

**PETALUMA CITY SCHOOLS**  
**AUDIT REPORT**  
**For the Fiscal Year Ended**  
**June 30, 2018**



**PETALUMA CITY SCHOOLS**

*For the Fiscal Year Ended June 30, 2018*

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***Financial Section***

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## INDEPENDENT AUDITORS' 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 fiscal year ended June 30, 2018, 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

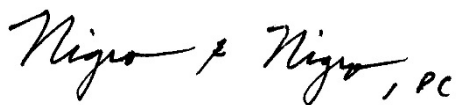
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, and the notes to the required supplementary information 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 the District's basic financial statements. The supplementary information 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 on pages 55 to 60 and the schedule of expenditures of federal awards on page 61 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 54 and 62 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California  
December 10, 2018

# PETALUMA CITY SCHOOLS

## Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2018

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This discussion and analysis of Petaluma City Schools' financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$0.8 million, or 32.6%.
- Governmental expenses were about \$97.2 million. Revenues were about \$98.0 million.
- The District acquired over \$11.6 million in new capital assets during the year. These additions were incurred primarily from improvements to sites and buildings.
- The District increased its outstanding long-term debt by \$3.7 million. This was primarily due to the issuance of a bond.
- Grades K-12 average daily attendance (ADA) decreased by 77, or 1.1%.

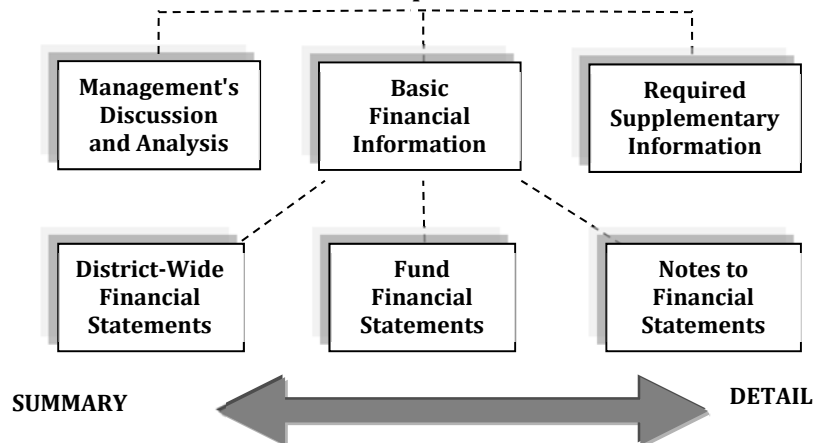
### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1. Organization of Petaluma City Schools' Annual Financial Report**





**PETALUMA CITY SCHOOLS**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the District-Wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Net Position</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

## PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2018*

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

#### District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

- 1) **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

# PETALUMA CITY SCHOOLS

## Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2018

### Fund Financial Statements (continued)

- 2) **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured programs for workers compensation claims, health and welfare benefits, and property and liability claims.
- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and CFD Debt Service. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Position.** The District's combined net position was higher on June 30, 2018, than it was the year before – increasing 32.6% to \$3.3 million (See Table A-1).

**Table A-1: Statement of Net Position**

	Governmental Activities		Variance Increase (Decrease)	Business-Type Activities		Variance Increase (Decrease)
	2018	2017		2018	2017	
<b>Assets</b>						
Current assets	\$ 61,742,907	\$ 60,736,217	\$ 1,006,690	\$ 8,866	\$ 8,745	\$ 121
Capital assets	97,349,981	91,687,840	5,662,141	1,421	1,421	-
<b>Total assets</b>	<b>159,092,888</b>	<b>152,424,057</b>	<b>6,668,831</b>	<b>10,287</b>	<b>10,166</b>	<b>121</b>
<b>Deferred outflows of resources</b>	<b>23,023,357</b>	<b>22,718,334</b>	<b>305,023</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>						
Current liabilities	8,884,651	16,860,747	(7,976,096)	-	-	-
Long-term liabilities	84,867,141	81,129,243	3,737,898	-	-	-
Net pension liability	80,562,673	68,402,691	12,159,982	-	-	-
<b>Total liabilities</b>	<b>174,314,465</b>	<b>166,392,681</b>	<b>7,921,784</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred inflows of resources</b>	<b>4,456,747</b>	<b>6,226,220</b>	<b>(1,769,473)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net position</b>						
Net investment in capital assets	15,624,742	38,314,122	(22,689,380)	1,421	1,421	-
Restricted	20,446,460	11,668,834	8,777,626	8,866	8,745	121
Unrestricted	(32,726,169)	(47,459,466)	14,733,297	-	-	-
<b>Total net position</b>	<b>\$ 3,345,033</b>	<b>\$ 2,523,490</b>	<b>\$ 821,543</b>	<b>\$ 10,287</b>	<b>\$ 10,166</b>	<b>\$ 121</b>

**Changes in net position, governmental activities.** The District's total revenues increased 0.4% to \$98.0 million (See Table A-2). The increase is due primarily to increases in property tax revenues.

The total cost of all programs and services increased 3.4% to \$97.2 million. The District's expenses are predominantly related to educating and caring for students, 81.8%. The purely administrative activities of the District accounted for just 4.9% of total costs. A significant contributor to the increase in costs was due to increases in salaries and benefits.

**PETALUMA CITY SCHOOLS**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

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

**Table A-2: Statement of Activities**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>	<b>Business-Type Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>		<b>2018</b>	<b>2017</b>	
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 2,681,986	\$ 2,544,389	\$ 137,597	\$ -	\$ -	\$ -
Operating grants and contributions	13,728,795	15,095,188	(1,366,393)	-	-	-
General Revenues:						
Property taxes	51,164,343	47,550,817	3,613,526	-	-	-
Federal and state aid not restricted	28,383,465	29,512,638	(1,129,173)	-	-	-
Other general revenues	2,103,610	2,990,269	(886,659)	121	175	(54)
<b>Total Revenues</b>	<b>98,062,199</b>	<b>97,693,301</b>	<b>368,898</b>	<b>121</b>	<b>175</b>	<b>(54)</b>
<b>Expenses</b>						
Instruction-related	68,441,445	65,970,861	2,470,584	-	-	-
Pupil services	11,064,964	11,613,901	(548,937)	-	-	-
Administration	4,721,540	4,672,199	49,341	-	-	-
Plant services	8,959,376	7,922,548	1,036,828	-	-	-
All other activities	4,053,331	3,900,600	152,731	-	1,803	(1,803)
<b>Total Expenses</b>	<b>97,240,656</b>	<b>94,080,109</b>	<b>3,160,547</b>	<b>-</b>	<b>1,803</b>	<b>(1,803)</b>
Increase (decrease) in net position	\$ 821,543	\$ 3,613,192	\$ (2,791,649)	\$ 121	\$ (1,628)	\$ 1,749
<b>Total net position</b>	<b>\$ 3,345,033</b>	<b>\$ 2,523,490</b>		<b>\$ 10,287</b>	<b>\$ 10,166</b>	

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$53.5 million, which is above last year's ending fund balance of \$51.7 million. The primary cause of the increased fund balance is the issuance of new bonds.

**Table A-3: The District's Fund Balances**

<b>Fund</b>	<b>Fund Balances</b>				
	<b>July 1, 2017</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Sources and (Uses)</b>	<b>June 30, 2018</b>
General Fund	\$ 14,958,900	\$ 83,938,030	\$ 83,451,296	\$ (97,688)	\$ 15,347,946
Adult Education Fund	1,534,870	2,066,590	2,088,986	-	1,512,474
Cafeteria Fund	41,774	2,005,482	1,980,022	97,688	164,922
Deferred Maintenance Fund	201,974	833	130,211	-	72,596
Building Fund	24,091,895	293,271	10,758,225	8,923,175	22,550,116
Capital Facilities Fund	1,612,239	319,265	424,597	-	1,506,907
Special Reserve Fund (Capital Outlay)	384,732	1,356,025	475,352	130,825	1,396,230
Bond Interest and Redemption Fund	8,886,767	10,279,271	8,902,969	718,938	10,982,007
	<b>\$ 51,713,151</b>	<b>\$ 100,258,767</b>	<b>\$ 108,211,658</b>	<b>\$ 9,772,938</b>	<b>\$ 53,533,198</b>

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$4.5 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$2.0 million due to reflect revised cost estimates.
- Other non-personnel expenses – increased \$6.5 million to revise operational cost estimates.

## PETALUMA CITY SCHOOLS

### Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2018

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#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$4.7 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.5 million. Actual revenues were \$1.1 million less than anticipated, and expenditures were \$6.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

By the end of 2017-18 the District had acquired \$11.6 million in new capital assets, related to land, construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$6.0 million.

**Table A-4: Capital Assets at Year End, Net of Depreciation**

	Governmental Activities		Variance
	2018	2017	Increase (Decrease)
Land	\$ 4,266,886	\$ 4,266,886	\$ -
Improvement of sites	19,194,884	12,193,440	7,001,444
Buildings	70,286,474	73,185,205	(2,898,731)
Equipment	620,413	508,430	111,983
Construction in progress	2,981,324	1,533,879	1,447,445
Total	<u>\$ 97,349,981</u>	<u>\$ 91,687,840</u>	<u>\$ 5,662,141</u>

##### Long-Term Debt

At year-end the District had \$84.9 million in general obligation bonds and accrued vacation – an increase of 4.6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

**Table A-5: Outstanding Long-Term Debt at Year-End**

	Governmental Activities		Variance
	2018	2017	Increase (Decrease)
General obligation bonds	\$ 84,232,777	\$ 80,684,876	\$ 3,547,901
Compensated absences	634,364	444,367	189,997
Total	<u>\$ 84,867,141</u>	<u>\$ 81,129,243</u>	<u>\$ 3,737,898</u>

## **PETALUMA CITY SCHOOLS**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

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

#### **The 2018-19 State Budget**

##### ***Final Budget Package Includes \$15.9 Billion in Total Reserves***

The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by \$700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

##### ***Overall Spending***

The budget assumed total state spending of \$197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is \$138.7 billion—an increase of \$11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased \$1.3 billion, or 2%, over the revised 2017-18 level.

##### ***Considerable New Spending on Education***

The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

##### ***Proposition 98 Establishes Minimum Spending Level***

This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

##### ***Higher Proposition 98 Spending in 2016-17 and 2017-18***

From the June 2017 budget plan to the June 2018 budget plan, spending increased \$252 million in 2016-17 and \$1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of \$789 million (on top of a previous \$536 million payment). After making the \$1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

##### ***2018-19 Spending up Notably Over Revised 2017-18 Level***

For 2018-19, total Proposition 98 spending across all segments is \$78.4 billion, an increase of \$2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

## **PETALUMA CITY SCHOOLS**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

#### **The 2018-19 State Budget (continued)**

##### ***\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19***

The enacted 2018-19 level is \$2.4 billion (3.6%) more than the revised 2017-18 level and \$3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by \$579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to \$11,645.

##### ***Package Includes Mix of Ongoing and One-Time Spending***

The budget includes \$5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the \$5.7 billion, \$4 billion (70%) is ongoing and \$1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes \$594 million in Proposition 51 bond authority for school facility projects and \$100 million in non-Proposition 98 funding for kindergarten school facilities.

##### ***Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates***

In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is \$3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to \$61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

##### ***Funds One-Time Discretionary Grants***

The largest one-time spending initiative for K-12 education is \$1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated \$183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total \$145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only \$202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be \$668 million.

All of these factors were considered in preparing the Petaluma City Schools budget for the 2018-19 fiscal year.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Business Official, Petaluma City Schools, 200 Douglas Street, Petaluma, CA 94952.

**PETALUMA CITY SCHOOLS***Statement of Net Position**June 30, 2018*

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash	\$ 57,190,998	\$ 8,866	\$ 57,199,864
Accounts receivable	4,476,353	-	4,476,353
Inventories	28,981	-	28,981
Prepaid expenses	46,575	-	46,575
Capital assets:			
Non-depreciable assets	7,248,210	-	7,248,210
Depreciable assets	184,303,710	56,833	184,360,543
Less accumulated depreciation	<u>(94,201,939)</u>	<u>(55,412)</u>	<u>(94,257,351)</u>
Total assets	<u>159,092,888</u>	<u>10,287</u>	<u>159,103,175</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts on refunding	213,533	-	213,533
Deferred outflows related to pensions	<u>22,809,824</u>	<u>-</u>	<u>22,809,824</u>
Total deferred outflows of resources	<u>23,023,357</u>	<u>-</u>	<u>23,023,357</u>
<b>LIABILITIES</b>			
Accounts payable	8,063,127	-	8,063,127
Unearned revenue	821,524	-	821,524
Long-term liabilities:			
Portion due or payable within one year	8,076,267	-	8,076,267
Portion due or payable after one year	76,790,874	-	76,790,874
Net pension liability	<u>80,562,673</u>	<u>-</u>	<u>80,562,673</u>
Total liabilities	<u>174,314,465</u>	<u>-</u>	<u>174,314,465</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	<u>4,456,747</u>	<u>-</u>	<u>4,456,747</u>
<b>NET POSITION</b>			
Net investment in capital assets	15,624,742	1,421	15,626,163
Restricted for:			
Capital projects	2,903,137	-	2,903,137
Debt service	10,982,007	-	10,982,007
Categorical programs	6,561,316	-	6,561,316
Unrestricted	<u>(32,726,169)</u>	<u>8,866</u>	<u>(32,717,303)</u>
Total net position	<u>\$ 3,345,033</u>	<u>\$ 10,287</u>	<u>\$ 3,355,320</u>



**PETALUMA CITY SCHOOLS**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2018*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<b>Governmental Activities</b>						
Instructional Services:						
Instruction	\$ 57,779,193	\$ 1,198,988	\$ 7,511,710	\$ (49,068,495)	\$ -	\$ (49,068,495)
Instruction-Related Services:						
Supervision of instruction	3,627,134	106,353	558,642	(2,962,139)	-	(2,962,139)
Instructional library, media and technology	1,207,869	25,706	127,954	(1,054,209)	-	(1,054,209)
School site administration	5,827,249	26,708	554,080	(5,246,461)	-	(5,246,461)
Pupil Support Services:						
Home-to-school transportation	2,590,460	8,032	122,747	(2,459,681)	-	(2,459,681)
Food services	2,009,700	782,776	1,131,355	(95,569)	-	(95,569)
All other pupil services	6,464,804	89,748	1,154,985	(5,220,071)	-	(5,220,071)
General Administration Services:						
Data processing services	729,593	-	2,153	(727,440)	-	(727,440)
Other general administration	3,991,947	64,116	260,233	(3,667,598)	-	(3,667,598)
Plant services	8,959,376	350,892	2,183,144	(6,425,340)	-	(6,425,340)
Ancillary services	669,789	9,376	46,136	(614,277)	-	(614,277)
Community services	277,233	6,402	29,790	(241,041)	-	(241,041)
Enterprise activities	86,142	2,740	12,753	(70,649)	-	(70,649)
Interest on long-term debt	2,741,067	-	-	(2,741,067)	-	(2,741,067)
Other outgo	279,100	10,149	33,113	(235,838)	-	(235,838)
Total Governmental Activities	97,240,656	2,681,986	13,728,795	(80,829,875)	-	(80,829,875)
<b>Business-Type Activities</b>						
Enterprise Activities	-	-	-	-	-	-
Totals	\$ 97,240,656	\$ 2,681,986	\$ 13,728,795	(80,829,875)	-	(80,829,875)
General Revenues:						
Property taxes				51,164,343	-	51,164,343
Federal and state aid not restricted to specific purpose				28,383,465	-	28,383,465
Interest and investment earnings				376,070	121	376,191
Interagency revenues				354,171	-	354,171
Miscellaneous				1,373,369	-	1,373,369
Total general revenues				81,651,418	121	81,651,539
Change in net position				821,543	121	821,664
Net position, July 1, 2017				2,523,490	10,166	2,533,656
Net position, June 30, 2018				\$ 3,345,033	\$ 10,287	\$ 3,355,320

**PETALUMA CITY SCHOOLS**  
*Balance Sheet – Governmental Funds*  
*June 30, 2018*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 17,967,192	\$ 23,715,915	\$ 10,982,007	\$ 4,287,749	\$ 56,952,863
Accounts receivable	4,256,104	-	-	220,249	4,476,353
Due from other funds	524,795	-	-	1,031,140	1,555,935
Inventories	-	-	-	28,981	28,981
Prepaid expenditures	46,575	-	-	-	46,575
Total Assets	<u>\$ 22,794,666</u>	<u>\$ 23,715,915</u>	<u>\$ 10,982,007</u>	<u>\$ 5,568,119</u>	<u>\$ 63,060,707</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 5,566,385	\$ 1,034,192	\$ -	\$ 444,959	\$ 7,045,536
Due to other funds	1,004,830	131,607	-	524,012	1,660,449
Unearned revenue	802,909	-	-	18,615	821,524
Total Liabilities	<u>7,374,124</u>	<u>1,165,799</u>	<u>-</u>	<u>987,586</u>	<u>9,527,509</u>
<b>Fund Balances</b>					
Nonspendable	74,097	-	-	29,202	103,299
Restricted	4,913,122	22,550,116	10,982,007	4,551,331	42,996,576
Assigned	3,880,813	-	-	-	3,880,813
Unassigned	6,552,510	-	-	-	6,552,510
Total Fund Balances	<u>15,420,542</u>	<u>22,550,116</u>	<u>10,982,007</u>	<u>4,580,533</u>	<u>53,533,198</u>
Total Liabilities and Fund Balances	<u>\$ 22,794,666</u>	<u>\$ 23,715,915</u>	<u>\$ 10,982,007</u>	<u>\$ 5,568,119</u>	<u>\$ 63,060,707</u>

# PETALUMA CITY SCHOOLS

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018

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**Total fund balances - governmental funds** \$ 53,533,198

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	191,551,920	
Accumulated depreciation	<u>(94,201,939)</u>	
Net:		97,349,981

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 213,533

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (1,013,205)

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.

Deferred outflows of resources from pensions	22,809,824	
Deferred inflows of resources from pensions	<u>(4,456,747)</u>	
Net:		18,353,077

In governmental funds, only current liabilities are reported. In the statements of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements, consist of:

General obligation bonds	84,232,777	
Compensated absences	<u>634,364</u>	
Total:		(84,867,141)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (80,562,673)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is: 338,263

**Total net position - governmental activities** \$ 3,345,033

**PETALUMA CITY SCHOOLS**

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2018*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 63,792,809	\$ -	\$ -	\$ -	\$ 63,792,809
Federal sources	3,091,612	-	-	1,159,707	4,251,319
Other state sources	7,028,084	-	72,803	2,236,302	9,337,189
Other local sources	10,026,358	293,271	10,206,468	2,351,353	22,877,450
Total Revenues	83,938,863	293,271	10,279,271	5,747,362	100,258,767
<b>EXPENDITURES</b>					
Current:					
Instruction	53,538,730	-	-	1,046,587	54,585,317
Instruction-Related Services:					
Supervision of instruction	2,794,073	-	-	183,895	2,977,968
Instructional library, media and technology	1,125,543	-	-	-	1,125,543
School site administration	5,191,666	-	-	522,893	5,714,559
Pupil Support Services:					
Home-to-school transportation	2,529,560	-	-	-	2,529,560
Food services	10,370	-	-	1,889,892	1,900,262
All other pupil services	5,414,051	-	-	159,851	5,573,902
Ancillary services	674,569	-	-	-	674,569
Community services	261,016	-	-	-	261,016
Enterprise activities	86,147	-	-	-	86,147
General Administration Services:					
Data processing services	675,056	-	-	-	675,056
Other general administration	3,558,433	-	-	-	3,558,433
Plant services	7,661,582	8,474	-	248,145	7,918,201
Transfers of indirect costs	(144,600)	-	-	144,600	-
Intergovernmental Transfers	75,100	-	-	-	75,100
Capital Outlay	130,211	10,545,751	-	773,094	11,449,056
Debt Service:					
Principal	-	-	4,085,584	-	4,085,584
Interest	-	-	4,817,385	-	4,817,385
Issuance costs	-	204,000	-	-	204,000
Total Expenditures	83,581,507	10,758,225	8,902,969	4,968,957	108,211,658
Excess (Deficiency) of Revenues Over (Under) Expenditures	357,356	(10,464,954)	1,376,302	778,405	(7,952,891)
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	-	-	-	228,513	228,513
Interfund transfers out	(97,688)	(130,825)	-	-	(228,513)
Issuance of debt - general obligation bonds	-	9,000,000	-	-	9,000,000
Premiums on issuance of debt	-	54,000	718,938	-	772,938
Total Other Financing Sources and Uses	(97,688)	8,923,175	718,938	228,513	9,772,938
Net Change in Fund Balances	259,668	(1,541,779)	2,095,240	1,006,918	1,820,047
Fund Balances, July 1, 2017	15,160,874	24,091,895	8,886,767	3,573,615	51,713,151
Fund Balances, June 30, 2018	\$ 15,420,542	\$ 22,550,116	\$ 10,982,007	\$ 4,580,533	\$ 53,533,198

# 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, 2018

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**Total net change in fund balances - governmental funds** \$ 1,820,047

Amounts reported for governmental activities in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	11,646,055	
Depreciation expense	<u>(5,983,914)</u>	
Net:		5,662,141

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were:

4,085,584

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, net of issue premium or discount were:

(9,772,938)

The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on refunding and are amortized over the life of the liability. The amount amortized from deferred amounts in the current year was:

(76,889)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium and discount for the period is:

(125,920)

In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

13,751

In governmental 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, differences between accrual-basis pension costs and actual employer contributions was:

(2,932,958)

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest accrued and paid during the year is:

2,265,373

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was:

(189,997)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

73,349

**Change in net position - governmental activities**

\$ 821,543

**PETALUMA CITY SCHOOLS***Statement of Net Position – Proprietary Fund  
June 30, 2018*

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	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Self-Insurance Fund</b>	<b>Enterprise Fund</b>
<b>ASSETS</b>		
Cash	\$ 238,135	\$ 8,866
Due From Other Funds	104,514	-
Equipment	-	56,833
Less Accumulated Depreciation	-	(55,412)
	<hr/>	<hr/>
Total assets	342,649	10,287
<b>LIABILITIES</b>		
Accounts payable	4,386	-
	<hr/>	<hr/>
<b>NET POSITION</b>		
Net Investment in Capital Assets	-	1,421
Restricted	338,263	8,866
	<hr/>	<hr/>
Total Net Position	<u>\$ 338,263</u>	<u>\$ 10,287</u>

**PETALUMA CITY SCHOOLS***Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund  
For the Fiscal Year Ended June 30, 2018*

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	<b>Governmental Activities Self-Insurance Fund</b>	<b>Business-Type Activities Enterprise Fund</b>
<b>OPERATING REVENUES</b>		
In-district premiums/contributions	\$ 127,835	\$ -
Total operating revenues	127,835	-
<b>OPERATING EXPENSES</b>		
Payments for claims and other operating expenses	57,981	-
Operating Income (Loss)	69,854	-
<b>NON-OPERATING REVENUE</b>		
Interest income	3,495	121
Change in net position	73,349	121
Net position, July 1, 2017	264,914	10,166
Net position, June 30, 2018	<u>\$ 338,263</u>	<u>\$ 10,287</u>

**PETALUMA CITY SCHOOLS***Statement of Cash Flows – Proprietary Fund  
For the Fiscal Year Ended June 30, 2018*

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Self-Insurance Fund</b>	<b>Enterprise Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from self-insurance premiums	\$ 23,321	\$ -
Cash paid for operating expenses	(57,538)	-
Net cash provided (used) by operating activities	(34,217)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	3,495	121
Net increase in cash	(30,722)	121
Cash, July 1, 2017	268,857	8,745
Cash, June 30, 2018	<u>\$ 238,135</u>	<u>\$ 8,866</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 69,854	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Increase in accounts receivable	(104,514)	-
Increase in accounts payable	443	-
Net cash provided (used) by operating activities	<u>\$ (34,217)</u>	<u>\$ -</u>



**PETALUMA CITY SCHOOLS**  
*Statement of Fiduciary Net Position*  
*June 30, 2018*

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	<u>Agency Funds</u>	<u>Trust Funds</u>	
	<u>Student Body Funds</u>	<u>Foundation Trust Fund</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>			
Cash	\$ 256,323	\$ 17,438	\$ 273,761
Investments	-	99,781	99,781
Total assets	<u>\$ 256,323</u>	<u>117,219</u>	<u>373,542</u>
<b>LIABILITIES</b>			
Due to student groups	<u>\$ 256,323</u>	-	<u>256,323</u>
Total liabilities	<u>\$ 256,323</u>	-	<u>256,323</u>
<b>NET POSITION</b>			
Restricted for foundation trust		<u>\$ 117,219</u>	<u>\$ 117,219</u>

**PETALUMA CITY SCHOOLS**

*Statement of Revenues, Expenses, and Changes in Fund Net Position – Fiduciary Fund  
For the Fiscal Year Ended June 30, 2018*

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	<b>Trust Funds</b>
	<b>Foundation Trust Fund</b>
<b>ADDITIONS</b>	
Interest and investment earnings	\$ 1,688
Net increase in fair value of investments	621
Total additions	2,309
<b>DEDUCTIONS</b>	
Total deductions	-
Change in net position	2,309
Net Position - July 1, 2017	114,910
Net Position - June 30, 2018	\$ 117,219

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Petaluma City Schools (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

**A. Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Petaluma City Schools, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

**B. Basis of Presentation, Basis of Accounting**

**1. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation, Basis of Accounting (continued)**

**1. Basis of Presentation (continued)**

**Fund Financial Statements**

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**Major Governmental Funds**

The District maintains the following major governmental funds:

**General Fund:** This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in this fund is being reported within the General Fund.

**Building Fund:** This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

**Bond Interest and Redemption Fund:** This Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

**Non-Major Governmental Funds**

The District maintains the following non-major governmental funds:

**Special Revenue Funds:**

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

**Cafeteria Fund:** This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

**Capital Project Funds:**

**Capital Facilities Fund:** This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

**Special Reserve Fund for Capital Outlay Projects:** This fund is used to account for funds set aside for Board designated construction projects.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation, Basis of Accounting (continued)**

**1. Basis of Presentation (continued)**

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

**Scholarship Fund:** This 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:** This 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.

**2. Measurement Focus, Basis of Accounting**

**Government-Wide and Fiduciary Fund Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation, Basis of Accounting (continued)**

**2. Measurement Focus, Basis of Accounting (continued)**

**Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

**3. Revenues - Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. 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 for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**C. Budgetary Data**

The budgetary process is prescribed by provisions of the California *Education Code* and requires the Board of Education to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District Board of Education satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. 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 as of June 30.

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position**

**1. Cash and Cash Equivalents**

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**2. Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**3. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Sites and Improvements	10-30 years
Buildings and Improvements	25-40 years
Furniture and Equipment	5-15 years

**4. Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position 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 statement of net position 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 will not be recognized as an inflow of resources (revenue) until that time.

**6. Compensated Absences**

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**7. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' 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. Fund Balances**

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

**8. Fund Balances (continued)**

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

**9. Net Position**

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Minimum Fund Balance Policy**

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the Board of Education has provided otherwise in its commitment or assignment actions.

**G. Property Tax Calendar**

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

**I. New GASB Pronouncements**

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 inter-period equity, and creating additional transparency.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. New GASB Pronouncements (continued)**

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.
3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

**PETALUMA CITY SCHOOLS**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. New GASB Pronouncements**

4. In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2018, are reported at fair value and consisted of the following:

	Governmental Activities			Business-Type	Fiduciary Funds
	Governmental Funds	Proprietary Funds	Total	Enterprise Fund	
Pooled Funds:					
Cash in County Treasury	\$ 56,917,464	\$ 238,135	\$ 57,155,599	\$ 8,866	\$ 1
Deposits:					
Cash on hand and in banks	7,656	-	7,656	-	273,760
Cash in revolving fund	27,743	-	27,743	-	-
Total Deposits	35,399	-	35,399	-	273,760
Total Cash	\$ 56,952,863	\$ 238,135	\$ 57,190,998	\$ 8,866	\$ 273,761
Investments:					
Certificates of Deposit					\$ 99,781
Total Investments					\$ 99,781

**Pooled Funds**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
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**NOTE 2 – CASH AND INVESTMENTS**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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, 2018, none of the District’s bank balance was exposed to custodial credit risk because it was insured by the FDIC.

**Investments – Interest Rate Risk**

The District’s investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District’s investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2018, consist of the following:

	Fair Value	Maturities		Fair Value Measurement
		Less Than One Year	One to Five Years	
Certificates of Deposit	\$ 99,781	\$ -	\$ 99,781	Level 1
	<u>\$ 99,781</u>	<u>\$ -</u>	<u>\$ 99,781</u>	

**Investments – Credit Risk**

The District’s investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2018, all investments represented governmental securities which were issued, registered and held by the District’s agent in the District’s name.

**Investments – Concentration of Credit Risk**

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had the following investments that represents more than five percent of the District’s net investments.

Certificates of Deposit	100%
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**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

**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 specified 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 date if reasonably 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 Treasury Investment Pool are not measured using the input levels above because the District’s transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

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

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2018, consisted of the following:

	Governmental Funds		
	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal Government:			
Categorical aid programs	\$ 1,936,029	\$ 165,180	\$ 2,101,209
State Government:			
Lottery	311,964	-	311,964
Other state resources	595,547	34,519	630,066
Local:			
Interagency services	861,467	-	861,467
Special Education	87,925	-	87,925
Other local resources	463,172	20,550	483,722
<b>Total</b>	<b>\$ 4,256,104</b>	<b>\$ 220,249</b>	<b>\$ 4,476,353</b>

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 4 – INTERFUND TRANSACTIONS**

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

Balances due to/from other funds at June 30, 2018, consisted of the following:

	Due From Other Funds				Total
	General Fund	Non-Major Funds	Total Govt. Funds	Self-Insurance Fund	
General Fund	\$ -	\$ 900,316	\$ 900,316	\$ 104,514	\$ 1,004,830
Building Fund	783	130,824	131,607	-	131,607
Non-Major Governmental Funds	524,012	-	524,012	-	524,012
Total	<u>\$ 524,795</u>	<u>\$ 1,031,140</u>	<u>\$ 1,555,935</u>	<u>\$ 104,514</u>	<u>\$ 1,660,449</u>

General Fund due to Cafeteria Fund for write off of negative student meal account	\$ 13,901
General Fund due to Capital Facilities Fund for expenditure transfers	92,084
General Fund due to Special Reserve for Capital Outlay Fund for RDA facilities portion	794,331
General Fund due to Self Insurance Fund for VSP clearing account transfer	104,514
Adult Education Fund due to General Fund for indirect costs and expenditure transfers	81,973
Cafeteria Fund due to General Fund for fuel charged and temporary cash loan	242,039
Building Fund due to General Fund for expenditure transfers	783
Building Fund due to Special Reserve for Capital Outlay Fund for expenditure transfers related to solar project	130,824
Special Reserve for Capital Outlay Fund due to General Fund for temporary cash loan	200,000
Total	<u>\$ 1,660,449</u>

**B. Transfers To/From Other Funds**

Transfers to/from other funds during the year ended June 30, 2018, consisted of the following:

General Fund transfer to Cafeteria Fund for expenditure transfers	\$ 97,688
Building Fund transfer to Special Reserve Fund for Capital Outlay Projects for expenditure transfers	130,825
Total	<u>\$ 228,513</u>

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
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**NOTE 5 – FUND BALANCES**

At June 30, 2018, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 27,522	\$ -	\$ -	\$ 221	\$ 27,743
Stores inventories	-	-	-	28,981	28,981
Prepaid expenditures	46,575	-	-	-	46,575
Total Nonspendable	<u>74,097</u>	<u>-</u>	<u>-</u>	<u>29,202</u>	<u>103,299</u>
<b>Restricted:</b>					
Categorical programs	4,913,122	-	-	-	4,913,122
Adult education program	-	-	-	1,512,253	1,512,253
Food service program	-	-	-	135,941	135,941
Capital projects	-	22,550,116	-	2,903,137	25,453,253
Debt service	-	-	10,982,007	-	10,982,007
Total Restricted	<u>4,913,122</u>	<u>22,550,116</u>	<u>10,982,007</u>	<u>4,551,331</u>	<u>42,996,576</u>
<b>Assigned:</b>					
2% reserve for economic uncertainty	1,672,074	-	-	-	1,672,074
Reserves SOCC	676,878	-	-	-	676,878
Local site donations	359,265	-	-	-	359,265
Curriculum adoptions	1,100,000	-	-	-	1,100,000
Deferred Maintenance program	72,596	-	-	-	72,596
Total Assigned	<u>3,880,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,880,813</u>
<b>Unassigned:</b>					
Reserve for economic uncertainties	2,508,111	-	-	-	2,508,111
Remaining unassigned balances	4,044,399	-	-	-	4,044,399
Total Unassigned	<u>6,552,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,552,510</u>
<b>Total</b>	<u>\$ 15,420,542</u>	<u>\$ 22,550,116</u>	<u>\$ 10,982,007</u>	<u>\$ 4,580,533</u>	<u>\$ 53,533,198</u>



**PETALUMA CITY SCHOOLS**  
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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2018, was as follows:

Governmental Activities	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in progress	1,533,879	2,667,932	1,220,487	2,981,324
Total capital assets not being depreciated	5,800,765	2,667,932	1,220,487	7,248,210
Capital assets being depreciated:				
Improvement of sites	22,786,674	8,482,835	-	31,269,509
Buildings	144,521,656	1,466,446	-	145,988,102
Equipment	6,796,770	249,329	-	7,046,099
Total capital assets being depreciated	174,105,100	10,198,610	-	184,303,710
Accumulated depreciation for:				
Improvement of sites	(10,593,234)	(1,481,391)	-	(12,074,625)
Buildings	(71,336,451)	(4,365,177)	-	(75,701,628)
Equipment	(6,288,340)	(137,346)	-	(6,425,686)
Total accumulated depreciation	(88,218,025)	(5,983,914)	-	(94,201,939)
Total capital assets being depreciated, net	85,887,075	4,214,696	-	90,101,771
Governmental activity capital assets, net	\$ 91,687,840	\$ 6,882,628	\$ 1,220,487	\$ 97,349,981
<b>Business Type Activities</b>				
	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital Assets being depreciated				
Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Accumulated depreciation for:				
Equipment	(55,412)	-	-	(55,412)
Business-type activity capital assets, net	\$ 1,421	\$ -	\$ -	\$ 1,421

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,728,265
Instruction-Related Services	649,269
Pupil Services	770,647
General Administration	310,027
Plant Services	525,706
Total Depreciation	\$ 5,983,914

**PETALUMA CITY SCHOOLS**  
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**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the fiscal year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 74,127,700	\$ 9,000,000	\$ 4,085,584	\$ 79,042,116	\$ 5,262,116
Accreted interest component	4,772,911	129,043	2,394,416	2,507,538	2,607,884
Bond issuance premiums	1,784,265	772,938	(125,920)	2,683,123	206,267
Total - Bonds	80,684,876	9,901,981	6,354,080	84,232,777	8,076,267
Compensated Absences	444,367	189,997	-	634,364	-
 Totals	 \$ 81,129,243	 \$ 10,091,978	 \$ 6,354,080	 \$ 84,867,141	 \$ 8,076,267

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. Compensated absences liabilities are primarily obligations of the fund for which the employee worked.

**General Obligation Bonds**

**Election of 1992**

On April 14, 1992, the voters of the District approved a measure authorizing the District to issue up to \$45 million of general obligation bonds for the purpose of renovating and modernizing school facilities. All bonds authorized by this election have been issued, but only the Series G bonds remain outstanding at June 30, 2018.

**Election of 2014 (Elementary District, Measure E)**

On June 3, 2014, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$21 million of general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

**Election of 2014 (High School District, Measure C)**

On June 3, 2014, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$68 million of general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

**Prior-Year Defeasance of Debt**

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, none of the defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2018, deferred amounts on refunding were \$213,533.

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
 June 30, 2018

**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

Below is a schedule of bonds issued and outstanding as of June 30, 2018.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Issuances	Redemptions	Balance, June 30, 2018
<b>Elementary District</b>								
<b>Election of 2014</b>								
Series A	8/27/2014	8/1/2039	3.0% - 5.0%	\$ 7,000,000	\$ 5,695,000	\$ -	\$ 150,000	\$ 5,545,000
Series B	5/24/2018	8/1/2042	2.0% - 5.0%	9,000,000	-	9,000,000	-	9,000,000
<b>Refunding Issues</b>								
2011 Refunding	11/1/2011	8/1/2027	3.0% - 4.0%	8,470,000	4,035,000	-	1,000,000	3,035,000
2013 Refunding	5/7/2013	8/1/2028	2.0% - 4.0%	1,880,000	1,575,000	-	105,000	1,470,000
2015 Refunding	11/17/2015	8/1/2023	2.0% - 4.0%	3,260,000	2,490,000	-	580,000	1,910,000
<b>Total Elementary District</b>					<b>13,795,000</b>	<b>9,000,000</b>	<b>1,835,000</b>	<b>20,960,000</b>
<b>High School District</b>								
<b>Election of 1992</b>								
Series G	6/17/2010	8/1/2024	2.0% - 5.0%	2,418,791	2,415,000	-	-	2,415,000
<b>Election of 2014</b>								
Series A	8/17/2014	8/1/2039	2.0% - 4.0%	23,000,000	18,565,000	-	520,000	18,045,000
Series B	2/8/2017	8/1/2041	3.0% - 5.0%	20,000,000	20,000,000	-	-	20,000,000
<b>Refunding Issues</b>								
1995 Refunding	11/28/1995	8/1/2018	4.65% - 5.80%	8,972,018	2,017,700	-	1,005,584	1,012,116
2010 Refunding	6/16/2010	8/1/2020	2.0% - 4.0%	9,095,000	7,145,000	-	-	7,145,000
2012 Refunding	8/9/2012	8/1/2024	2.0% - 4.0%	12,845,000	10,190,000	-	725,000	9,465,000
<b>Total High School District</b>					<b>60,332,700</b>	<b>-</b>	<b>2,250,584</b>	<b>58,082,116</b>
<b>Total General Obligation Bonds</b>					<b>\$ 74,127,700</b>	<b>\$ 9,000,000</b>	<b>\$ 4,085,584</b>	<b>\$ 79,042,116</b>
<b>Accreted Interest:</b>								
1995 Refunding					\$ 4,772,911	\$ 129,043	\$ 2,394,416	\$ 2,507,538

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Totals
2018-2019	\$ 5,262,116	\$ 5,163,244	\$ 10,425,360
2019-2020	8,330,000	2,470,188	10,800,188
2020-2021	6,680,000	2,229,944	8,909,944
2021-2022	7,330,000	2,030,100	9,360,100
2022-2023	2,565,000	1,892,281	4,457,281
2023-2028	9,680,000	8,184,031	17,864,031
2028-2033	8,960,000	6,601,578	15,561,578
2033-2038	13,635,000	4,617,422	18,252,422
2038-2043	16,600,000	1,562,713	18,162,713
	<b>\$ 79,042,116</b>	<b>\$ 34,751,500</b>	<b>\$ 113,793,616</b>

**NOTE 8 – 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 9 – COMMITMENTS AND CONTINGENCIES**

**A. 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 reimbursement will not be material.

**B. Construction Commitments**

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of approximately \$2.3 million.

**C. Litigation**

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2018.

**NOTE 10 – RISK MANAGEMENT**

**Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Redwood Empire Schools Insurance Group (RESIG). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the District retains the risk of loss (claims below the District's retained limits), are administered by the Self- Insurance Fund.

**PETALUMA CITY SCHOOLS**  
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**NOTE 10 – RISK MANAGEMENT (continued)**

**Workers' Compensation**

For fiscal year 2017-18, the District participated in the Redwood Empire School Insurance Group (RESIG), an insurance purchasing pool. The intent of the RESIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage.

A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG. Participation in the RESIG is limited to districts that can meet the RESIG selection criteria.

**NOTE 11 – PENSION PLANS**

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 58,470,686	\$ 16,176,594	\$ 2,582,645	\$ 6,538,648
CalPERS	22,091,986	6,633,230	1,874,102	4,008,354
Total	\$ 80,562,673	\$ 22,809,824	\$ 4,456,747	\$ 10,547,002

The details of each plan are as follows:

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

**Plan Description**

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

**Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>STRP Defined Benefit Program</b>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

**Contributions**

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$5,127,986.

**PETALUMA CITY SCHOOLS**  
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 June 30, 2018

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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

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

At June 30, 2018, 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 that was associated with the District were as follows:

Total net pension liability, including State share:	
District’s proportionate share of net pension liability	\$ 58,470,686
State’s proportionate share of the net pension liability associated with the District	13,655,163
Total	<u>\$ 72,125,849</u>

The net pension liability was measured as of June 30, 2017. 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 school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2018</u>	<u>Fiscal Year Ending June 30, 2017</u>	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.063225%	0.069283%	-0.006058%

For the year ended June 30, 2018, the District recognized pension expense of \$6,538,648. In addition, the District recognized pension expense and revenue of \$616,413 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 5,127,986	\$ -
Net change in proportionate share of net pension liability	-	5,585
Difference between projected and actual earnings on pension plan investments	-	1,557,237
Changes of assumptions	10,832,378	-
Differences between expected and actual experience in the measurement of the total pension liability	216,230	1,019,823
Total	<u>\$ 16,176,594</u>	<u>\$ 2,582,645</u>

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

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

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

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,	Deferred Outflows/(Inflows) of Resources
2019	\$ 305,630
2020	2,579,842
2021	1,741,475
2022	216,483
2023	1,718,082
Thereafter	1,904,451
Total	<u>\$ 8,465,963</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRS was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%



**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

**Actuarial Methods and Assumptions (continued)**

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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 February 2017 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 geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these 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 total pension liability.

**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

**Discount Rate (continued)**

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 85,853,530
Current discount rate (7.10%)	58,470,686
1% increase (8.10%)	36,247,653

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,812,980 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have not been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

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

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**PETALUMA CITY SCHOOLS**  
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**NOTE 11 – PENSION PLANS (continued)**

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

**Benefits Provided (continued)**

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>School Employer Pool (CalPERS)</b>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the 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. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,850,651.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$22,091,986. The net pension liability was measured as of June 30, 2017. 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 school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.092541%	0.098438%	-0.005897%

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)**

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$4,008,354. At June 30, 2018, 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
Pension contributions subsequent to measurement date	\$ 1,850,651	\$ -
Net change in proportionate share of net pension liability	-	1,613,996
Difference between projected and actual earnings on pension plan investments	764,232	-
Changes of assumptions	3,226,882	260,106
Differences between expected and actual experience in the measurement of the total pension liability	791,465	-
Total	<u>\$ 6,633,230</u>	<u>\$ 1,874,102</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

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,	Deferred Outflows/(Inflows) of Resources
2019	\$ 784,573
2020	1,719,067
2021	1,065,560
2022	(660,723)
2023	-
Thereafter	-
Total	<u>\$ 2,908,477</u>

**PETALUMA CITY SCHOOLS**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)**

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

**Actuarial Methods and Assumptions**

Total pension liability for SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 adjusted to account for assumed administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

**NOTE 11 – PENSION PLANS (continued)**

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 32,504,391
Current discount rate (7.15%)	22,091,986
1% increase (8.15%)	13,454,025

**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 the Social Security as its alternative plan.

**D. Payables to the Pension Plans**

At June 30, 2018, the District reported payables of \$588 for the outstanding amount of legally required contributions to the CalSTRS pension plan required for the fiscal year ended June 30, 2018.

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

The District does not provide any retiree benefits other than pensions, therefore, no OPEB expense or liability is recorded in the financial statements.

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***Required Supplementary Information***

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**PETALUMA CITY SCHOOLS**

*Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2018*

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 64,199,246	\$ 63,860,019	\$ 63,792,809	\$ (67,210)
Federal Sources	2,823,297	3,434,658	3,091,612	(343,046)
Other State Sources	4,886,542	7,268,137	7,028,084	(240,053)
Other Local Sources	8,718,185	10,517,681	10,025,525	(492,156)
Total Revenues	80,627,270	85,080,495	83,938,030	(1,142,465)
Expenditures				
Current:				
Certificated salaries	34,384,634	35,662,305	35,351,206	311,099
Classified salaries	11,943,083	12,300,246	12,009,251	290,995
Employee benefits	21,311,481	21,723,935	21,215,665	508,270
Books and supplies	4,058,915	8,212,444	4,102,001	4,110,443
Services and other operating	9,606,747	11,743,033	10,763,730	979,303
Capital Outlay	41,582	328,923	223,543	105,380
Other Outgo	70,000	70,000	75,100	(5,100)
Indirect Costs	(143,364)	(185,438)	(144,600)	(40,838)
Total Expenditures	81,273,078	89,855,448	83,451,296	6,404,152
Excess (Deficiency) of Revenues Over (Under) Expenditures	(645,808)	(4,774,953)	486,734	5,261,687
Other Financing Sources and Uses				
Interfund Transfers In	-	74,673	54,705	(19,968)
Interfund Transfers Out	(77,688)	(152,393)	(152,393)	-
Net Change in Fund Balances	(723,496)	(4,852,673)	389,046	5,241,719
Fund Balances, July 1, 2017	9,965,918	14,958,900	14,958,900	-
Fund Balances, June 30, 2018	\$ 9,242,422	\$ 10,106,227	\$ 15,347,946	\$ 5,241,719

\* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

# PETALUMA CITY SCHOOLS

## Schedule of Proportionate Share of the Net Pension Liability For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
<b>CalSTRS</b>				
District's proportion of the net pension liability	0.063%	0.069%	0.056%	0.064%
District's proportionate share of the net pension liability	\$ 58,470,686	\$ 56,036,666	\$ 37,738,597	\$ 37,339,236
State's proportionate share of the net pension liability associated with the District	13,655,163	31,905,371	19,959,504	22,547,269
<b>Totals</b>	<b>\$ 72,125,849</b>	<b>\$ 87,942,037</b>	<b>\$ 57,698,101</b>	<b>\$ 59,886,505</b>
District's covered-employee payroll	\$ 33,722,901	\$ 34,528,621	\$ 26,017,838	\$ 28,459,709
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.39%	162.29%	145.05%	131.20%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
<b>CalPERS</b>				
District's proportion of the net pension liability	0.0925%	0.0984%	0.1040%	0.1038%
District's proportionate share of the net pension liability	\$ 22,091,986	\$ 19,441,662	\$ 15,329,711	\$ 11,782,491
District's covered-employee payroll	\$ 11,828,859	\$ 11,809,699	\$ 11,513,797	\$ 10,895,176
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.76%	164.62%	133.14%	108.14%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

### Notes to Schedule:

#### Changes in Benefit Terms

A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

#### Change of Assumptions and Methods

##### CalSTRS:

The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

##### CalPERS:

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

**PETALUMA CITY SCHOOLS**  
*Schedule of Pension Contributions*  
*For the Fiscal Year Ended June 30, 2018*

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	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>				
Contractually required contribution	\$ 5,127,986	\$ 4,242,341	\$ 3,622,620	\$ 2,871,580
Contributions in relation to the contractually required contribution	<u>5,127,986</u>	<u>4,242,341</u>	<u>3,622,620</u>	<u>2,871,580</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 35,536,980</u>	<u>\$ 33,722,901</u>	<u>\$ 33,761,603</u>	<u>\$ 32,337,613</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 1,850,651	\$ 1,642,792	\$ 1,400,218	\$ 1,354,896
Contributions in relation to the contractually required contribution	<u>1,850,651</u>	<u>1,642,792</u>	<u>1,400,218</u>	<u>1,354,896</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 11,915,852</u>	<u>\$ 11,828,859</u>	<u>\$ 11,819,178</u>	<u>\$ 11,510,458</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

**PETALUMA CITY SCHOOLS**

*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018*

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedule**

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

**Schedule of Proportionate Share of the Net Pension Liability**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer’s covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer’s covered-employee payroll
- The pension plan’s fiduciary net position as a percentage of the total pension liability

**Schedule of Pension Contributions**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer’s contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer’s actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer’s actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2018, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

	General Fund
Other Outgo	\$ 5,100
Indirect Costs	40,838

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***Supplementary Information***

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**PETALUMA CITY SCHOOLS**

*Local Educational Agency Organization Structure*

*June 30, 2018*

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The Petaluma City Schools was established in 1857 and is comprised of the Petaluma Joint Union High School District and the Petaluma City Elementary School District. The District operates five elementary schools, two junior high schools, two comprehensive high schools, three continuation schools, a community day school, and six 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**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
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

**DISTRICT ADMINISTRATORS**

Gary Callahan,  
*Superintendent*

Cliff DeGraw,  
*Assistant Superintendent, Educational Services*

Matthew Harris,  
*Assistant Superintendent, Human Resources*

Chris Thomas,  
*Chief Business Official*



**PETALUMA CITY SCHOOLS**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2018*

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**DISTRICT**

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	<b>P-2 Report</b>				
	<u>TK/K-3</u>	<u>4-6</u>	<u>7-8</u>	<u>9-12</u>	<u>Total</u>
Regular	830.59	705.56	1,462.62	3,067.32	6,066.09
Extended Year - Special Education	0.43	0.06	0.43	0.62	1.54
Special Education - Nonpublic	-	1.95	1.90	24.79	28.64
Extended Year - Nonpublic	-	0.37	0.63	2.61	3.61
Community Day School	-	-	5.80	7.90	13.70
<b>Totals</b>	<u>831.02</u>	<u>707.94</u>	<u>1,471.38</u>	<u>3,103.24</u>	<u>6,113.58</u>

	<b>Annual Report</b>				
	<u>TK/K-3</u>	<u>4-6</u>	<u>7-8</u>	<u>9-12</u>	<u>Total</u>
Regular	835.96	702.76	1,457.62	3,043.14	6,039.48
Extended Year - Special Education	0.43	0.06	0.43	0.62	1.54
Special Education - Nonpublic	-	2.25	1.92	25.49	29.66
Extended Year - Nonpublic	-	0.37	0.66	2.73	3.76
Community Day School	-	-	6.91	8.03	14.94
<b>Totals</b>	<u>836.39</u>	<u>705.44</u>	<u>1,467.54</u>	<u>3,080.01</u>	<u>6,089.38</u>

**PETALUMA CITY SCHOOLS***Schedule of Average Daily Attendance (continued)**For the Fiscal Year Ended June 30, 2018*

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**CHARTER SCHOOLS**

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	<b><u>P-2 Report</u></b>	<b><u>Annual Report</u></b>
<b><u>Penngrove</u></b>		
TK/K-3	225.26	225.52
Grades 4-6	148.07	148.44
<b><u>Sixth Grade Charter Academy</u></b>		
Grades 4-6	43.99	44.11
<b><u>Petaluma Accelerated</u></b>		
Grades 7-8	101.71	101.53
<b><u>Mary Collins School at Cherry Valley</u></b>		
TK/K-3	167.43	167.26
Grades 4-6	135.25	135.53
Grades 7-8	64.45	65.02
<b><u>Gateway to College Academy</u></b>		
Grades 9-12	<u>54.24</u>	<u>51.20</u>
Totals	<u>940.40</u>	<u>938.61</u>

All charter school ADA is generated through classroom-based instruction

**PETALUMA CITY SCHOOLS**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2018*

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<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar*</u>	<u>Status</u>
Kindergarten	36,000	45,335	175	Complied
Grade 1	50,400	49,190	175	Complied
Grade 2	50,400	49,190	175	Complied
Grade 3	50,400	49,190	175	Complied
Grade 4	54,000	52,480	175	Complied
Grade 5	54,000	52,480	175	Complied
Grade 6	54,000	52,480	175	Complied
Grade 7	54,000	52,698	175	Complied
Grade 8	54,000	52,698	175	Complied
Grade 9	64,800	65,420	175	Complied
Grade 10	64,800	65,420	175	Complied
Grade 11	64,800	65,420	175	Complied
Grade 12	64,800	65,420	175	Complied

\* The California Department of Education has approved a request for five emergency days on October 9-13, 2017 for all schools in Petaluma City Schools. These closure days may be used to meet the instructional time requirements pursuant to California Education Code sections 46200, 46201, 46207, and/or 46208.

**PETALUMA CITY SCHOOLS**  
*Schedule of Instructional Time (continued)*  
*For the Fiscal Year Ended June 30, 2018*

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**Penngrove Elementary**

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	48,300	180	Complied
Grade 1	50,400	51,191	180	Complied
Grade 2	50,400	51,191	180	Complied
Grade 3	50,400	51,191	180	Complied
Grade 4	54,000	54,541	180	Complied
Grade 5	54,000	54,541	180	Complied
Grade 6	54,000	54,541	180	Complied

**Sixth Grade Charter Academy**

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 6	54,000	52,698	175	Complied

**Petaluma Accelerated**

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 7	54,000	53,750	175	Complied
Grade 8	54,000	53,750	175	Complied

**Mary Collins School at Cherry Valley**

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	50,160	180	Complied
Grade 1	50,400	50,445	180	Complied
Grade 2	50,400	50,445	180	Complied
Grade 3	50,400	50,445	180	Complied
Grade 4	54,000	55,065	180	Complied
Grade 5	54,000	55,065	180	Complied
Grade 6	54,000	55,425	180	Complied
Grade 7	54,000	55,425	180	Complied
Grade 8	54,000	55,425	180	Complied

**PETALUMA CITY SCHOOLS**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2018*

General Fund	(Budget) 2019 <sup>3</sup>	2018 <sup>4</sup>	2017 <sup>4</sup>	2016 <sup>4</sup>
Revenues and other financing sources	\$ 85,993,955	\$ 83,992,735	\$ 82,957,679	\$ 82,249,098
Expenditures	85,978,015	83,451,296	80,061,737	78,802,255
Other uses and transfers out	97,597	152,393	125,000	463,108
Total outgo	<u>86,075,612</u>	<u>83,603,689</u>	<u>80,186,737</u>	<u>79,265,363</u>
Change in fund balance (deficit)	<u>(81,657)</u>	<u>389,046</u>	<u>2,770,942</u>	<u>2,983,735</u>
Ending fund balance	<u>\$ 15,266,289</u>	<u>\$ 15,347,946</u>	<u>\$ 14,958,900</u>	<u>\$ 12,187,958</u>
Available reserves <sup>1</sup>	<u>\$ 5,970,001</u>	<u>\$ 6,552,510</u>	<u>\$ 4,907,554</u>	<u>\$ 6,445,602</u>
Available reserves as a percentage of total outgo	<u>6.9%</u>	<u>7.8%</u>	<u>6.1%</u>	<u>8.1%</u>
Total long-term debt	<u>\$ 157,453,893</u>	<u>\$ 165,429,814</u>	<u>\$ 156,607,571</u>	<u>\$ 123,950,173</u>
Average daily attendance at P-2 <sup>2</sup>	<u>7,051</u>	<u>7,054</u>	<u>7,131</u>	<u>7,138</u>

The General Fund balance has increased by \$2,958,014 over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of \$81,657. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred operating deficits in any of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Long-term debt has increased by \$41,479,641 over the past two years.

Average daily attendance has decreased by 84 over the past two years. A decrease of 3 ADA is anticipated during fiscal year 208-19.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Average daily attendance includes District and charter school ADA.

<sup>3</sup> Revised Final Budget September, 2018.

<sup>4</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**PETALUMA CITY SCHOOLS**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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*There were no differences between the Annual Financial and Budget Report and the  
Audited Financial Statements in any funds.*

**PETALUMA CITY SCHOOLS**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2018*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	\$ 1,846	
School Breakfast Program - Especially Needy	10.553	13526	271,754	
National School Lunch Program	10.555	13523	702,058	
USDA Donated Foods	10.555	N/A	<u>100,000</u>	
Total Child Nutrition Cluster				\$ 1,075,658
Child and Adult Care Food Program	10.558	13393	15,420	
Cash in Lieu of Commodities	10.558	N/A	<u>1,110</u>	
Total Child and Adult Care Food Program Cluster				<u>16,530</u>
Total U.S. Department of Agriculture				<u>1,092,188</u>
U.S. Department of Education:				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		788,136
Title II, Part A, Supporting Effective Instruction	84.367	14341		98,799
English Language Acquisition Grants Cluster:				
Title III, Immigrant Education	84.365	15146	5,044	
Title III, Limited English Proficiency	84.365	14346	<u>89,882</u>	
Total English Language Acquisition Grants Cluster				94,926
Adult Education Cluster:				
Adult Basic Education & ELA	84.002A	14508	42,474	
Adult Secondary Education	84.002	13978	<u>25,045</u>	
Total Adult Education Cluster				67,519
Carl D. Perkins Career and Technical Education	84.048	14894		47,869
Passed through Sonoma County SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379	1,556,555	
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	196,717	
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	184,119	
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,597	
Preschool Grants, Part B, Section 619	84.173	13430	<u>88,900</u>	
Total Special Education (IDEA) Cluster				<u>2,027,888</u>
Total U.S. Department of Education				<u>3,125,137</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Administrative Activities (MAA)	93.778	10060		<u>13,279</u>
Total U.S. Department of Health & Human Services				<u>13,279</u>
Total Expenditures of Federal Awards				<u>\$ 4,230,604</u>

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

**PETALUMA CITY SCHOOLS**  
*Schedule of Charter Schools*  
*For the Fiscal Year Ended June 30, 2018*

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Charter School			
Name	Number	Status	Inclusion of Financial Statements
Gateway to College Academy	1541	Active	Included
Live Oak Charter	0382	Active	Not included
Mary Collins School at Cherry Valley	0480	Active	Included
Penngrove Elementary	1512	Active	Included
Petaluma Accelerated Charter	1726	Active	Included
Sixth Grade Charter Academy	1297	Active	Included



# PETALUMA CITY SCHOOLS

Note to the Supplementary Information

June 30, 2018

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## NOTE 1 – PURPOSE OF SCHEDULES

### Schedule of Average Daily Attendance (ADA)

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

### Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

### Schedule of Financial Trends and Analysis

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

### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

### Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 4,251,319
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	<u>(20,715)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,230,604</u>

### Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' 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, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Petaluma City Schools' basic financial statements, and have issued our report thereon dated December 10, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Petaluma City Schools' 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 Petaluma City Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Petaluma City Schools' internal control.

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

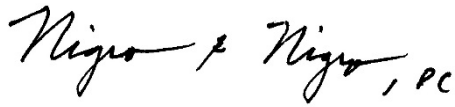
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Petaluma City Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California  
December 10, 2018

**INDEPENDENT AUDITORS' 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Petaluma City Schools' state government programs as noted on the following page for the fiscal year ended June 30, 2018.

**Management's Responsibility**

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Petaluma City Schools' state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 on the following page that could have a direct and material effect on a state 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 state program. However, our audit does not provide a legal determination of Petaluma City Schools' compliance.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

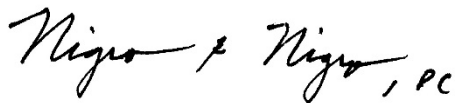
Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Description	Procedures Performed
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
Apprenticeship: Related and Supplemental Instruction	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not Applicable
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 testing for independent study because the ADA was under the level that requires testing.

***Unmodified Opinion on Compliance with State Programs***

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, 2018.



Murrieta, California  
December 10, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT 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, 2018. Petaluma City Schools' major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Petaluma City Schools' 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, 2018.



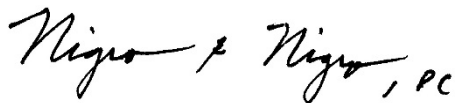
### **Report on Internal Control Over Compliance**

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 Petaluma City Schools' 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 a 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.



Murrieta, California  
December 10, 2018

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***Findings and Questioned Costs***

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**PETALUMA CITY SCHOOLS**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

***Federal Awards***

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster (IDEA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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**PETALUMA CITY SCHOOLS**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

***There were no financial statement findings in 2017-18.***

**PETALUMA CITY SCHOOLS**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2017-18.*

**PETALUMA CITY SCHOOLS**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

*There were no state award findings or questioned costs in 2017-18.*

## PETALUMA CITY SCHOOLS

### Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-001: Attendance Reporting</i>	<p>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:</p> <ol style="list-style-type: none"><li>1. Compute the sponsoring school districts regular average daily attendance in the current year, excluding the attendance of pupils in charter schools.</li><li>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.</li></ol> <p>(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 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.</p> <p>(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 by the school district in the current year.</p>	10000	Since the P-2 attendance report has been revised to reflect the Audited ADA figures presented in the schedule, 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.	Implemented.



**PETALUMA CITY SCHOOLS**

*Summary Schedule of Prior Audit Findings*

*For the Fiscal Year Ended June 30, 2018*

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2017-001: Attendance Reporting (continued)</i>	<p>(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.</p> <p>(E) The prior year average daily attendance determined pursuant to subparagraph (A) shall be reduced by the amount determined pursuant to subparagraph (D).</p> <p>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.</p> <p>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.</p> <p>The effect of the 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 increase).</p> <p>The adjustments have no impact on the apportionable ADA of Petaluma Joint Union High School District.</p>			

## PETALUMA CITY SCHOOLS

### Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-002: Attendance Codes</i>	<p>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.</p> <p>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 "L&gt;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).</p>	10000	Since the P-2 attendance report has been revised to reflect corrected Audited ADA figures presented on page 77 of the prior 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.	Implemented.
<i>Finding 2017-003: Attendance Registers</i>	<p>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.</p> <p>Attendance registers were not reviewed and signed on a weekly basis by the teachers who recorded student attendance.</p>	10000	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.	Implemented.

## PETALUMA CITY SCHOOLS

### Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2018

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Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-004: Instructional Time</i>	<p>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 <u>actual</u> 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.</p>	40000	<p>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.</p>	Implemented.

## PETALUMA CITY SCHOOLS

### Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2018

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2017-004: Instructional Time (continued)</i>	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.			
<i>Finding 2017-005: School Accountability Report Card</i>	<p>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.</p> <p>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.</p>	72000	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.	Implemented.

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To the Board of Education  
Petaluma City Schools  
Petaluma, California

In planning and performing our audit of the basic financial statements of Petaluma City Schools for the year ending June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 10, 2018 on the financial statements of Petaluma City Schools.

#### **DISTRICT OFFICE**

**Observation:** During our test of District expenditures, we found that one expenditure was reimbursed without an itemized receipt, two expenditures had no accompanying purchase order, and three expenditures had purchase orders that were dated after the invoice date.

**Recommendation:** We recommend that the District obtain approval through a purchase order prior to making any purchases. The District should also ensure that all relevant personnel are aware of the conditions that need to be met before disbursements are made, such as obtaining receipts and other relevant supporting documentation.

**Observation:** During our test of District cash receipts, we found that checks and cash are sent to the District from sites without a receipt.

**Recommendation:** We recommend that the District enforce policy requirements at the site-level by requiring individual receipts for each cash transaction. This ensures that the District receives all of the cash received by the site.

**Observation:** During our test of District bank accounts, we found that three of 29 bank account reconciliations listed stale-dated checks as outstanding items.

**Recommendation:** We recommend that the District ensure relevant personnel are regularly investigating outstanding checks and re-issuing or cancelling checks older than six months.

## **ASSOCIATED STUDENT BODY (ASB)**

**Observation:** In our testing of cash receipts at *Petaluma Junior High* and *Petaluma High*, we noted deposits which lacked sufficient documentation. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

**Recommendation:** We recommend that before any events are held, control procedures are established that will allow for the reconciliation between money collected and sales.

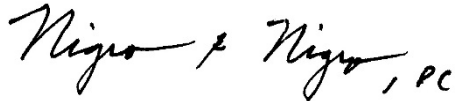
**Observation:** In our testing of cash disbursements at *Petaluma Junior High* and *Petaluma High*, we noted disbursements that were either not approved by the District representative, the ASB advisor, and/or the student representative or not approved until after the disbursement had already been incurred.

**Recommendation:** As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

**Observation:** During our testing of cash disbursements at *Petaluma High*, we noted disbursements lacked evidence of receipt of goods or services. Additionally, we noted disbursements which were shipped to personal addresses.

**Recommendation:** We recommend that the site document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing “ok to pay” or “received” and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.

We will review the status of the current year comments during our next audit engagement.

A handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

Murrieta, California  
December 10, 2018