,186,165	\$ 1,245,828	\$ 9,407,669	\$ (45,532,668)		\$ (45,532,668)
Instruction-Related Services:						
Supervision of Instruction	2,359,735	87,520	528,887	(1,743,328)		(1,743,328)
Instructional Library and Technology	1,360,224	37,902	157,008	(1,165,314)		(1,165,314)
School Site Administration	6,064,737	10,143	755,525	(5,299,069)		(5,299,069)
Pupil Services:						
Home-to-School Transportation	2,822,825	18,701	63,759	(2,740,365)		(2,740,365)
Food Services	2,218,834	723,760	1,268,175	(226,899)		(226,899)
Other Pupil Services	6,572,242	188,807	1,410,802	(4,972,633)		(4,972,633)
General Administration:						
Data Processing Services	855,296	2,512	18,189	(834,595)		(834,595)
Other General Administration	3,816,903	52,592	277,533	(3,486,778)		(3,486,778)
Plant Services	7,922,548	10,397	594,618	(7,317,533)		(7,317,533)
Ancillary Services	647,169	7,101	45,014	(595,054)		(595,054)
Community Services	316,785	13,250	92,170	(211,365)		(211,365)
Enterprise Activities	117,815	3,749	12,376	(101,690)		(101,690)
Interest on Long-Term Debt	2,465,901			(2,465,901)		(2,465,901)
Other Outgo	352,930	142,127	463,463	252,660		252,660
<b>Total Governmental Activities</b>	<b>94,080,109</b>	<b>2,544,389</b>	<b>15,095,188</b>	<b>(76,440,532)</b>		<b>(76,440,532)</b>
<b><u>Business-Type Activities</u></b>						
Enterprise Activities	1,803				\$ (1,803)	(1,803)
<b>Totals</b>	<b>\$ 94,081,912</b>	<b>\$ 2,544,389</b>	<b>\$ 15,095,188</b>	<b>(76,440,532)</b>	<b>(1,803)</b>	<b>(76,442,335)</b>
<b><u>General Revenues</u></b>						
Taxes Levied for General Purposes				36,618,146		36,618,146
Taxes Levied for Debt Service				8,279,272		8,279,272
Taxes Levied for Specific Purposes				2,653,399		2,653,399
Federal and State Aid - Unrestricted				29,512,638		29,512,638
Interest and Investment Earnings				418,372	175	418,547
Transfers from Other Agencies				418,351		418,351
Miscellaneous				2,153,546		2,153,546
<b>Total General Revenues</b>				<b>80,053,724</b>	<b>175</b>	<b>80,053,899</b>
Change in Net Position				3,613,192	(1,628)	3,611,564
Net Position - July 1, 2016				(1,089,702)	11,794	(1,077,908)
Net Position - June 30, 2017				<b>\$ 2,523,490</b>	<b>\$ 10,166</b>	<b>\$ 2,533,656</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Measure C - Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Deposits and Investments (Note 2)	\$ 18,280,089	\$ 8,886,767	\$ 22,275,822	\$ 5,855,401	\$ 55,298,079
Receivables (Note 3)	4,828,066			316,851	5,144,917
Due from Other Funds (Note 4)	1,044,802			1,290,236	2,335,038
Stores Inventory (Note 1I)	5,396			18,851	24,247
Prepaid Expenditures (Note 1I)	117				117
Total Assets	<u>\$ 24,158,470</u>	<u>\$ 8,886,767</u>	<u>\$ 22,275,822</u>	<u>\$ 7,481,339</u>	<u>\$ 62,802,398</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts Payable	\$ 6,777,448		\$ 27,998	\$ 1,000,236	\$ 7,805,682
Due to Other Funds (Note 4)	1,290,236			1,044,802	2,335,038
Unearned Revenue (Note 1I)	929,912			18,615	948,527
Total Liabilities	<u>8,997,596</u>		<u>27,998</u>	<u>2,063,653</u>	<u>11,089,247</u>
Fund Balances: (Note 10)					
Nonspendable	33,713			19,851	53,564
Restricted	4,428,261	\$ 8,886,767	22,247,824	4,100,112	39,662,964
Assigned	5,791,346			1,297,723	7,089,069
Unassigned	4,907,554				4,907,554
Total Fund Balances	<u>15,160,874</u>	<u>8,886,767</u>	<u>22,247,824</u>	<u>5,417,686</u>	<u>51,713,151</u>
Total Liabilities and Fund Balances	<u>\$ 24,158,470</u>	<u>\$ 8,886,767</u>	<u>\$ 22,275,822</u>	<u>\$ 7,481,339</u>	<u>\$ 62,802,398</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**Total Fund Balances - Governmental Funds** \$ 51,713,151

Amounts reported for governmental activities in the statement of net position are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The amount that capital assets exceeded accumulated depreciation was:

Capital Assets	\$ 179,905,865	
Accumulated Depreciation	<u>(88,218,025)</u>	
		91,687,840

In governmental funds, any gain or loss that results from bond 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. The deferred amount from bond refunding, reported as a deferred outflow of resources, was:

290,422

The assets and liabilities of the internal service fund are not included in the governmental fund statements, but are included in the governmental activities. The net position of the District's self-insurance fund was:

264,914

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Net deferred outflows and inflows are:

16,201,692

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end was:

Compensated Absences	\$ 444,367	
General Obligation Bonds:		
Current Interest Bonds	72,110,000	
Capital Appreciation Bonds	6,790,611	
Bond Premium	1,784,265	
Net Pension Liability - CalSTRS	56,036,666	
Net Pension Liability - CalPERS	19,441,662	
Total	<u>(156,607,571)</u>	(156,607,571)

In governmental funds, the unmatured interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The liability for unmatured interest owed at the end of the period was:

(1,026,958)

**Total Net Position - Governmental Activities** **\$ 2,523,490**

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Measure C - Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>					
LCFF Sources:					
State Apportionment / Transfers	\$ 26,248,531				\$ 26,248,531
Local Taxes	36,618,146				36,618,146
Total LCFF Sources	62,866,677				62,866,677
Federal Revenue	2,864,747			\$ 1,220,632	4,085,379
State Revenue	7,351,063	\$ 62,119		2,248,890	9,662,072
Local Revenue	9,875,192	8,267,976	\$ 128,499	2,710,035	20,981,702
Total Revenues	82,957,679	8,330,095	128,499	6,179,557	97,595,830
<b><u>Expenditures</u></b>					
Current:					
Instruction	50,153,051			997,057	51,150,108
Supervision of Instruction	2,112,919			47,943	2,160,862
Instructional Library and Technology	1,251,963				1,251,963
School Site Administration	5,013,213			535,781	5,548,994
Home-To-School Transportation	2,635,989				2,635,989
Food Services	32,635			2,040,681	2,073,316
Other Pupil Services	5,867,008			154,217	6,021,225
Data Processing Services	793,288				793,288
Other General Administration	3,472,903			97,860	3,570,763
Plant Services	7,380,687		5,319	139,982	7,525,988
Facilities Acquisition and Construction	53,176		480,079	3,181,176	3,714,431
Ancillary Services	635,693				635,693
Community Services	316,785				316,785
Enterprise Activities	60,731				60,731
Other Outgo	105,115				105,115
Debt Service:					
Principal Retirement	106,899	8,190,000	2,159,188		10,456,087
Interest and Issuance Costs	69,682	1,840,069	287,481		2,197,232
Total Expenditures	80,061,737	10,030,069	2,932,067	7,194,697	100,218,570
Excess of Revenues Over (Under) Expenditures	2,895,942	(1,699,974)	(2,803,568)	(1,015,140)	(2,622,740)
<b><u>Other Financing Sources (Uses)</u></b>					
Operating Transfers In		417,099		125,000	542,099
Operating Transfers Out	(125,000)		(417,099)		(542,099)
Bond Proceeds			20,517,099		20,517,099
Total Other Financing Sources (Uses)	(125,000)	417,099	20,100,000	125,000	20,517,099
Net Change in Fund Balances	2,770,942	(1,282,875)	17,296,432	(890,140)	17,894,359
Fund Balances - July 1, 2016 (As Reclassified - Note 16)	12,389,932	10,169,642	4,951,392	6,307,826	33,818,792
Fund Balances - June 30, 2017	<u>\$ 15,160,874</u>	<u>\$ 8,886,767</u>	<u>\$ 22,247,824</u>	<u>\$ 5,417,686</u>	<u>\$ 51,713,151</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**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, 2017**

**Net Change in Fund Balances - Governmental Funds** \$ 17,894,359

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	\$ 3,839,555	
Depreciation Expense	<u>(5,981,505)</u>	(2,141,950)

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: (20,000,000)

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: (76,890)

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	\$ (517,099)	
Bond premiums amortized	<u>154,695</u>	(362,404)

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: 13,963

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: 27,946

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: (1,644,017)

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	\$ 5,630,000	
Capital Appreciation Bonds	2,560,000	
Capital Lease	<u>2,266,087</u>	10,456,087

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: (382,970)

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 increased by: (211,319)

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: 40,387

**Change in Net Position of Governmental Activities** \$ 3,613,192

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	<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>
<b><u>Assets</u></b>		
Deposits and Investments (Note 2)	\$ 268,857	\$ 8,745
Furniture and Equipment		56,833
Less: Accumulated Depreciation		(55,412)
Total Assets	<u>268,857</u>	<u>10,166</u>
<b><u>Liabilities</u></b>		
Accounts Payable	3,943	
Due to Other Funds (Note 4)		
Total Liabilities	<u>3,943</u>	<u>0</u>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets		1,421
Restricted	264,914	
Unrestricted		8,745
Total Net Position	<u>\$ 264,914</u>	<u>\$ 10,166</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<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>
<b><u>Operating Revenues</u></b>		
Local Revenue	\$ 94,914	\$ 0
Total Operating Revenues	94,914	0
<b><u>Operating Expenses</u></b>		
Classified Salaries		232
Employee Benefits		23
Books and Supplies		1,446
Contract Services	57,084	102
Total Operating Expenses	57,084	1,803
Operating Income (Loss)	37,830	(1,803)
<b><u>Non-Operating Activities</u></b>		
Interest	2,557	175
Non-Operating Income (Loss)	2,557	175
Change in Net Position	40,387	(1,628)
Net Position - July 1, 2016	224,527	11,794
Net Position - June 30, 2017	\$ 264,914	\$ 10,166

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<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>
<b><i>Cash Flows From Operating Activities:</i></b>		
Cash Received from Services	\$ 97,550	
Payments to Suppliers for Goods and Services	(56,644)	\$ (1,845)
Net Cash Provided (Used) for Operating Activities	<u>40,906</u>	<u>(1,845)</u>
<b><i>Cash Flows From Investing Activities:</i></b>		
Interest	2,557	175
Collection of Prior Year Amount Due From Other Fund	56	
Repayment of Prior Year Amounts Due To Other Funds	(36,040)	(19,792)
Net Cash Used for Investing Activities	<u>(33,427)</u>	<u>(19,617)</u>
Net Increase (Decrease) in Cash	7,479	(21,462)
Deposits and Investments - July 1, 2016	<u>261,378</u>	<u>30,207</u>
Deposits and Investments - June 30, 2017	<u>\$ 268,857</u>	<u>\$ 8,745</u>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i></b>		
Operating Income (Loss)	\$ 37,830	\$ (1,803)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) for Operating Activities:		
Changes in Operating Assets and Liabilities:		
Receivables	2,636	133
Accounts Payable	440	42
Net Cash Provided (Used) for Operating Activities	<u>\$ 40,906</u>	<u>\$ (1,628)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	<u>Private-Purpose Trust</u>		<u>Total Fiduciary Funds</u>
	<u>Scholarship Funds</u>	<u>Agency Funds</u>	
<b><u>Assets</u></b>			
Deposits and Investments (Note 2)	\$ 114,910	\$ 280,356	\$ 395,266
Total Assets	<u>114,910</u>	<u>280,356</u>	<u>395,266</u>
<b><u>Liabilities</u></b>			
Due to Student Groups		280,356	280,356
Total Liabilities	<u>0</u>	<u>280,356</u>	<u>280,356</u>
<b><u>Net Position</u></b>			
Restricted	<u>114,910</u>	<u>0</u>	<u>114,910</u>
Total Net Position	<u>\$ 114,910</u>	<u>\$ 0</u>	<u>\$ 114,910</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Private-Purpose Trust
	Scholarship Funds
<b><u>Additions</u></b>	
Interest	\$ 2,270
Total Additions	2,270
<b><u>Deductions</u></b>	
Scholarships Awarded	0
Total Deductions	0
Change in Net Position	2,270
<b><u>Net Position</u></b>	
Net Position - July 1, 2016	112,640
Net Position - June 30, 2017	\$ 114,910



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**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, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. 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. 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.

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.

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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements:(Concluded):

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.

C. 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. 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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

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.

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.

D. 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.

PETALUMA CITY SCHOOLS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

*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.

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.

Non-major Governmental Funds:

*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).

*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.

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Fund Accounting (Concluded)**

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.

*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.

**E. 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 63.

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.

**F. 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, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Encumbrances

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

H. 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.

I. 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, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

1. 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 District will sometimes report 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 outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report 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 an inflow of resources (revenue) until that time.

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.



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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:

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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**9. Fund Balance Classification (Concluded)**

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**

The LCFF creates funding targets based on student characteristics and provides greater flexibility to use these funds to improve student outcomes. For school districts, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that are calculated based on student demographic factors. District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

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

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

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, 2017, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 89,013		\$ 395,266
Cash in Revolving Fund	29,200		
County Pool Investments	<u>55,448,723</u>	<u>\$ 8,745</u>	<u>                    </u>
Total Deposits and Investments	<u>\$ 55,566,936</u>	<u>\$ 8,745</u>	<u>\$ 395,266</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.

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). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

General Authorization

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Sonoma County Investment pool.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Governmental Activities:

Investment Type	Carrying Value	Fair Value	Weighted Average Days to Maturity
County Pool Investments	\$ 55,448,723	\$ 55,271,287	569

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Weighted Average Maturity (Concluded)

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 8,745	\$ 8,717	569

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. Investments in the County Treasury are not required to be rated.

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 55,448,723	\$ 55,271,287	Unrated

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 8,745	\$ 8,717	Unrated

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. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)**

**Fair Value Measurements**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specific term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

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

The District's fair value measurements are as follows at June 30, 2017:

Governmental Activities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	\$ 55,271,287	\$ 55,271,287

Business-Type Activities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	\$ 8,717	\$ 8,717

All assets have been valued using a market approach, with quoted market prices.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2017, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government	\$ 2,047,532	\$ 280,220	\$ 2,327,752
State Government	1,341,737	19,614	1,361,351
Local Governments	804,312		804,312
Miscellaneous	634,485	17,017	651,502
Totals	<u>\$ 4,828,066</u>	<u>\$ 316,851</u>	<u>\$ 5,144,917</u>

**NOTE 4 - INTERFUND ACTIVITIES**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

**A. Due From/Due To Other Funds**

Individual fund interfund receivable and payable balances at June 30, 2017 were as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 1,044,802	\$ 1,290,236
Cafeteria	56,053	452,431
Adult Education	48,242	36,729
Capital Facilities	181,018	
Measure E – Building		223,563
Capital Projects - Special Reserve	<u>1,004,923</u>	<u>332,079</u>
Totals	<u>\$ 2,335,038</u>	<u>\$ 2,335,038</u>

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 4 - INTERFUND ACTIVITIES (CONCLUDED)**

**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 2017-18 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 125,000
Cafeteria	\$ 125,000	
Bond Interest and Redemption	417,099	
Measure C Building		417,099
Totals	<u>\$ 542,099</u>	<u>\$ 542,099</u>

Transfer of \$125,000 from General Fund to Cafeteria Fund to supplement the child nutrition program.

Transfer of \$417,099 from Measure C Building Fund to Bond Interest and Redemption Fund to transfer the bond premium received from the current year bond sale.

**NOTE 5 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2017, was as follows:

**A. Governmental Activities**

	<u>Balances</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2017</u>
Capital Assets, Not Depreciated:				
Land	\$ 4,266,886			\$ 4,266,886
Work-in-Progress	1,750,900	\$ 3,839,555	\$ 4,056,576	1,533,879
Total Capital Assets, Not Depreciated:	<u>6,017,786</u>	<u>3,839,555</u>	<u>4,056,576</u>	<u>5,800,765</u>
Capital Assets, Depreciated:				
Sites and Improvements	19,419,873	3,366,801		22,786,674
Buildings and Improvements	143,906,370	615,286		144,521,656
Furniture and Equipment	6,722,281	74,489		6,796,770
Total Capital Assets, Depreciated:	<u>170,048,524</u>	<u>4,056,576</u>	<u>0</u>	<u>174,105,100</u>
Less Accumulated Depreciation for:				
Sites and Improvements	9,111,843	1,481,391		10,593,234
Buildings and Improvements	66,971,731	4,364,720		71,336,451
Furniture and Equipment	6,152,946	135,394		6,288,340
Total Accumulated Depreciation	<u>82,236,520</u>	<u>5,981,505</u>	<u>0</u>	<u>88,218,025</u>
Governmental Activities Capital Assets, Net	<u>\$ 93,829,790</u>	<u>\$ 1,914,626</u>	<u>\$ 4,056,576</u>	<u>\$ 91,687,840</u>



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 5 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)**

**A. Governmental Activities (Concluded)**

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,726,764
Instruction-Related Services	649,008
Pupil Services	770,337
General Administration	309,902
Plant Services	<u>525,494</u>
 Total Depreciation Expense	 <u>\$ 5,981,505</u>

**B. Business-Type Activities**

	<u>Balances</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2017</u>
Capital Assets, Depreciated:				
Furniture and Equipment	\$ 56,833			\$ 56,833
Less Accumulated Depreciation for:				
Furniture and Equipment	<u>55,412</u>			<u>55,412</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 1,421</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,421</u>

**NOTE 6 - 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. As of June 30, 2017, the District has a remaining authorization to issue up to \$14 million of general obligations bonds at a future date.

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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 6 - GENERAL OBLIGATION BONDS (CONTINUED)**

On November 17, 2015, Petaluma City Elementary School District issued \$3.26 million of general obligation refunding bonds for purposes of refunding \$3.3 million of the District's outstanding 2008 General Obligation Refunding Bonds, and to pay for costs of issuance of the bonds.

On February 8, 2017, Petaluma Joint Union High School District issued \$20 million of current interest bonds with interest rates ranging from 3.0 to 3.75 percent. The Election of 2014, Series B 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, 2041. As of June 30, 2017, the District has a remaining authorization to issue up to \$25 million of general obligations bonds at a future date.

The outstanding general obligation debt of the District as of June 30, 2017 is as follows:

**A. Current Interest Bonds**

**Current Interest Bonds**

<u>Description and Date</u>	<u>Interest Rate %</u>	<u>Maturity Year</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2016</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2017</u>
<b><u>Elementary</u></b>							
2011 Refunding	3.00-4.00	2027	\$ 8,470,000	\$ 4,990,000		\$ 955,000	\$ 4,035,000
2013 Refunding	2.00-4.00	2028	1,880,000	1,675,000		100,000	1,575,000
2014 Series A	3.00-5.00	2040	7,000,000	6,350,000		655,000	5,695,000
2015 Refunding	2.00-4.00	2024	3,260,000	3,260,000		770,000	2,490,000
Total Elementary			<u>20,610,000</u>	<u>16,275,000</u>	<u>\$ 0</u>	<u>2,480,000</u>	<u>13,795,000</u>
<b><u>High School</u></b>							
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	7,385,000		240,000	7,145,000
2012 Refunding	2.25-4.00	2024	12,845,000	10,890,000		700,000	10,190,000
2014 Series A	2.00-3.75	2040	23,000,000	20,775,000		2,210,000	18,565,000
2014 Series B	3.00-3.75	2042	20,000,000	0	20,000,000		20,000,000
Total High School			<u>67,358,791</u>	<u>41,465,000</u>	<u>20,000,000</u>	<u>3,150,000</u>	<u>58,315,000</u>
Total Current Interest Bonds			<u>\$ 87,968,791</u>	<u>\$ 57,740,000</u>	<u>\$ 20,000,000</u>	<u>\$ 5,630,000</u>	<u>\$ 72,110,000</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 6 - GENERAL OBLIGATION BONDS (CONTINUED)**

**A. Current Interest Bonds (Concluded)**

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2017, are as follows:

Year Ended June 30	Principal	Interest	Totals
2018	\$ 3,080,000	\$ 2,415,469	\$ 5,495,469
2019	4,250,000	2,302,288	6,552,288
2020	7,635,000	2,108,288	9,743,288
2021	5,845,000	1,883,344	7,728,344
2022	6,730,000	1,703,850	8,433,850
2023-2027	10,240,000	7,034,263	17,274,263
2028-2032	7,690,000	5,525,759	13,215,759
2033-2037	11,215,000	3,922,606	15,137,606
2038-2042	15,425,000	1,462,453	16,887,453
Totals	<u>\$ 72,110,000</u>	<u>\$ 28,358,320</u>	<u>\$ 100,468,320</u>

**B. Capital Appreciation Bonds**

**Capital Appreciation Bonds**

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2016	Accreted Current Year	Redeemed Current Year	Outstanding June 30, 2017
<b><u>High School</u></b>							
1995 Refunding	4.65-5.80	2018	\$ 8,972,019	\$ 8,967,641	\$ 382,970	\$ 2,560,000	\$ 6,790,611
Total Capital Appreciation Bonds			<u>\$ 8,972,019</u>	<u>\$ 8,967,641</u>	<u>\$ 382,970</u>	<u>\$ 2,560,000</u>	<u>\$ 6,790,611</u>

The outstanding obligation for the refunding capital appreciation bonds at June 30, 2017, is as follows:

Year Ended June 30	Rate %	Amount of Original Issue (Principal)	Accreted Interest	Totals
2018	5.70%	\$ 1,005,584	\$ 2,378,680	\$ 3,384,264
2019	5.70%	1,012,116	2,394,231	3,406,347
Totals		<u>\$ 2,017,700</u>	<u>\$ 4,772,911</u>	<u>\$ 6,790,611</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)**

**B. Capital Appreciation Bonds (Concluded)**

The annual requirements to amortize the refunding capital appreciation bonds at June 30, 2017, are as follows:

Year Ended June 30	Principal	Interest	Totals
2019	1,005,584	2,394,416	3,400,000
2020	1,012,116	2,607,884	3,620,000
Totals	<u>\$ 2,017,700</u>	<u>\$ 5,002,300</u>	<u>\$ 7,020,000</u>

**NOTE 7 - 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).

The District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense, in the accompanying government-wide financial statements as follows:

Pension Plan	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 56,036,666	\$ 16,871,297	\$ 4,931,836	\$ 8,066,738
CalPERS	19,441,662	5,556,615	1,294,384	2,284,902
Totals	<u>\$ 75,478,328</u>	<u>\$ 22,427,912</u>	<u>\$ 6,226,220</u>	<u>\$ 10,351,640</u>

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

*Plan Description*

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers and certain other employees of the public-school system. The Teachers' Retirement Law (California 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. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. 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. 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.

The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

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. There are several differences between the two benefit formulas and some of the differences are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to a maximum of 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, up to the 2.4% maximum.

CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service a member could earn in a school year.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Benefits Provided (Concluded)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months of credited service a member could earn in a school year.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and are detailed in the Teachers' Retirement Law. A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, the member contribution rate was 9.205% of applicable member earnings for fiscal year 2016-17. The rate imposed on CalSTRS 2% at 62 members is based assuming no change in the normal cost of benefits.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 12.58% of applicable member earnings for fiscal year 2016-17. The District contributed \$4,242,341 to the plan for the fiscal year ended June 30, 2017.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2017 was 4.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 8.828% for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - 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 (Continued)

District's proportionate share of the net pension liability	\$ 56,036,666
State's proportionate share of the net pension liability associated with the District	<u>31,900,674</u>
Total net pension liability attributed to District	<u><u>\$ 87,937,340</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on a District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. The District's proportionate share of the net pension liability as of June 30, 2015 and June 30, 2016 was as follows:

Proportion - June 30, 2015	0.0561%
Proportion - June 30, 2016	<u>0.0693%</u>
Change - Increase (Decrease)	<u><u>0.0132%</u></u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$8,066,738, inclusive of \$2,822,490 of support provided by the State. At June 30, 2017, 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	\$ 4,242,341	
Differences between expected and actual experience		\$ 1,243,281
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	8,312,454	3,688,555
Net differences between projected and actual earnings on plan investments	<u>4,316,502</u>	
Totals	<u><u>\$ 16,871,297</u></u>	<u><u>\$ 4,931,836</u></u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 7 - 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 (Concluded)*

The 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, 2018. 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	
2018	\$ 538,615
2019	538,615
2020	2,837,230
2021	2,093,938
2022	422,974
2023	1,265,748

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2016. 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.

*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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return <sup>1</sup>	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

<sup>1</sup> 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.



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

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 specific experience through June 30, 2015. RP2000 series tables are an industry standard set of mortality rates published in 2000 by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis and June 30, 2015 Actuarial Program Valuations 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 investment 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. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
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	<u>100%</u>	

\* 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 as per AB 1469 - Bonta. 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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 7 - RETIREMENT PLANS (CONTINUED)**

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

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

The following table presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the current 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	\$ 80,649,400	\$ 56,036,666	\$ 35,594,759

*Pension Plan's Fiduciary Net Position*

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

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

*Plan Description, Benefits Provided, and Employees Covered*

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

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. 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 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 13.888% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2017 was \$1,642,792.

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

As of June 30, 2017, the District reported a liability of \$19,441,662 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

Proportion - June 30, 2015	0.1040%
Proportion - June 30, 2016	<u>0.0984%</u>
Change - Increase (Decrease)	<u><u>-0.0056%</u></u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$2,284,902. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,642,792	
Differences between expected and actual experience	884,504	
Changes of assumptions		\$ 633,346
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	15,960	661,038
Net differences between projected and actual earnings on plan investments	3,013,359	
Totals	\$ 5,556,615	\$ 1,294,384

The 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, 2018. 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	
2018	\$ 253,035
2019	276,390
2020	1,302,676
2021	787,338

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2016. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies
Investment Rate of Return	7.65%
Post Retirement Benefit Increase (1)	

(1) 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 projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2015 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.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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 Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS website.

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Discount Rate (Concluded)

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.

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	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-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 calculated using the discount rate of 7.65%, 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 (6.65%) or 1 percentage point higher (8.65%) than the current rate:

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - RETIREMENT PLANS (CONCLUDED)

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

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

	Discount Rate 1% Decrease 6.65%	Discount Rate Current Rate 7.65%	Discount Rate 1% Increase 8.65%
District's proportionate share of the net pension liability	\$ 29,007,068	\$ 19,441,662	\$ 11,476,579

Pension Plan Fiduciary Net Position

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

C. Social Security

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.

D. Tax Deferred Annuity

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 8 - 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 \$2,822,490 to CalSTRS (8.57825% of creditable compensation subject to CalSTRS).

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 9 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2017, is shown below:

	Balances July 1, 2016	Additions	Deductions	Balances June 30, 2017	Due within One Year
Compensated Absences	\$ 458,330	\$ 444,367	\$ 458,330	\$ 444,367	\$ 444,367
General Obligation Bonds:					
Current Interest	57,740,000	20,000,000	5,630,000	72,110,000	3,080,000
Capital Appreciation	8,967,641	382,970	2,560,000	6,790,611	3,384,264
Bond Premium	1,421,861	517,099	154,695	1,784,265	167,006
Capital Lease	2,266,087		2,266,087	0	
Other Post-Employment Benefits	27,946		27,946	0	
Net Pension Liability - CalSTRS	37,738,597	18,298,069		56,036,666	
Net Pension Liability - CalPERS	15,329,711	4,111,951		19,441,662	
<b>Totals</b>	<b>\$ 123,950,173</b>	<b>\$ 43,754,456</b>	<b>\$ 11,097,058</b>	<b>\$ 156,607,571</b>	<b>\$ 7,075,637</b>

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.

**NOTE 10 - FUND BALANCES**

The components of fund balance as of June 30, 2017, are as follows:

	General Fund	Bond Interest & Redemption Fund	Measure C - Building Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 33,713			\$ 19,851	\$ 53,564
Restricted	4,428,261	\$ 8,886,767	\$ 22,247,824	4,100,112	39,662,964
Assigned	5,791,346			1,297,723	7,089,069
Unassigned:					
Economic Uncertainties	2,403,903				2,403,903
Other	2,503,651				2,503,651
<b>Total Fund Balances</b>	<b>\$ 15,160,874</b>	<b>\$ 8,886,767</b>	<b>\$ 22,247,824</b>	<b>\$ 5,417,686</b>	<b>\$ 51,713,151</b>

**NOTE 11 - 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 2017-18, 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.



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 12 - 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.

**NOTE 13 - CHARTER SCHOOLS**

The District has approved Charters for the Live Oak Charter School, 6<sup>th</sup> Grade Charter Academy, Petaluma Accelerated, Mary Collins School at Cherry Valley, Penngrove, and Gateway to College pursuant to Education Code Section 47605. The 6<sup>th</sup> Grade Charter Academy, Petaluma Accelerated, 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 of the District. The Live Oak Charter School is responsible for managing, budgeting, and accounting for its financial 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 14 - 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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

C. Instructional Time - Questioned Costs

As discussed in **Finding 2017 - 004** in the Findings and Questioned Costs Section of this report, Petaluma High School provided variable passing times between class periods, ranging in length from 5 minutes to 10 minutes, during the 2016-17 school year. Since the California Department of Education (CDE) allows districts to include actual passing time as instructional time, when determining compliance with the instructional time requirements, instructional time was recomputed using 5-minute passing times between all class periods. As a result, Petaluma High School offered 64,485 instructional minutes during the school year, which is 315 minutes less than the 64,800 annual instructional minute requirement, and results in an instructional time penalty of \$131,390. The District plans on seeking a waiver of the fiscal penalties associated with the instructional minute shortfall.

Pursuant to Education Code Section 46206, school districts that fail to maintain the prescribed minimum number of instructional minutes for the school year, may seek a waiver of fiscal penalties with the State Board of Education (SBE). The waiver may only be granted upon the condition that the school in which the minutes were lost, maintain minutes of instruction equal to those lost and in addition to the amount required, for twice the number of years that it failed to maintain the prescribed minimum number of instructional minutes for the school year. The adjustments must also commence no later than the school year following the year in which the waiver was granted and continue for each succeeding school year until the condition is satisfied.

As of the completion of the annual audit, the District has not yet submitted such a waiver. Accordingly, since the above noncompliance has not been resolved, the financial statements do not contain any adjustments that may arise as the result of an unfavorable outcome.

NOTE 15 - FUTURE GASB IMPLEMENTATION

In June 2015, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District in fiscal year 2017-18. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and establishes new accounting and financial reporting requirements for OPEB plans

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 16 - RECLASSIFICATION OF FUND BALANCES**

The beginning fund balances of the General Fund and the Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with Governmental Accounting Standards Board, Statement No. 54 (GASB 54).

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

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>
Fund Balances - July 1, 2016 (as originally stated)	\$ 12,132,929	\$ 257,003
Reclassification of Fund Balances	<u>257,003</u>	<u>(257,003)</u>
Fund Balances - July 1, 2016 (as reclassified)	<u>\$ 12,389,932</u>	<u>\$ 0</u>

**NOTE 17 - SUBSEQUENT EVENTS**

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 January 19, 2018, 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.



REQUIRED 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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 32,021,824	\$ 29,085,052	\$ 26,248,531	\$ (2,836,521)
Local Sources	30,414,031	33,956,003	36,618,146	2,662,143
Total LCFF Sources	62,435,855	63,041,055	62,866,677	(174,378)
Federal Revenue	2,611,668	3,258,015	2,864,747	(393,268)
Other State Revenue	4,027,375	6,897,429	7,351,063	453,634
Other Local Revenue	8,086,589	10,016,006	9,875,192	(140,814)
Total Revenues	77,161,487	83,212,505	82,957,679	(254,826)
<b><u>Expenditures</u></b>				
Current:				
Certificated Salaries	34,065,784	33,870,192	33,881,762	(11,570)
Classified Salaries	11,959,072	12,251,383	11,837,814	413,569
Employee Benefits	17,679,257	19,910,564	20,193,423	(282,859)
Books and Supplies	2,864,277	6,705,503	3,544,559	3,160,944
Services and Other				
Operating Expenditures	10,286,572	12,375,396	10,297,628	2,077,768
Capital Outlay	9,366	162,201	122,715	39,486
Debt Service:				
Principal Retirement	213,798	106,899	106,899	
Interest and Fiscal Charges	136,077	69,682	69,682	
Other Expenditures	86,302	9,947	7,255	2,692
Total Expenditures	77,300,505	85,461,767	80,061,737	5,400,030
Excess of Revenues Over (Under) Expenditures	(139,018)	(2,249,262)	2,895,942	5,145,204
<b><u>Other Financing (Uses)</u></b>				
Operating Transfers Out	(177,159)	(163,103)	(125,000)	38,103
Net Change in Fund Balances	(316,177)	(2,412,365)	2,770,942	\$ 5,183,307
Fund Balances - July 1, 2016 (As Reclassified - Note 16)	12,389,932	12,389,932	12,389,932	
Fund Balances - June 30, 2017	\$ 12,073,755	\$ 9,977,567	\$ 15,160,874	

PETALUMA CITY SCHOOLS

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

JUNE 30, 2017

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2017	0.0693%	\$ 56,036,666	\$ 31,900,674	\$ 87,937,340	\$ 34,528,621	162.29%	70.04%
2016	0.0561%	37,738,597	19,959,558	57,698,155	26,017,838	145.05%	74.02%
2015	0.0639%	37,339,236	22,547,044	59,886,281	28,459,709	131.20%	76.52%

\* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. 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, 2017

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Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2017	0.0984%	\$ 19,441,662	\$ 11,809,699	164.62%	73.90%
2016	0.1040%	15,329,711	11,513,797	133.14%	79.43%
2015	0.1038%	11,782,491	10,895,176	108.14%	83.38%

\* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.



PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALSTRS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2017	\$ 4,242,341	\$ 4,242,341	\$ -	\$ 33,722,901	12.580%
2016	3,622,620	3,622,620	-	33,761,603	10.730%
2015	2,871,580	2,871,580	-	32,337,613	8.880%

\* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALPERS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2017	\$ 1,642,792	\$ 1,642,792	\$ -	\$ 11,828,859	13.888%
2016	1,400,218	1,400,218	-	11,819,178	11.847%
2015	1,354,896	1,354,896	-	11,510,458	11.771%

\* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

**PETALUMA CITY SCHOOLS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES**

**A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - 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 Fund Balance 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.

Excess of expenditures over appropriations as of June 30, 2017 were as follows:

	<u>Excess Expenditures</u>
Certificated Salaries	\$ 11,570
Employee Benefits	282,859

The District incurred unanticipated expenditures in excess of appropriations in each of the above expenditure classifications for which the budgets were not revised.

**B. 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.

**C. 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 payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

**PETALUMA CITY SCHOOLS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)**

**D. 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 payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered payroll.

**NOTE 2 - SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS**

**Benefit Changes**

There have been no changes to benefit terms since the previous valuation for either CalSTRS or CalPERS.

**Changes of Assumptions**

There have been no changes in assumptions since the previous valuation for either CalSTRS or CalPERS.



SUPPLEMENTARY INFORMATION SECTION

**PETALUMA CITY SCHOOLS**  
**ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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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 five 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>
Sheri Chlebowski	President	November 2018
Phoebe Ellis	Clerk	November 2018
Michael Baddeley	Member	November 2018
Ellen Webster	Member	November 2020
Frank Lynch	Member	November 2020

ADMINISTRATION

Gary Callahan  
Superintendent

Chris Thomas  
Chief Business Official

**PETALUMA CITY SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<u>Cafeteria</u>	<u>Adult Education</u>
<b><u>Assets</u></b>		
Deposits and Investments	\$ 190,328	\$ 1,803,774
Receivables	284,457	25,844
Due from Other Funds	56,053	48,242
Stores Inventory	18,851	
Total Assets	<u>\$ 549,689</u>	<u>\$ 1,877,860</u>
<b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts Payable	\$ 55,484	\$ 306,261
Due to Other Funds	452,431	36,729
Unearned Revenue		
Total Liabilities	<u>507,915</u>	<u>342,990</u>
Fund Balances:		
Nonspendable	18,851	1,000
Restricted	22,923	620,879
Assigned		912,991
Total Fund Balances	<u>41,774</u>	<u>1,534,870</u>
Total Liabilities and Fund Balances	<u>\$ 549,689</u>	<u>\$ 1,877,860</u>



<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
\$ 1,607,897 6,550 181,018	\$ 2,227,226	\$ 26,176  1,004,923	\$ 5,855,401 316,851 1,290,236 18,851
<u>\$ 1,795,465</u>	<u>\$ 2,227,226</u>	<u>\$ 1,031,099</u>	<u>\$ 7,481,339</u>
 \$ 183,226	 \$ 159,592 223,563	 \$ 295,673 332,079 18,615	 \$ 1,000,236 1,044,802 18,615
<u>183,226</u>	<u>383,155</u>	<u>646,367</u>	<u>2,063,653</u>
 1,612,239	 1,844,071	 384,732	 19,851 4,100,112 1,297,723
<u>1,612,239</u>	<u>1,844,071</u>	<u>384,732</u>	<u>5,417,686</u>
<u>\$ 1,795,465</u>	<u>\$ 2,227,226</u>	<u>\$ 1,031,099</u>	<u>\$ 7,481,339</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, 2017**

	<b>Cafeteria</b>	<b>Adult Education</b>
<b><u>Revenues</u></b>		
Federal Revenue	\$ 1,142,084	\$ 78,548
State Revenue	84,579	1,678,213
Local Revenue	789,083	441,205
	<b>2,015,746</b>	<b>2,197,966</b>
<b><u>Expenditures</u></b>		
Current:		
Instruction		997,057
Supervision of Instruction		47,943
School Site Administration		535,781
Food Services	2,040,681	
Other Pupil Services		154,217
Other General Administration	57,378	40,482
Plant Services	7,429	79,600
Facilities Acquisition and Construction		55,965
	<b>2,105,488</b>	<b>1,911,045</b>
Excess of Revenues Over (Under) Expenditures	(89,742)	286,921
<b><u>Other Financing Sources</u></b>		
Operating Transfers In	125,000	0
Net Change in Fund Balances	35,258	286,921
Fund Balances - July 1, 2016	6,516	1,247,949
Fund Balances - June 30, 2017	\$ 41,774	\$ 1,534,870

<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 1,220,632
\$ 679,403	\$ 26,457	\$ 486,098	2,248,890
		773,887	2,710,035
<u>679,403</u>	<u>26,457</u>	<u>1,259,985</u>	<u>6,179,557</u>
			997,057
			47,943
			535,781
			2,040,681
			154,217
			97,860
12,360	2,692	37,901	139,982
182,489	1,023,761	1,918,961	3,181,176
<u>194,849</u>	<u>1,026,453</u>	<u>1,956,862</u>	<u>7,194,697</u>
484,554	(999,996)	(696,877)	(1,015,140)
<u>0</u>	<u>0</u>	<u>0</u>	<u>125,000</u>
484,554	(999,996)	(696,877)	(890,140)
1,127,685	2,844,067	1,081,609	6,307,826
<u>\$ 1,612,239</u>	<u>\$ 1,844,071</u>	<u>\$ 384,732</u>	<u>\$ 5,417,686</u>

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<b>P-2 Report</b>				
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	<b>Total</b>
Regular	835.97	715.98	1,521.27	3,066.19	6,139.41
Extended Year - Special Education	0.42	0.25	0.10	0.29	1.06
Special Education - Nonpublic		2.25	4.44	21.17	27.86
Extended Year - Nonpublic		0.59	0.80	3.10	4.49
Community Day School			6.17	5.38	11.55
<b>Totals</b>	<b>836.39</b>	<b>719.07</b>	<b>1,532.78</b>	<b>3,096.13</b>	<b>6,184.37</b>

	<b>Annual Report</b>				
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	<b>Total</b>
Regular	834.82	712.18	1,510.81	3,034.20	6,092.01
Extended Year - Special Education	0.42	0.25	0.10	0.29	1.06
Special Education - Nonpublic		2.21	4.64	20.32	27.17
Extended Year - Nonpublic		0.61	0.85	3.26	4.72
Community Day School			7.51	6.61	14.12
<b>Totals</b>	<b>835.24</b>	<b>715.25</b>	<b>1,523.91</b>	<b>3,064.68</b>	<b>6,139.08</b>

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	P-2 Report			
	(District Reported)		(Audited)	
	Classroom Based	Total	Classroom Based	Total
<b><u>Penngrove</u></b>				
TK / K - 3	218.03	218.44	218.49	218.90
Grades 4 - 6	155.81	156.08	156.09	156.36
<b><u>Sixth Grade Charter Academy</u></b>				
Grades 4 - 6	49.58	49.58	49.58	49.58
<b><u>Petaluma Accelerated</u></b>				
Grades 7 - 8	93.32	93.48	93.32	93.48
<b><u>Mary Collins School at Cherry Valley</u></b>				
TK / K - 3	175.71	175.92	175.71	175.92
Grades 4 - 6	139.37	139.63	139.37	139.63
Grades 7 - 8	56.43	56.52	56.43	56.52
<b><u>Gateway to College Academy</u></b>				
Grades 9 - 12	56.22	56.22	56.22	56.22
Totals	<u>944.47</u>	<u>945.87</u>	<u>945.21</u>	<u>946.61</u>

	Annual Report			
	(District Reported)		(Audited)	
	Classroom Based	Total	Classroom Based	Total
<b><u>Penngrove</u></b>				
TK / K - 3	217.94	218.26	217.94	218.26
Grades 4 - 6	156.59	156.80	156.59	156.80
<b><u>Sixth Grade Charter Academy</u></b>				
Grades 4 - 6	49.14	49.22	49.14	49.22
<b><u>Petaluma Accelerated</u></b>				
Grades 7 - 8	92.57	92.72	92.57	92.72
<b><u>Mary Collins School at Cherry Valley</u></b>				
TK / K - 3	174.91	175.07	174.91	175.07
Grades 4 - 6	139.27	139.57	139.27	139.57
Grades 7 - 8	56.95	57.11	56.95	57.11
<b><u>Gateway to College Academy</u></b>				
Grades 9 - 12	53.27	53.27	53.27	53.27
Totals	<u>940.64</u>	<u>942.02</u>	<u>940.64</u>	<u>942.02</u>

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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<u>Grade Level</u>	<u>Minutes Required</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	46,050	180	N/A	In Compliance
Grade 1	50,400	50,640	180	N/A	In Compliance
Grade 2	50,400	50,640	180	N/A	In Compliance
Grade 3	50,400	50,640	180	N/A	In Compliance
Grade 4	54,000	54,025	180	N/A	In Compliance
Grade 5	54,000	54,025	180	N/A	In Compliance
Grade 6	54,000	54,025	180	N/A	In Compliance
Grade 7	54,000	54,150	180	N/A	In Compliance
Grade 8	54,000	54,150	180	N/A	In Compliance
Grade 9	64,800	64,485	180	N/A	Not in Compliance *
Grade 10	64,800	64,485	180	N/A	Not in Compliance *
Grade 11	64,800	64,485	180	N/A	Not in Compliance *
Grade 12	64,800	64,485	180	N/A	Not in Compliance *

\* As discussed in **Finding 2017 - 004** in the Findings and Questioned Costs Section of this report, Petaluma High School provided 315 instructional minutes less than the 64,800 required for grades 9 through 12.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
<b><u>Penngrove</u></b>					
Kindergarten	36,000	48,120	180	N/A	In Compliance
Grade 1	50,400	50,954	180	N/A	In Compliance
Grade 2	50,400	50,954	180	N/A	In Compliance
Grade 3	50,400	50,954	180	N/A	In Compliance
Grade 4	54,000	54,059	180	N/A	In Compliance
Grade 5	54,000	54,059	180	N/A	In Compliance
Grade 6	54,000	54,059	180	N/A	In Compliance
<b><u>6th Grade Charter Academy</u></b>					
Grade 6	54,000	54,049	180	N/A	In Compliance
<b><u>Petaluma Accelerated</u></b>					
Grade 7	54,000	57,625	180	N/A	In Compliance
Grade 8	54,000	57,625	180	N/A	In Compliance
<b><u>Mary Collins School at Cherry Valley</u></b>					
Kindergarten	36,000	49,845	180	N/A	In Compliance
Grade 1	50,400	50,440	180	N/A	In Compliance
Grade 2	50,400	50,440	180	N/A	In Compliance
Grade 3	50,400	50,440	180	N/A	In Compliance
Grade 4	54,000	55,130	180	N/A	In Compliance
Grade 5	54,000	55,130	180	N/A	In Compliance
Grade 6	54,000	57,035	180	N/A	In Compliance
Grade 7	54,000	57,035	180	N/A	In Compliance
Grade 8	54,000	57,035	180	N/A	In Compliance

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Agriculture:</b>				
Passed Through California Department of Education (CDE):				
<i>Child Nutrition Cluster:</i>				
National School Lunch	10.555	13524		\$ 767,795
Basic Breakfast	10.553	13525		1,178
School Needy Breakfast	10.553	13526		302,419
USDA Food Commodities	10.555	*		70,692
<b>Total U.S. Department of Agriculture</b>				<u>1,142,084</u>
<b>U.S. Department of Education:</b>				
Passed Through CDE:				
Carl D. Perkins Career and Technical Education	84.048	14894		57,158
Title I Basic Grant Low-Income & Neglected	84.010	14329		540,680
Title II Improving Teacher Quality	84.367	14341		102,354
Title II Administrator Training	84.367	14344		16,739
Title III Immigrant Education	84.365	14346		3,346
Title III Limited English Proficient	84.365	10084		93,010
Other Federal	*	*		17,714
<i>Adult Education Cluster:</i>				
Adult Basic Education & ESL	84.002A	14508		26,437
Adult Secondary Education	84.002	13978		34,242
English Literacy & Civics	84.002A	14109		17,869
Subtotal Adult Education Cluster				<u>78,548</u>
Passed Through Sonoma County SELPA:				
<i>Special Education Cluster:</i>				
IDEA Part B Basic Local Assistance	84.027	13379		1,524,517
IDEA Part B Preschool Grants	84.173	13430		85,882
IDEA Part B Preschool Local Entitlement	84.027A	13682		179,240
IDEA Part B Mental Health Allocation Plan	84.027A	15197		244,107
Subtotal Special Education Cluster				<u>2,033,746</u>
<b>Total U.S. Department of Education</b>				<u>2,943,295</u>
Totals			<u>\$ 0</u>	<u>\$ 4,085,379</u>

\* Federal catalog number and/or pass-through entity identification number not available.



**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT**  
**WITH AUDITED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	General Fund	Deferred Maintenance Fund
June 30, 2017 Annual Financial and Budget Report Fund Balances	\$ 14,958,900	\$ 201,974
Reclassification Increasing (Decreasing) Fund Balances:		
Reclassification of Fund Balances	201,974	(201,974)
June 30, 2017 Audited Financial Statements Fund Balances	\$ 15,160,874	\$ 0

Auditor's Comments

The fund balances of the General Fund and Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

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, 2017.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	GENERAL FUND			
	(Budget) (1) 2017-18	2016-17	2015-16	2014-15
Revenues and Other Financial Sources	\$ 80,627,270	\$ 82,957,679	\$ 82,249,098 *	\$ 72,537,081 *
Expenditures	81,273,078	80,061,737	78,802,255 *	74,608,454 *
Other Uses and Transfers Out	77,688	125,000	463,108 *	56,026 *
Total Outgo	81,350,766	80,186,737	79,265,363 *	74,664,480 *
Change in Fund Balance	(723,496)	2,770,942	2,983,735 *	(2,127,399) *
Ending Fund Balance	\$ 14,437,378	\$ 15,160,874	\$ 12,389,932 *	\$ 9,406,197 *
Available Reserves	\$ 6,140,181	\$ 4,907,554	\$ 6,445,602	\$ 6,170,440
Reserve for Economic Uncertainties (2)	\$ 2,440,523	\$ 2,403,903	\$ 3,926,710	\$ 2,244,371
Available Reserves as a Percentage of Total Outgo	7.5%	6.1%	8.1%	8.3%
Total Long-Term Liabilities	\$ 149,531,934	\$ 156,607,571	\$ 123,950,173	\$ 127,546,067
Average Daily Attendance (ADA) at P-2 (Inclusive of Charter School ADA)	7,202	7,131	7,138	7,130

\* The prior year balances have been adjusted to reflect the reclassification of fund balance discussed in Note 16 of these financial statements.

(1) The fiscal year 2017-18 budget information is presented for analytical purposes only and has not been audited.

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

The fund balance of the General Fund increased \$5,754,677 (61.2%) over the past two years. The fiscal year 2016-17 budget projects a decrease of \$723,496 (4.8%). 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 incurred an operating deficit of \$2,127,399 during fiscal year 2014-15, and produced operating surpluses of \$2,983,735 and \$2,770,942, during fiscal years 2015-16 and 2016-17, respectively.

Total long-term liabilities increased \$29,061,504 over the past two years, due primarily to the current year issuance of \$20 million of general obligation bonds, and the increase in net pension liabilities related to the District's participation in the CalSTRS and CalPERS pension plans.

Average daily attendance (ADA) has increased 1 ADA over the past two years. The District projects an increase of 71 ADA during fiscal year 2017-18.

**PETALUMA CITY SCHOOLS  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**Charter Schools**

**District Audit**

Penngrove

Included

6<sup>th</sup> Grade Charter Academy

Included

Petaluma Accelerated

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, 2017**

	<u>Elementary Measure D</u>	<u>High School Measure C</u>	<u>Totals</u>
<b><u>Revenues</u></b>			
Parcel Tax Revenue, Net	\$ 760,605	\$ 1,161,573	\$ 1,922,178
District Contribution	286,005	7,471	293,476
Total Revenues	<u>1,046,610</u>	<u>1,169,044</u>	<u>2,215,654</u>
<b><u>Expenditures</u></b>			
Certificated Salaries	608,577	745,774	1,354,351
Classified Salaries	63,200	137,788	200,988
Employee Benefits	254,023	328,999	583,022
Books and Supplies	45,542	208,901	254,443
Services and Operating Expenditures	3,828	45,680	49,508
Other Outgo	<u>1,544</u>	<u>1,544</u>	<u>1,544</u>
Total Expenditures	<u>975,170</u>	<u>1,468,686</u>	<u>2,443,856</u>
Net Change in Fund Balances	71,440	(299,642)	(228,202)
Fund Balances - Beginning	<u>208,043</u>	<u>769,515</u>	<u>977,558</u>
Fund Balances - Ending	<u>\$ 279,483</u>	<u>\$ 469,873</u>	<u>\$ 749,356</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. 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.

B. 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.

C. 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.

D. 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 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.

E. 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. 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).

F. Schedule of Expenditures of Federal Awards

*Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position of the District.

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)**

**F. Schedule of Expenditures of Federal Awards (Concluded)**

*Summary of Significant Accounting Policies*

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Indirect Cost Rates*

The District has not elected to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**G. 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.

**H. 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.

**I. 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.

**J. 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 *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2017.

**Management's Responsibility**

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

**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 *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, 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 that could have a direct and material effect on the District's state programs 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>
<b>Local Education Agencies Other Than Charter Schools:</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio 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
Mental Health Expenditures	Yes
<b>School Districts, County Offices of Education, and Charter Schools:</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
<b>Charter Schools:</b>	
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.

Opinion on State Compliance

In our opinion, Petaluma City Schools' complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the 2016-17 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 2017-001** through **2017-005**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

District Response to Findings

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 *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

January 19, 2018



**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 Petaluma City Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 19, 2018.

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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving internal control and its operation that we have communicated to management of Petaluma City Schools in a separate letter dated January 19, 2018.

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

January 19, 2018

**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 THE UNIFORM GUIDANCE**

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 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, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2017.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

January 19, 2018

## FINDINGS AND QUESTIONED COSTS SECTION



**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ X No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ X	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X	No

**Federal Awards**

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ X No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ X	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 2 CFR 200.516(a)?

	_____ Yes	_____ X No	
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
10.553 / 10.555	Child Nutrition Cluster
84.027 / 84.027A / 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee?

	_____ Yes	_____ X No	
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**State Awards**

Any audit findings required to be reported in accordance with the 2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?

	_____ X Yes	_____ No	
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Type of auditor's report issued on compliance for state programs: Unmodified

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

There are no matters to report for the fiscal year ended June 30, 2017.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no matters to report for the fiscal year ended June 30, 2017.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**2017 - 001 / 10000**

**ATTENDANCE REPORTING**

**Criteria:**

In accordance with Education Code Section 42238.051, for purposes of paragraph (1) of subdivision (a) of Section 42238.05, a sponsoring school district's average daily attendance shall be computed as follows:

- (1) Compute the sponsoring school districts regular average daily attendance in the current year, excluding the attendance of pupils in charter schools.
- (2) (A) Compute the regular average daily attendance used to calculate the second principal apportionment of the school district for the prior year, excluding the attendance of pupils in charter schools.  
  
(B) Compute the attendance of pupils who attended one or more noncharter schools of the school district between July 1, and the last day of the second period, inclusive, in the prior year, and who attended a charter school sponsored by the school district between July 1, and the last day of the second period, inclusive, in the current year. For purposes of this subparagraph, a pupil enrolled in a grade at a charter school sponsored by the school district shall not be counted if the school district does not offer classes for pupils enrolled in that grade. The amount of the attendance counted for any pupil for the purpose of this subparagraph may not be greater than the attendance claimed for that pupil by the charter school in the current year.  
  
(C) Compute the attendance of pupils who attended a charter school sponsored by the school district in the prior year and who attended one or more noncharter schools of the school district in the current year. The amount of the attendance counted for any pupil for the purpose of this subparagraph may not be greater than the attendance claimed for that pupil by the school district in the current year.  
  
(D) From the amount determined pursuant to subparagraph (B), subtract the amount determined pursuant to subparagraph (C). If the result is less than zero, the amount shall be deemed to be zero.  
  
(E) The prior year average daily attendance determined pursuant to subparagraph (A) shall be reduced by the amount determined pursuant to subparagraph (D).

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

**ATTENDANCE REPORTING (CONTINUED)**

**Criteria (Concluded):** (3) To the greater of the amounts computed pursuant to paragraphs (1) and (2), add the regular average daily attendance in the current year of all pupils attending charter schools sponsored by the school district that are not funded through the charter schools local control funding formula allocation pursuant to Section 42238.02, as implemented by Section 42238.03.

**Condition:** The worksheet used by the District to compute the amounts in (2)(A) and (2)(B) above, contained formula errors that resulted in improper amounts being determined in (2)(D) and (2)(E). As a result, the ADA reported on Lines C-1 and C-4 of the P-2 Attendance Reports of Petaluma City Elementary School District and Petaluma Joint Union High School District were misstated as follows:

P-2 Report	Petaluma City Elementary School District			
	Grade Span			Totals
	TK / K-3	4-6	9-12	
Line C-1 (Unaudited)	1.72	3.99		5.71
Line C-1 (Audit Adjustment)		18.58		18.58
Line C-1 (Audited)	1.72	22.57	0	24.29
Line C-4 (Unaudited)	9.64			9.64
Line C-4 (Audit Adjustment)	0.02			0.02
Line C-4 (Audited)	9.66	0	0	9.66

P-2 Report	Petaluma Joint Union High School District			
	Grade Span			Totals
	4-6	7-8	9-12	
Line C-1 (Unaudited)	2.95		7.25	10.20
Line C-1 (Audit Adjustment)	(2.95)		(1.04)	(3.99)
Line C-1 (Audited)	0	0	6.21	6.21
Line C-4 (Unaudited)	4.95	16.44		21.39
Line C-4 (Audit Adjustment)		0.95		0.95
Line C-4 (Audited)	4.95	17.39	0	22.34

The effect of the above adjustments on the apportionable ADA of Petaluma City Elementary School District is a 7.94 ADA increase for the TK/K-3 grade span, and a 22.57 decrease for the 4-6 grade span (14.63 ADA net decrease).

The above adjustments have no impact on the apportionable ADA of Petaluma Joint Union High School District.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

ATTENDANCE REPORTING (CONTINUED)

<u>Questioned Costs:</u>	\$102,440. Questioned costs were estimated by multiplying the grade span apportionable ADA adjustments, identified in the preceding paragraph, by the corresponding grade span derived value of ADA provided by the California Department of Education (Grades TK/K-3 - \$7,596.73, Grades 4-6 - \$7,211.25).
<u>Context:</u>	The P-2 ADA corrections presented in the above schedules reduced the apportionable ADA of Petaluma City Elementary School District, but had no effect on the apportionable ADA of the Petaluma Joint Union High School District.
<u>Effect:</u>	If the P-2 ADA corrections had not been made, the Petaluma City Elementary School District would improperly have been paid twice for the same 14.63 ADA.
<u>Cause:</u>	The District has experienced recent turnover in personnel who are responsible for attendance reporting. As a result, formula errors that were present in the worksheet, which is used to compute the ADA amounts, reported on Lines C-1 and C-4 of the P-2 attendance report, were not detected.
<u>Recommendation:</u>	Since the P-2 attendance report has been revised to reflect the Audited ADA figures presented in the schedule on the previous page, no further action is required for fiscal year 2016-17. However, the District should establish procedures to ensure that the worksheets used to compute the ADA amounts, reported on Lines C-1 and C-4 of the P-2 attendance report, are reviewed for accuracy and completeness prior to being submitted to the California Department of Education.
<u>District Response:</u>	The District corrected the P-2 ADA as outlined prior to the close of the school year and has implemented procedures to ensure that P-2 ADA is reported correctly for both Districts and the five charters including the ADA Charter School shifts.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

2017 - 002 / 10000

ATTENDANCE CODES

- Criteria: In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education, and a district should report average daily attendance (ADA) for all students that are enrolled in schools of the district pursuant to Education Code Section 41601. In addition, for apportionment purposes, a student attending any part of a school day should be considered as attending the full school.
- Condition: Students who arrived more than 30 minutes late at Penngrove Elementary School were properly assigned an "L" attendance code in the student information system that was titled "Late > 30Minutes". However, the "L" attendance code was improperly designated as a non-apportionable absence in the student information system instead of as apportionable tardy, which generates District funding. As a result, P-2 actual attendance was understated by .74 ADA (Grades TK-3 - .46 ADA, Grades 4-6 - .28 ADA).
- Questioned Costs: None. Funding was understated by \$5,830, which was estimated by multiplying the understated grade span ADA, identified in the preceding paragraph, by the corresponding grade span derived value of ADA provided by the California Department of Education (Grades TK-3 - \$8,019.56, Grades 4-6 - \$7,645.94).
- Context: The condition appears to be limited to Penngrove Elementary School. However, it has been determined that the condition has existed at Penngrove Elementary School since fiscal year 2008-09, without previously being detected. The Annual attendance report reflected the correct ADA and did not require revision.
- Effect: The District did not comply with Education Code Sections 46000 and 41601, and did not claim all of the funding that it was entitled to receive.
- Cause: Although the "L" attendance code was properly titled and described in the attendance code table, the attendance code type was incorrectly assigned as a non-apportionable absence instead of an apportionable tardy.
- Recommendation: Since the P-2 attendance report has been revised to reflect corrected Audited ADA figures presented on page 77 of this report, no further action is required for fiscal year 2016-17. However, the District should establish procedures to periodically verify that the attendance code table, maintained in the student information system for each school site, properly reflects the apportionment status of each attendance code. In addition, the District should determine the fiscal impact of the noncompliance on prior fiscal years and revised the reports for each fiscal year where the understatement exceeded one ADA.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

ATTENDANCE CODES (CONCLUDED)

District Response:            The attendance code in question has been corrected and the staff has been instructed to use the code for any late arrivals that will allow for apportionment.



PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

2017 - 003 / 10000

ATTENDANCE REGISTERS

<u>Criteria:</u>	In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education. Accordingly, attendance registers should be reviewed and signed at the end of each week by the teachers who record student attendance, to attest to its accuracy and completeness.
<u>Condition:</u>	Attendance registers were not reviewed and signed on a weekly basis by the teachers who recorded student attendance.
<u>Questioned Costs:</u>	None. We determined that the attendance recorded in the student information system was based on the actual attendance of the students, and could be relied upon for attendance reporting purposes.
<u>Context:</u>	The condition appears to be limited to McKinley Elementary School and Gateway Charter School. The attendance registers were not printed out or signed until the last month of school.
<u>Effect:</u>	The District did not comply with state attendance guidelines, which require teachers to certify the weekly attendance registers that are the basis for the average daily attendance reported to the State.
<u>Cause:</u>	The District did not enforce procedures that require attendance registers to be reviewed and signed at the end of each week by the teachers who record student attendance.
<u>Recommendation:</u>	The District should enforce procedures that require attendance registers to be reviewed and signed at the end of each school week by teachers who record student attendance.
<u>District Response:</u>	The District has put procedures in place to complete periodic reviews to ensure that site staff are printing and signing all attendance registers on a weekly basis.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

2017 - 004 / 40000

INSTRUCTIONAL TIME

Criteria:

In accordance with Education Code Section 46201 (a) for each school district that received an apportionment pursuant to subdivision (a) of this section, as it read on January 1, 2013, and that reduces the amount of instructional time offered below the minimum amounts specified in subdivision (b), the Superintendent shall withhold from the school district's local control funding formula grant apportionment pursuant to Section 42238.02, as implemented by Section 42238.03, for the average daily attendance of each affected grade level, the sum of that apportionment multiplied by the percentage of the minimum offered minutes at that grade level that the school district failed to offer; (b) Commencing with the 2013–14 fiscal year: (1) Thirty-six thousand minutes in kindergarten. (2) Fifty thousand four hundred minutes in grades 1 to 3, inclusive. (3) Fifty-four thousand minutes in grades 4 to 8, inclusive. (4) Sixty-four thousand eight hundred minutes in grades 9 to 12, inclusive. For purposes of computing instructional time, the California Department of Education has for many years advised school districts that actual passing time between separate class sessions in the same departmentalized program, not to exceed 10 minutes, may be claimed as instructional time. Further, when a school provides passing times of variable lengths, the District must use the shortest passing time when computing instructional time unless it can show that normal path was not available due to a physical obstruction.

Condition:

During fiscal year 2016-17, Petaluma High School provided variable passing times ranging in length from 5 minutes to 10 minutes. Accordingly, instructional time was recomputed using a passing time of 5 minutes between all class periods, which resulted in annual instructional time of 64,485 minutes, which is 315 minutes below the required 64,800 instructional minutes.

Questioned Costs:

\$131,390. Questioned costs were computed using the procedure identified in the first paragraph, based on the following:

Affected Grade Levels:	9, 10, 11, 12
Affected Grade Level ADA:	3,157.10
Derived Value of ADA by Grade Span:	\$ 8,561.29
Number of Minutes Short:	315

$$(315 / 64,800 \times 3,157.10 \times \$8,561.29 = \$131,390)$$

Context:

The condition appears to be limited to Petaluma High School.

Effect:

The District did not comply with the instructional time requirements of Education Code Sections 46201 (b).

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

INSTRUCTIONAL TIME (CONCLUDED)

- Cause: The school has not previously utilized variable passing times on its bell schedules, and was unaware of the consequences of doing so.
- Recommendation: The District should establish procedures which prevent the use of variable passing times. In addition, in accordance with Education Code Section 46206, the District should seek a waiver of fiscal penalties with the State Board of Education, which will require the District to make up the instructional shortfall for twice as many years as the school was noncompliant.
- District Response: Staff will put procedures in place to ensure that passing times between classes for the Junior High Schools, High Schools, and Gateway to College are reasonable and consistent.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

**2017 - 005 / 72000**

**SCHOOL ACCOUNTABILITY REPORT CARD**

- Criteria:** In accordance with Education Code Section 35258 (a), each school district that is connected to the Internet shall make the information contained in the School Accountability Report Card developed pursuant to Section 35256 accessible on the Internet, and shall be updated annually. Commencing with the 2008-09 school year, each school district connected to the Internet shall make its annually updated report card available on the Internet on or before February 1 of each year.
- Condition:** The school accountability report cards that were required to be prepared and accessible to the public by February 1, 2017, were not prepared or accessible to the public until several months after the February 1 due date.
- Questioned Costs:** None.
- Context:** The school accountability report cards were completed at various times based on the availability of information for each school site.
- Effect:** The District did not comply with the requirements of Education Code Section 35258 (a), and the general public was not properly informed about each school in a timely manner.
- Cause:** The District has not established appropriate procedures to ensure that the required school accountability report cards are prepared and disseminated to the public by February 1 of each year.
- Recommendation:** The District should establish appropriate procedures to ensure that the required school accountability report cards are prepared and disseminated to the public by February 1 of each year.
- District Response:** Staff has put procedures in place to ensure that the SARC is completed on time each year.

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS</u></b>		
<b>2016 - 001 / 30000</b>		
<b>SIGNIFICANT DEFICIENCY</b>		
<b><u>DEFICIT SPENDING</u></b>		
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.	Implemented	

