

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

**AUDIT REPORT**

**JUNE 30, 2016**



PETALUMA CITY SCHOOLS

JUNE 30, 2016

---

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Net Position - Fiduciary Funds	25
Statement of Changes in Net Position - Fiduciary Funds	26
Notes to the Basic Financial Statements	27
<u>REQUIRED SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	63

**PETALUMA CITY SCHOOLS**

**JUNE 30, 2016**

---

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
<u>REQUIRED SUPPLEMENTARY INFORMATION SECTION (CONCLUDED)</u>	
Schedule of Funding Progress	64
Schedule of the Proportionate Share of the Net Pension Liability - CalSTRS	65
Schedule of the Proportionate Share of the Net Pension Liability - CalPERS	66
Schedule of Contributions - CalSTRS	67
Schedule of Contributions - CalPERS	68
Notes to Required Supplementary Information	69
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Organization/Board of Education/Administration	71
Combining Statements:	
Combining Statements - Non-Major Funds:	
Combining Balance Sheet - Non-Major Governmental Funds	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	74
Schedule of Average Daily Attendance	76
Schedule of Average Daily Attendance - Charter Schools	77
Schedule of Instructional Time	78
Schedule of Instructional Time - Charter Schools	79
Schedule of Expenditures of Federal Awards	80
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	81
Schedule of Financial Trends and Analysis	82
Schedule of Charter Schools	83
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Measure D and Measure C - Parcel Tax	84
Notes to Supplementary Information	85

PETALUMA CITY SCHOOLS

JUNE 30, 2016

---

TABLE OF CONTENTS (CONCLUDED)

	<u>Page</u>
<u>OTHER INDEPENDENT AUDITOR'S REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	87
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	91
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	93
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	95
Section II - Financial Statement Findings	96
Section III - Federal Award Findings and Questioned Costs	97
Section IV - State Award Findings and Questioned Costs	98
Status of Prior Year Recommendations	99



FINANCIAL SECTION





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Petaluma City Schools  
Petaluma, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 63, the schedule of funding progress on page 64, the schedules of proportionate share of the net pension liability on pages 65 and 66, and the schedules of contributions on pages 67 and 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Petaluma City Schools' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Board of Education  
Petaluma City Schools  
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016 on our consideration of Petaluma City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Petaluma City Schools' internal control over financial reporting and compliance.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 7, 2016

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

---

This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 16 and 17, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities and business-type activities, presented on pages 18 through 24, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

**FINANCIAL HIGHLIGHTS**

*Governmental Activities:*

- The District's overall financial status improved during the course of the year, as total net position increased \$1,381,611.
- Net capital assets decreased \$147,372, due to the current year addition of \$5,188,331 of new capital assets and improvements, and the current year recognition of \$5,335,703 of depreciation expense.
- Total long-term liabilities decreased \$3,595,894, due primarily to the current year redemption of a portion of the District's outstanding general obligation bonds.
- On November 17, 2015, the District issued \$3,260,000 of general obligation refunding bonds at an original issue premium of \$223,700, for purposes of refunding \$3,300,000 of the outstanding 2008 general obligation refunding bonds. The refunding bonds were issued to lower the debt service requirements of the District and reduce the tax burden on those who own property within the District.
- The District's P-2 average daily attendance (ADA), inclusive of charter school ADA, has decreased 165 ADA over the past two years, a decrease of 2.2%.
- The District's General Fund produced an operating surplus of \$3,354,430, and reported a \$275,162 increase in available reserves. However, the operating surplus was due primarily to the current year receipt of one-time funds for outstanding mandate claims totaling \$3,776,740.
- The District currently maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2015-16, General Fund total outgo was \$78,476,516. At June 30, 2016, the District had available reserves of \$6,445,602, which represents an available reserve of 8.2%.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

---

**THE FINANCIAL REPORT**

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

- Governmental-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
  - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
  - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
  - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

**Reporting the District as a Whole**

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

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

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

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

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

---

**THE FINANCIAL REPORT (CONCLUDED)**

**Reporting the District as a Whole (Concluded)**

*Governmental Activities:*

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

*Business-type Activities:*

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

**Reporting the District's Most Significant Funds**

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

*Governmental Funds:*

The major governmental funds of Petaluma City Schools are the General Fund, Bond Interest and Redemption Fund, and Measure C - Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

*Proprietary Funds:*

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

*Fiduciary Funds:*

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

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

<b><u>Comparative Statement of Net Position</u></b>						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
<b>Assets:</b>						
Deposits and Investments	\$ 40,837,628	\$ 36,075,148	\$ 35,052	\$ 30,207	\$ 40,872,680	\$ 36,105,355
Receivables	4,717,928	3,968,753	133		4,718,061	3,968,753
Due from Enterprise Fund	0	19,792			0	19,792
Stores Inventory	70,579	62,085			70,579	62,085
Prepaid Expenses	51,360	7,730				
Capital Assets, net	93,977,162	93,829,790	7,303	1,421	93,984,465	93,831,211
<b>Total Assets</b>	<b>139,654,657</b>	<b>133,963,298</b>	<b>42,488</b>	<b>31,628</b>	<b>139,697,145</b>	<b>133,994,926</b>
<b>Deferred Outflows of Resources:</b>						
Pension Deferrals	5,834,669	5,930,446			5,834,669	5,930,446
Bond Refunding	486,375	367,312			486,375	367,312
<b>Total Deferred Outflows of Resources</b>	<b>6,321,044</b>	<b>6,297,758</b>	<b>0</b>	<b>0</b>	<b>6,321,044</b>	<b>6,297,758</b>
<b>Liabilities:</b>						
Current	16,315,488	15,884,952		19,834	16,315,488	15,904,786
Long-Term	118,888,469	114,971,049			118,888,469	114,971,049
<b>Total Liabilities</b>	<b>135,203,957</b>	<b>130,856,001</b>	<b>0</b>	<b>19,834</b>	<b>135,203,957</b>	<b>130,875,835</b>
<b>Deferred Outflows of Resources:</b>						
Pension Deferrals	13,243,057	10,494,757	0	0	13,243,057	10,494,757
<b>Net Position:</b>						
Net Investment in Capital Assets	28,900,090	34,901,925	7,303	1,421	28,907,393	34,903,346
<b>Restricted:</b>						
Capital Projects	13,459,691	4,388,248			13,459,691	4,388,248
Debt Service	1,963,523	3,204,983			1,963,523	3,204,983
Educational Programs	2,127,776	3,295,191			2,127,776	3,295,191
Other	778,837	98,005			778,837	98,005
Unrestricted (Deficit)	(49,701,230)	(46,978,054)	35,185	10,373	(49,666,045)	(46,967,681)
<b>Total Net Position (Deficit)</b>	<b>\$ (2,471,313)</b>	<b>\$ (1,089,702)</b>	<b>\$ 42,488</b>	<b>\$ 11,794</b>	<b>\$ (2,428,825)</b>	<b>\$ (1,077,908)</b>

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

***Governmental Activities:***

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

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

<b><u>Comparative Statement of Changes in Net Position</u></b>						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Program Revenues:						
Charges for Services	\$ 929,092	\$ 2,648,675			\$ 929,092	\$ 2,648,675
Operating Grants & Contributions	11,653,450	13,571,671			11,653,450	13,571,671
General Revenues:						
Taxes Levied	43,712,983	46,627,889			43,712,983	46,627,889
Federal & State Aid	26,408,231	31,727,182			26,408,231	31,727,182
Interest & Investment Earnings	213,341	230,519	\$ 174	\$ 239	213,515	230,758
Miscellaneous	4,021,055	3,982,429	16,279	(7,549)	4,037,334	3,974,880
<b>Total Revenues</b>	<b>86,938,152</b>	<b>98,788,365</b>	<b>16,453</b>	<b>(7,310)</b>	<b>86,954,605</b>	<b>98,781,055</b>
Expenses:						
Instruction	50,925,556	63,043,903			50,925,556	63,043,903
Instruction-Related Services	7,929,443	9,298,945			7,929,443	9,298,945
Pupil Services	10,787,659	11,036,286			10,787,659	11,036,286
General Administration	3,248,623	3,853,156			3,248,623	3,853,156
Plant Services	6,626,473	6,233,339			6,626,473	6,233,339
Ancillary Services	373,145	356,499			373,145	356,499
Community Services	375,683	396,828			375,683	396,828
Enterprise Activities	398,094	391,820	25,750	23,384	423,844	415,204
Interest on Long-Term Debt	2,777,961	2,574,093			2,777,961	2,574,093
Other Outgo	424,390	221,885			424,390	221,885
<b>Total Expenses</b>	<b>83,867,027</b>	<b>97,406,754</b>	<b>25,750</b>	<b>23,384</b>	<b>83,892,777</b>	<b>97,430,138</b>
Changes in Net Position	3,071,125	1,381,611	(9,297)	(30,694)	3,061,828	1,350,917
Net Position, Beginning (Deficit)	(5,542,438)	(2,471,313)	51,785	42,488	(5,490,653)	(2,428,825)
Net Position, Ending (Deficit)	<u>\$ (2,471,313)</u>	<u>\$ (1,089,702)</u>	<u>\$ 42,488</u>	<u>\$ 11,794</u>	<u>\$ (2,428,825)</u>	<u>\$ (1,077,908)</u>

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

***Governmental Activities:***

The District's overall financial status improved during the course of the year, as total net position increased \$1,381,611.



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

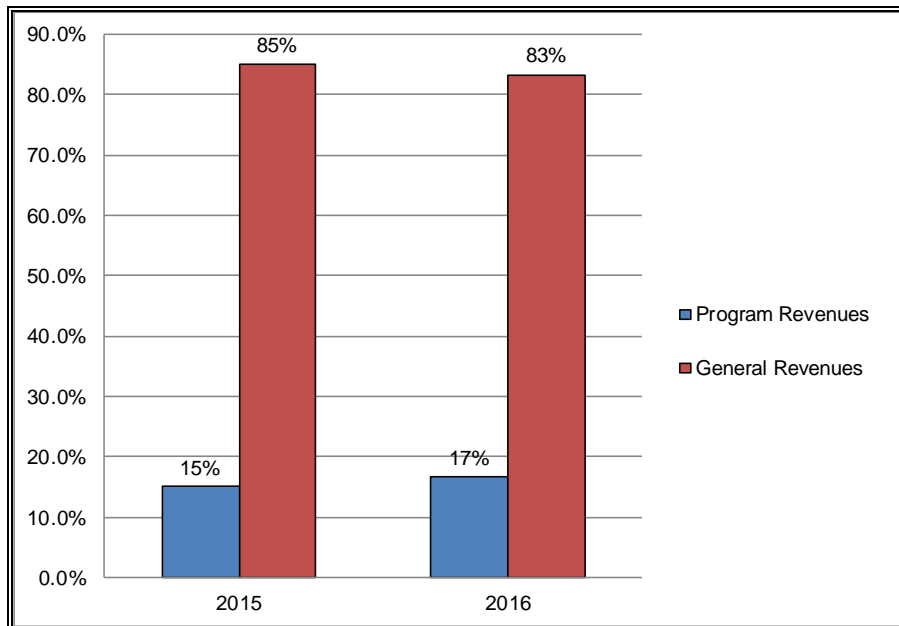
(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES**

	Total Cost of Services		Net Cost of Services	
	2015	2016	2015	2016
Instruction	\$ 50,925,556	\$ 63,043,903	\$ 42,935,861	\$ 53,346,191
Instruction-Related Services	7,929,443	9,298,945	7,020,626	7,491,192
Pupil Services	10,787,659	11,036,286	7,461,113	7,782,201
General Administration	3,248,623	3,853,156	3,158,360	3,481,281
Plant Services	6,626,473	6,233,339	6,556,872	5,267,341
Ancillary Services	373,145	356,499	359,817	347,445
Community Services	375,683	396,828	345,112	361,933
Enterprise Activities	398,094	391,820	291,252	363,912
Interest on Long-Term Debt	2,777,961	2,574,093	2,777,961	2,574,093
Other Expenses	424,390	221,885	377,511	170,819
<b>Totals</b>	<b>\$ 83,867,027</b>	<b>\$ 97,406,754</b>	<b>\$ 71,284,485</b>	<b>\$ 81,186,408</b>

*Table includes financial data of the combined governmental funds*

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$81,186,408 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 17% of the total cost of providing the services listed above, while the remaining 83% was financed by the general revenues of the District.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

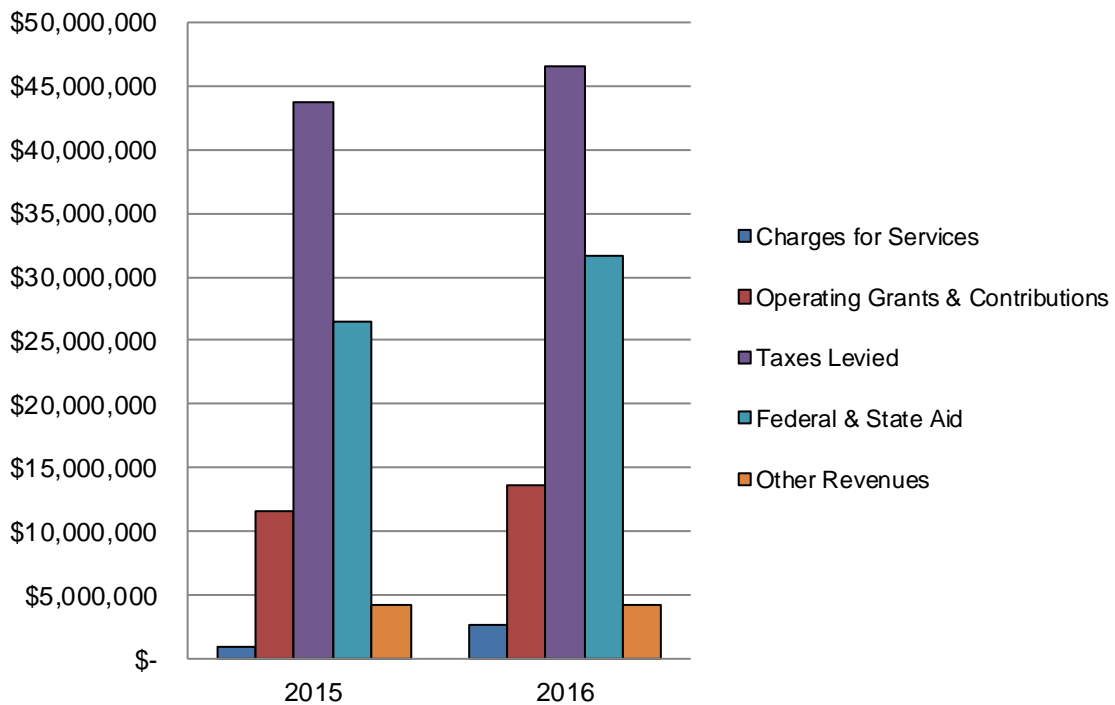
**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)**

**Summary of Revenues For Governmental Functions**

	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>
<b><u>Program Revenues</u></b>				
Charges for Services	\$ 929,092	1.07%	\$ 2,648,675	2.68%
Operating Grants & Contributions	11,653,450	13.40%	13,571,671	13.74%
<b><u>General Revenues</u></b>				
Taxes Levied	43,712,983	50.28%	46,627,889	47.20%
Federal & State Aid	26,408,231	30.38%	31,727,182	32.12%
Other Revenues	4,234,396	4.87%	4,212,948	4.26%
<b>Total Revenues</b>	<b><u>\$ 86,938,152</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 98,788,365</u></b>	<b><u>100.00%</u></b>

*Table includes financial data of the combined governmental funds*

**Comparative Revenues**



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

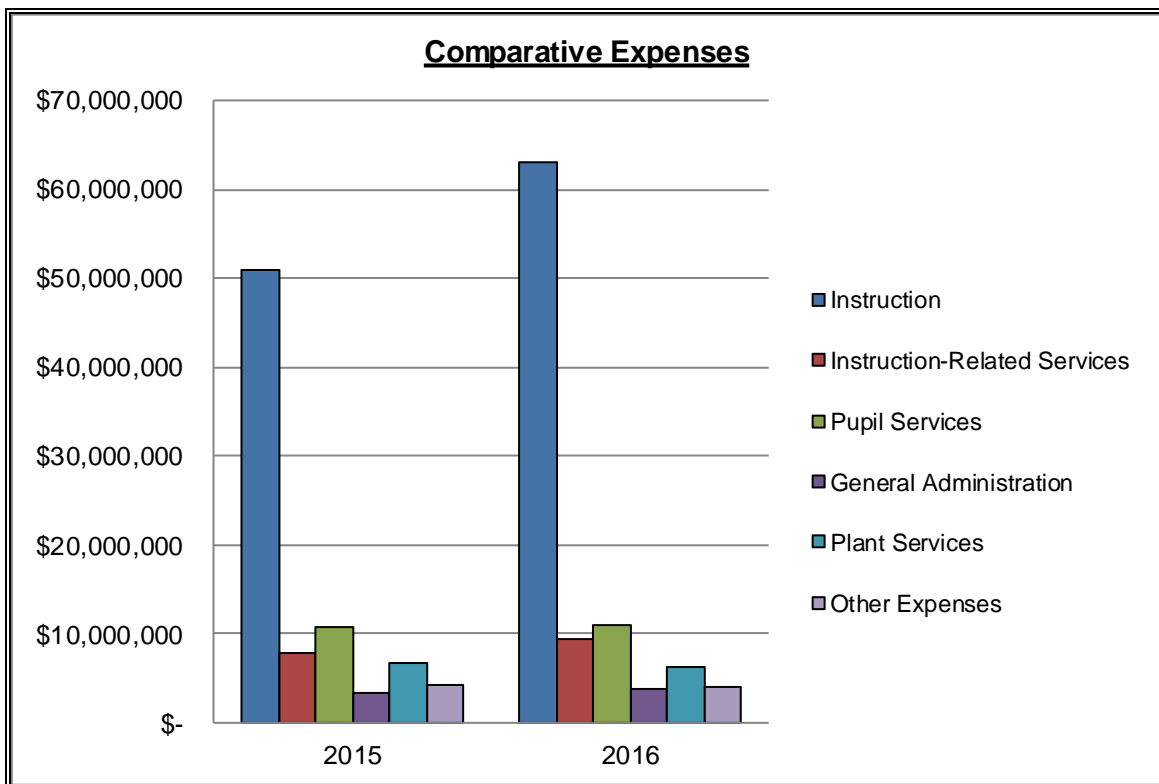
(PREPARED BY DISTRICT MANAGEMENT)

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

**Schedule of Expenses For Governmental Functions**

<u>Expenses</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 50,925,556	60.72%	\$ 63,043,903	64.72%
Instruction-Related Services	7,929,443	9.45%	9,298,945	9.55%
Pupil Services	10,787,659	12.86%	11,036,286	11.33%
General Administration	3,248,623	3.87%	3,853,156	3.96%
Plant Services	6,626,473	7.90%	6,233,339	6.40%
Other Expenses	4,349,273	5.19%	3,941,125	4.05%
<b>Total Expenses</b>	<b>\$ 83,867,027</b>	<b>100.00%</b>	<b>\$ 97,406,754</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

*Governmental Activities:*

<b><u>Comparative Schedule of Capital Assets</u></b>		
	2015	2016
Land	\$ 4,266,886	\$ 4,266,886
Sites & Improvements	15,276,157	19,419,873
Buildings & Improvements	138,808,733	143,906,370
Furniture & Equipment	6,670,625	6,722,281
Work-in-Progress	5,855,578	1,750,900
Totals at Historical Cost	170,877,979	176,066,310
Less: Accumulated Depreciation	(76,900,817)	(82,236,520)
Capital Assets, net	\$ 93,977,162	\$ 93,829,790

Net capital assets decreased \$147,372, due to the current year addition of \$5,188,331 of new capital assets and improvements, and the current year recognition of \$5,335,703 of depreciation expense.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	2015	2016
Compensated Absences	\$ 477,039	\$ 458,330
General Obligation Bonds	75,418,679	68,129,502
Capital Leases	2,471,587	2,266,087
Other Post Employment Benefits	57,035	27,946
Net Pension Liability - CalSTRS	37,339,236	37,738,597
Net Pension Liability - CalPERS	11,782,491	15,329,711
Totals	\$ 127,546,067	\$ 123,950,173

Total long-term liabilities decreased \$3,595,894, due primarily to the current year redemption of a portion of the District's outstanding general obligation bonds.

The general obligation bonds are financed by the local taxpayers and represent 55% of the District's total long-term liabilities.

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

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

<b><u>Comparative Schedule of Fund Balances</u></b>			
	Fund Balances June 30, 2015	Fund Balances June 30, 2016	Increase (Decrease)
General	\$ 8,778,499	\$ 12,132,929	\$ 3,354,430
Bond Interest & Redemption	10,068,267	10,169,642	101,375
Measure C - Building	12,583,115	4,951,392	(7,631,723)
Deferred Maintenance	627,698	257,003	(370,695)
Cafeteria	21,494	6,516	(14,978)
Adult Education	538,815	1,247,949	709,134
Capital Facilities	589,593	1,127,685	538,092
Measure E - Building	5,117,175	2,844,067	(2,273,108)
County School Facilities	162	0	(162)
Capital Projects - Special Reserve	391,006	1,081,609	690,603
Totals	\$ 38,715,824	\$ 33,818,792	\$ (4,897,032)

The fund balance of the General Fund increased \$3,354,430, and the combined fund balances of all other District governmental funds decreased \$8,251,462. The large decrease recognized in the Measure C - Building Fund and Measure E - Building Fund was due to the current year spending down of bond proceeds received in the prior fiscal year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

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

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

---

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

Student enrollment and average daily attendance (ADA) are primary factors in the computation of most funding formulas for public schools in the State of California. The District's fiscal year 2016-17 budget includes a projected decrease of 76 ADA.

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

Accordingly, the District's budget will continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

## BASIC FINANCIAL STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b><u>Assets</u></b>			
Deposits and Investments (Note 2)	\$ 36,075,148	\$ 30,207	\$ 36,105,355
Receivables (Note 3)	3,968,753		3,968,753
Due From Enterprise Fund	19,792		19,792
Stores Inventory (Note 11)	62,085		62,085
Prepaid Expenses (Note 11)	7,730		7,730
Capital Assets, Net of Accumulated Depreciation (Note 5)	93,829,790	1,421	93,831,211
<b>Total Assets</b>	<b>133,963,298</b>	<b>31,628</b>	<b>133,994,926</b>
<b><u>Deferred Outflows of Resources</u></b>			
Pension Deferrals (Note 9)	5,930,446		5,930,446
Bond Refunding	367,312		367,312
<b>Total Deferred Outflows of Resources</b>	<b>6,297,758</b>	<b>0</b>	<b>6,297,758</b>
<b><u>Liabilities</u></b>			
Accounts Payable and Other Current Liabilities	5,716,310	42	5,716,352
Accrued Interest Payable	815,639		815,639
Due To Enterprise Fund		19,792	19,792
Unearned Revenue (Note 11)	373,879		373,879
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Compensated Absences	458,330		458,330
General Obligation Bonds			
Current Interest	5,585,000		5,585,000
Capital Appreciation	2,548,151		2,548,151
Bond Premium	145,900		145,900
Capital Lease	213,797		213,797
Other Post Employment Benefits (Note 8)	27,946		27,946
<i>Portion Due or Payable After One Year:</i>			
General Obligation Bonds (Note 6)			
Current Interest	52,155,000		52,155,000
Capital Appreciation	6,419,490		6,419,490
Bond Premium	1,275,961		1,275,961
Capital Lease (Note 7)	2,052,290		2,052,290
Net Pension Liabilities (Note 9)	53,068,308		53,068,308
<b>Total Liabilities</b>	<b>130,856,001</b>	<b>19,834</b>	<b>130,875,835</b>
<b><u>Deferred Inflows of Resources</u></b>			
Pension Deferrals (Note 9)	10,494,757		10,494,757
<b>Total Deferred Inflows of Resources</b>	<b>10,494,757</b>	<b>0</b>	<b>10,494,757</b>
Net Investment in Capital Assets	34,901,925	1,421	34,903,346
Restricted:			
For Capital Projects	4,388,248		4,388,248
For Debt Service	3,204,983		3,204,983
For Educational Programs	3,295,191		3,295,191
For Other Purposes	98,005		98,005
Unrestricted (Deficit)	(46,978,054)	10,373	(46,967,681)
<b>Total Net Position (Deficit)</b>	<b>\$ (1,089,702)</b>	<b>\$ 11,794</b>	<b>\$ (1,077,908)</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**PETALUMA CITY SCHOOLS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b><u>Governmental Activities</u></b>						
Instruction	\$ 63,043,903	\$ 1,236,295	\$ 8,461,417	\$(53,346,191)		\$(53,346,191)
Instruction-Related Services:						
Supervision of Instruction	2,787,630	54,436	1,181,297	(1,551,897)		(1,551,897)
Instructional Library and Technology	820,440	8,264	30,725	(781,451)		(781,451)
School Site Administration	5,690,875		533,031	(5,157,844)		(5,157,844)
Pupil Services:						
Home-to-School Transportation	2,378,188	343,924	6,975	(2,027,289)		(2,027,289)
Food Services	2,251,078	775,856	1,187,486	(287,736)		(287,736)
Other Pupil Services	6,407,020	126,748	813,096	(5,467,176)		(5,467,176)
General Administration:						
Data Processing Services	303,419		7,199	(296,220)		(296,220)
Other General Administration	3,549,737	69,422	295,254	(3,185,061)		(3,185,061)
Plant Services	6,233,339	9,639	956,359	(5,267,341)		(5,267,341)
Ancillary Services	356,499		9,054	(347,445)		(347,445)
Community Services	396,828		34,895	(361,933)		(361,933)
Enterprise Activities	391,820	8,880	19,028	(363,912)		(363,912)
Interest on Long-Term Debt	2,574,093			(2,574,093)		(2,574,093)
Other Outgo	221,885	15,211	35,855	(170,819)		(170,819)
Total Governmental Activities	97,406,754	2,648,675	13,571,671	(81,186,408)		(81,186,408)
<b><u>Business-Type Activities</u></b>						
Enterprise Activities	23,384				\$ (23,384)	(23,384)
Totals	\$ 97,430,138	\$ 2,648,675	\$ 13,571,671	(81,186,408)	(23,384)	(81,209,792)
<b><u>General Revenues</u></b>						
Taxes Levied for General Purposes				34,186,184		34,186,184
Taxes Levied for Debt Service				9,902,959		9,902,959
Taxes Levied for Specific Purposes				2,538,746		2,538,746
Federal and State Aid - Unrestricted				31,727,182		31,727,182
Interest and Investment Earnings				230,519	239	230,758
Transfers from Other Agencies				270,820		270,820
Internal Transfers				19,792	(19,792)	0
Miscellaneous				3,691,817	12,243	3,704,060
Total General Revenues				82,568,019	(7,310)	82,560,709
Change in Net Position				1,381,611	(30,694)	1,350,917
Net Position (Deficit) - July 1, 2015				(2,471,313)	42,488	(2,428,825)
Net Position (Deficit) - June 30, 2016				\$ (1,089,702)	\$ 11,794	\$ (1,077,908)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Measure C - Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Deposits and Investments (Note 2)	\$ 14,411,222	\$ 10,169,642	\$ 4,971,703	\$ 6,261,203	\$ 35,813,770
Receivables (Note 3)	3,611,601			354,516	3,966,117
Due from Other Funds (Note 4)	897,441		19,019	1,119,513	2,035,973
Stores Inventory (Note 11)	51,004			11,081	62,085
Prepaid Expenditures (Note 11)	7,730				7,730
<b>Total Assets</b>	<b>\$ 18,978,998</b>	<b>\$ 10,169,642</b>	<b>\$ 4,990,722</b>	<b>\$ 7,746,313</b>	<b>\$ 41,885,675</b>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts Payable	\$ 5,403,602		\$ 39,330	\$ 269,875	\$ 5,712,807
Due to Other Funds (Note 4)	1,138,588			841,609	1,980,197
Unearned Revenue (Note 11)	303,879			70,000	373,879
<b>Total Liabilities</b>	<b>6,846,069</b>		<b>39,330</b>	<b>1,181,484</b>	<b>8,066,883</b>
Fund Balances: (Note 11)					
Nonspendable	83,427			11,263	94,690
Restricted	2,795,123	\$ 10,169,642	4,951,392	4,891,631	22,807,788
Assigned	4,379,462			1,666,500	6,045,962
Unassigned	4,874,917			(4,565)	4,870,352
<b>Total Fund Balances</b>	<b>12,132,929</b>	<b>10,169,642</b>	<b>4,951,392</b>	<b>6,564,829</b>	<b>33,818,792</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,978,998</b>	<b>\$ 10,169,642</b>	<b>\$ 4,990,722</b>	<b>\$ 7,746,313</b>	<b>\$ 41,885,675</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**Total Fund Balances - Governmental Funds** \$ 33,818,792

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

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

Capital Assets	\$ 176,066,310	
Accumulated Depreciation	<u>(82,236,520)</u>	93,829,790

In governmental funds, any gain or loss that results from bond refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from bond refunding, reported as a deferred outflow of resources, was: 367,312

The assets and liabilities of the internal service fund are not included in the governmental fund statements, but are included in the governmental activities. The net position of the District's self-insurance fund were: 224,527

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Net deferred outflows and inflows are: (4,564,311)

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

Compensated Absences	\$ 458,330	
General Obligation Bonds:		
Current Interest Bonds	57,740,000	
Capital Appreciation Bonds	8,967,641	
Bond Premium	1,421,861	
Capital Lease	2,266,087	
Other Post Employment Benefits	27,946	
Net Pension Liability - CalSTRS	37,738,597	
Net Pension Liability - CalPERS	15,329,711	
Total	<u>(123,950,173)</u>	(123,950,173)

In governmental funds, the unmatured interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The liability for unmatured interest owed at the end of the period was: (815,639)

**Total Net Position - Governmental Activities** \$ (1,089,702)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Measure C - Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>					
LCFF Sources:					
State Apportionment / Transfers	\$ 26,101,852				\$ 26,101,852
Local Taxes	34,186,184				34,186,184
Total LCFF Sources	60,288,036				60,288,036
Federal Revenue	2,663,867			\$ 1,230,400	3,894,267
State Revenue	9,078,184	\$ 80,256		2,219,841	11,378,281
Local Revenue	9,762,521	9,870,101	\$ 55,435	3,419,577	23,107,634
Total Revenues	81,792,608	9,950,357	55,435	6,869,818	98,668,218
<b><u>Expenditures</u></b>					
Current:					
Instruction	50,857,392			916,024	51,773,416
Supervision of Instruction	2,589,195				2,589,195
Instructional Library and Technology	767,099				767,099
School Site Administration	4,956,157			338,418	5,294,575
Home-To-School Transportation	2,243,232				2,243,232
Food Services	4,313			2,120,648	2,124,961
Other Pupil Services	5,848,151			113,875	5,962,026
Data Processing Services	282,373				282,373
Other General Administration	3,182,138			184,457	3,366,595
Plant Services	5,711,659		178	170,194	5,882,031
Facilities Acquisition and Construction			7,686,980	4,210,424	11,897,404
Ancillary Services	351,815				351,815
Community Services	396,833				396,833
Enterprise Activities	335,657				335,657
Other Outgo	106,672				106,672
Debt Service:					
Principal Retirement	290,823	11,140,000			11,430,823
Interest and Issuance Costs	89,899	2,192,682			2,282,581
Total Expenditures	78,013,408	13,332,682	7,687,158	8,054,040	107,087,288
Excess of Revenues Over (Under) Expenditures	3,779,200	(3,382,325)	(7,631,723)	(1,184,222)	(8,419,070)
<b><u>Other Financing Sources (Uses)</u></b>					
Operating Transfers In	38,338			463,163	501,501
Operating Transfers Out	(463,108)			(55)	(463,163)
Other Sources		3,483,700			3,483,700
Total Other Financing Sources (Uses)	(424,770)	3,483,700	0	463,108	3,522,038
Net Change in Fund Balances	3,354,430	101,375	(7,631,723)	(721,114)	(4,897,032)
Fund Balances - July 1, 2015	8,778,499	10,068,267	12,583,115	7,285,943	38,715,824
Fund Balances - June 30, 2016	\$ 12,132,929	\$ 10,169,642	\$ 4,951,392	\$ 6,564,829	\$ 33,818,792

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Net Change in Fund Balances - Governmental Funds** \$ (4,897,032)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation expense exceeded capital outlays during the fiscal year:

Capital Outlays	\$ 5,188,331	
Depreciation Expense	<u>(5,335,703)</u>	(147,372)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: (3,260,000)

Amortization of gain or loss from debt refunding: In governmental funds, any gain or loss resulting from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. Current year amortization of deferred amounts from debt refunding was: (119,063)

Bond premiums are recognized as Other Financing Sources in the period they are received in governmental funds. In the government-wide statements, premiums are amortized over the life of the debt. The difference between premiums recognized in the current period and the premiums amortized for the current period are:

Bond premiums	\$ (223,700)	
Bond premiums amortized	<u>133,743</u>	(89,957)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the fiscal year. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 18,709

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 29,089

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was: (1,102,504)

Debt Service: In the governmental funds, repayment of long-term obligations are reported as expenditures. In the government-wide statements, repayments of long-term obligations are reported as reduction of liabilities. The amount of expenditures made for the repayment of the principal portion of long-term obligations during the year was:

General Obligation Bonds		
Current Interest Bonds	\$ 8,795,000	
Capital Appreciation Bonds	2,345,000	
Capital Lease	<u>205,500</u>	11,345,500

Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, accreted interest is recognized as an expense as the bonds accrete in value. The amount of accreted interest recognized in the current year is: (500,865)

Interest on long-term liabilities in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest on outstanding long-term liabilities decreased by: 79,461

The income and expense of internal service funds are not included in the governmental fund statements, but are included in the governmental activities. The amount that income exceeded expense during the year was: 25,645

**Change in Net Position of Governmental Activities** \$ 1,381,611

**PETALUMA CITY SCHOOLS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Internal Service</b>	<b>Enterprise</b>
	<b>Self-Insurance Fund</b>	<b>Downtown Project Fund</b>
<b><u>Assets</u></b>		
Deposits and Investments (Note 2)	\$ 261,378	\$ 30,207
Receivables (Note 3)	2,636	
Due from Other Funds (Note 4)	56	
Capital Assets: (Note 5)		
Furniture and Equipment		56,833
Less: Accumulated Depreciation		(55,412)
Total Assets	<u>264,070</u>	<u>31,628</u>
<b><u>Liabilities</u></b>		
Accounts Payable	3,503	42
Due to Other Funds (Note 4)	36,040	19,792
Total Liabilities	<u>39,543</u>	<u>19,834</u>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets		1,421
Restricted	224,527	
Assigned		10,373
Total Net Position	<u>\$ 224,527</u>	<u>\$ 11,794</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Internal Service</b>	<b>Enterprise</b>
	<b>Self-Insurance Fund</b>	<b>Downtown Project Fund</b>
<b><u>Operating Revenues</u></b>		
Local Revenue	\$ 98,870	\$ 12,243
Total Operating Revenues	98,870	12,243
<b><u>Operating Expenses</u></b>		
Classified Salaries		94
Employee Benefits		2
Books and Supplies		16,157
Contract Services	56,163	1,249
Depreciation		5,882
Total Operating Expenses	56,163	23,384
Operating Income (Loss)	42,707	(11,141)
<b><u>Non-Operating Activities</u></b>		
Interest	1,484	239
Operating Transfers Out	(18,546)	(19,792)
Non-Operating Income (Loss)	(17,062)	(19,553)
Change in Net Position	25,645	(30,694)
Net Position - July 1, 2015	198,882	42,488
Net Position - June 30, 2016	\$ 224,527	\$ 11,794

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Internal Service</b>	<b>Enterprise</b>
	<b>Self-Insurance Fund</b>	<b>Downtown Project Fund</b>
<b><i>Cash Flows From Operating Activities:</i></b>		
Cash Received from Services	\$ 136,890	\$ 12,376
Payments to Suppliers for Goods and Services	(52,660)	(17,460)
Net Cash Provided (Used) by Operating Activities	<u>84,230</u>	<u>(5,084)</u>
<b><i>Cash Flows From Investing Activities:</i></b>		
Interest	1,484	239
Operating Transfers Out	(18,546)	
Due From Other Funds	(56)	
Due To Other Funds	36,040	
Net Cash Provided by Investing Activities	<u>18,922</u>	<u>239</u>
Net Increase (Decrease) in Cash	103,152	(4,845)
Deposits and Investments - July 1, 2015	<u>158,226</u>	<u>35,052</u>
Deposits and Investments - June 30, 2016	<u>\$ 261,378</u>	<u>\$ 30,207</u>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i></b>		
Operating Income (Loss)	\$ 42,707	\$ (11,141)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation		5,882
Changes in Operating Assets and Liabilities:		
Receivables	38,020	133
Accounts Payable	<u>3,503</u>	<u>42</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 84,230</u>	<u>\$ (5,084)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**PETALUMA CITY SCHOOLS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016**

	<b>Private-Purpose Trust</b>		<b>Total Fiduciary Funds</b>
	<b>Scholarship Funds</b>	<b>Agency Funds</b>	
<b><u>Assets</u></b>			
Deposits and Investments (Note 2)	\$ 112,640	\$ 455,621	\$ 568,261
Total Assets	112,640	455,621	568,261
<b><u>Liabilities</u></b>			
Due to Student Groups		455,621	455,621
Total Liabilities	0	455,621	455,621
<b><u>Net Position</u></b>			
Restricted	112,640	0	112,640
Total Net Position	\$ 112,640	\$ 0	\$ 112,640

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Private-Purpose Trust
	Scholarship Funds
<b><u>Additions</u></b>	
Gifts and Contributions	\$ 249
Interest	2,276
Total Additions	2,525
<b><u>Deductions</u></b>	
Scholarships Awarded	180
Total Deductions	180
Change in Net Position	2,345
<b><u>Net Position</u></b>	
Net Position - July 1, 2015	110,295
Net Position - June 30, 2016	\$ 112,640

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

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

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

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

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

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

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

**B. Basis of Presentation**

**Government-wide Financial Statements:**

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

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

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

**Fund Financial Statements:**

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

**B. Basis of Presentation (Concluded)**

**Fund Financial Statements:(Concluded):**

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

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

Fiduciary funds are reported using the economic resources measurement focus.

**C. Basis of Accounting**

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

**Revenues - Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

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

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

D. Fund Accounting

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

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

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

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

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

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

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

Major Governmental Funds:

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

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

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

Non-major Governmental Funds:

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

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

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

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

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

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

**D. Fund Accounting (Concluded)**

Proprietary Funds:

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

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

Fiduciary Funds:

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

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

**E. Budgets and Budgetary Accounting**

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

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information on page 63.

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

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Encumbrances

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

H. Cash and Cash Equivalents

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

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

1. Deposits and Investments

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

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

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

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

2. Stores Inventory and Prepaid Expenses/Expenditures

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

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

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

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

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

3. Capital Assets

Furniture and equipment purchased or acquired with an original cost of \$5,000 or more, and capital improvement, acquisition, or construction with an original cost of \$50,000 or more, are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

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

4. Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

5. Unearned Revenue

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

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

6. Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

7. Pensions

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

8. Long-term Liabilities

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

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

9. Fund Balance Classification

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

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

9. Fund Balance Classification (Concluded)

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

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

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

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

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

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

The formula for determining the level of funding per student is the "Local Control Funding Formula" (LCFF). District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

10. Revenue Limit/Property Tax (Concluded)

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

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 117,970		\$ 568,260
Cash in Revolving Fund	24,875		
County Pool Investments	<u>35,932,303</u>	<u>\$ 30,207</u>	<u>1</u>
Total Deposits and Investments	<u>\$ 36,075,148</u>	<u>\$ 30,207</u>	<u>\$ 568,261</u>

Cash on Hand and in Banks

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

Cash in Revolving Fund

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

County Pool Investments

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

General Authorization

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

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

Interest Rate Risk

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

Segmented Time Distribution

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

Governmental Activities:

Investment Type	Carrying Value	Fair Value	Less Than 1 Year	More Than 1 Year
County Pool Investments	\$ 35,932,303	\$ 35,961,049	\$ 11,602,620	\$ 24,329,683

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Segmented Time Distribution (Concluded)

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 30,207	\$ 30,231	\$ 9,754	\$ 20,453

Credit Risk

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

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 35,932,303	\$ 35,961,049			\$ 35,932,303

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 30,207	\$ 30,231			\$ 30,207

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**Custodial Credit Risk - Investments**

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2016, the District does not have any investments that are held by counterparties.

**Derivative Investments**

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

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2016, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>
Federal Government	\$ 757,492	\$ 199,539		\$ 957,031
State Government	1,452,032	12,494		1,464,526
Local Governments	299,800			299,800
Miscellaneous	1,102,277	142,483	\$ 2,636	1,247,396
Totals	<u>\$ 3,611,601</u>	<u>\$ 354,516</u>	<u>\$ 2,636</u>	<u>\$ 3,968,753</u>

**NOTE 4 - INTERFUND ACTIVITIES**

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

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

Individual fund interfund receivable and payable balances at June 30, 2016 were as follows:



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - INTERFUND ACTIVITIES (CONTINUED)

A. Due From/Due To Other Funds (Concluded)

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 897,441	\$ 1,138,588
Measure C - Building	19,019	
Deferred Maintenance	75,515	
Cafeteria	15,052	400,826
Adult Education	214,733	182,706
Capital Facilities	55	
County School Facilities		163
Capital Projects - Special Reserve	<u>814,158</u>	<u>257,914</u>
Subtotals	<u>2,035,973</u>	<u>1,980,197</u>
Internal Service - Self-Insurance	<u>56</u>	<u>36,040</u>
Enterprise - Downtown Project	<u>0</u>	<u>19,792</u>
Totals	<u>\$ 2,036,029</u>	<u>\$ 2,036,029</u>

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

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2015-16 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 38,338	\$ 463,108
Deferred Maintenance	314,496	
Cafeteria	148,612	
Capital Facilities	55	
County School Facilities		<u>55</u>
Subtotals	<u>501,501</u>	<u>463,163</u>
Internal Service - Self-Insurance	<u>0</u>	<u>18,546</u>
Enterprise - Downtown Project	<u>0</u>	<u>19,792</u>
Totals	<u>\$ 501,501</u>	<u>\$ 501,501</u>

Transfer of \$314,496 from the General Fund to the Deferred Maintenance Fund to transfer the non-tax portion of prior year redevelopment pass-through funds.

Transfer of \$148,612 from the General Fund to the Cafeteria Fund to supplement the child nutrition program.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**B. Interfund Transfers (Concluded)**

Transfer of \$19,792 from the Enterprise Fund to General Fund to reimburse expenditures.

Transfer of \$18,546 from the Self-Insurance Fund to General Fund to transfer amounts paid by parents for IPAD insurance.

Transfer of \$55 from the County School Facilities Fund to the Capital Facilities Fund to close the fund.

**NOTE 5 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2016, was as follows:

**A. Governmental Activities**

	<u>Balances</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2016</u>
Capital Assets, Not Depreciated:				
Land	\$ 4,266,886			\$ 4,266,886
Work-in-Progress	5,855,578	\$ 5,136,675	\$ 9,241,353	1,750,900
Total Capital Assets, Not Depreciated:	<u>10,122,464</u>	<u>5,136,675</u>	<u>9,241,353</u>	<u>6,017,786</u>
Capital Assets, Depreciated:				
Sites and Improvements	15,276,157	4,143,716		19,419,873
Buildings and Improvements	138,808,733	5,097,637		143,906,370
Furniture and Equipment	6,670,625	51,656		6,722,281
Total Capital Assets, Depreciated:	<u>160,755,515</u>	<u>9,293,009</u>	<u>0</u>	<u>170,048,524</u>
Less Accumulated Depreciation for:				
Sites and Improvements	8,172,744	939,099		9,111,843
Buildings and Improvements	62,733,576	4,238,155		66,971,731
Furniture and Equipment	5,994,497	158,449		6,152,946
Total Accumulated Depreciation	<u>76,900,817</u>	<u>5,335,703</u>	<u>0</u>	<u>82,236,520</u>
Governmental Activities Capital Assets, Net	<u>\$ 93,977,162</u>	<u>\$ 9,093,981</u>	<u>\$ 9,241,353</u>	<u>\$ 93,829,790</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,599,008
Instruction-Related Services	530,852
Pupil Services	630,032
General Administration	219,966
Plant Services	<u>355,845</u>
Total Depreciation Expense	<u>\$ 5,335,703</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**B. Business-Type Activities**

	Balances <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2016</u>
Capital Assets, Depreciated:				
Furniture and Equipment	\$ 56,833			\$ 56,833
Total Capital Assets, Depreciated:	<u>56,833</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>56,833</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	49,530	5,882		55,412
Total Accumulated Depreciation	<u>49,530</u>	<u>5,882</u>	<u>0</u>	<u>55,412</u>
Business-Type Activities Capital Assets, net	<u>\$ 7,303</u>	<u>\$ (5,882)</u>	<u>\$ 0</u>	<u>\$ 1,421</u>

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

Enterprise	<u>\$ 5,882</u>
------------	-----------------

**NOTE 6 - GENERAL OBLIGATION BONDS**

On August 27, 2014, Petaluma City Elementary School District issued \$7 million of current interest bonds with interest rates ranging from 3.0 to 5.0 percent. The Election of 2014, Series A bonds were authorized at an election held on June 3, 2014, whereby the requisite 55% of the voters of the District approved the sale of up to \$21 million of general obligation bonds to finance various projects identified in the Measure E ballot measure. Principal and interest payments due on the bonds will be paid semiannually on February 1 and August 1 of each year until fully defeased on August 1, 2039. As of June 30, 2016, the District has a remaining authorization to issue up to \$14 million of general obligations bonds at a future date.

On August 27, 2014, Petaluma Joint Union High School District issued \$23 million of current interest bonds with interest rates ranging from 2.0 to 3.75 percent. The Election of 2014, Series A bonds were authorized at an election held on June 3, 2014, whereby the requisite 55% of the voters of the District approved the sale of up to \$68 million of general obligation bonds to finance various projects identified in the Measure C ballot measure. Principal and interest payments due on the bonds will be paid semiannually on February 1 and August 1 of each year until fully defeased on August 1, 2039. As of June 30, 2016, the Petaluma Joint Union High School District has a remaining authorization to issue up to \$45 million of general obligations bonds at a future date.

On November 17, 2015, Petaluma City Elementary School District issued \$3.26 million of general obligation refunding bonds for purposes of refunding \$3.3 million of the District's outstanding 2008 General Obligation Refunding Bonds, and to pay for costs of issuance of the bonds. As a result, the District has reduced its future debt service requirements by \$125,256 and recognized an economic gain of \$233,744.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

The outstanding general obligation debt of the District as of June 30, 2016 is as follows:

**A. Current Interest Bonds**

**Current Interest Bonds**

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2016
<b><u>Elementary</u></b>							
2008 Refunding	2.00-3.80	2024	\$ 7,965,000	\$ 4,000,000		\$ 4,000,000	\$ 0
2011 Refunding	3.00-4.00	2027	8,470,000	5,895,000		905,000	4,990,000
2013 Refunding	2.00-4.00	2028	1,880,000	1,780,000		105,000	1,675,000
2014 Series A	3.00-5.00	2040	7,000,000	7,000,000		650,000	6,350,000
2015 Refunding	2.00-4.00	2024	<u>3,260,000</u>	<u>0</u>	<u>\$ 3,260,000</u>	<u>0</u>	<u>3,260,000</u>
Total Elementary			<u>28,575,000</u>	<u>18,675,000</u>	<u>3,260,000</u>	<u>5,660,000</u>	<u>16,275,000</u>
<b><u>High School</u></b>							
1992 Series G	2.00-4.25	2025	2,418,791	2,415,000			2,415,000
2010 Refunding	2.00-4.00	2020	9,095,000	7,620,000		235,000	7,385,000
2012 Refunding	2.25-4.00	2024	12,845,000	11,565,000		675,000	10,890,000
2014 Series A	2.00-4.00	2040	<u>23,000,000</u>	<u>23,000,000</u>		<u>2,225,000</u>	<u>20,775,000</u>
Total High School			<u>47,358,791</u>	<u>44,600,000</u>	<u>0</u>	<u>3,135,000</u>	<u>41,465,000</u>
Total Current Interest Bonds			<u>\$ 75,933,791</u>	<u>\$ 63,275,000</u>	<u>\$ 3,260,000</u>	<u>\$ 8,795,000</u>	<u>\$ 57,740,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2016, are as follows:

Year Ended June 30	Principal	Interest	Totals
2017	\$ 5,630,000	\$ 1,833,319	\$ 7,463,319
2018	3,080,000	1,670,719	4,750,719
2019	2,785,000	1,564,744	4,349,744
2020	6,030,000	1,416,794	7,446,794
2021	5,665,000	1,218,625	6,883,625
2022-2026	14,310,000	4,280,156	18,590,156
2027-2031	5,155,000	3,013,338	8,168,338
2032-2036	6,975,000	2,083,228	9,058,228
2037-2041	<u>8,110,000</u>	<u>623,437</u>	<u>8,733,437</u>
Totals	<u>\$ 57,740,000</u>	<u>\$ 17,704,360</u>	<u>\$ 75,444,360</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**B. Capital Appreciation Bonds**

**Capital Appreciation Bonds**

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2015	Accreted Current Year	Redeemed Current Year	Outstanding June 30, 2016
<b><u>High School</u></b>							
1995 Refunding	4.65-5.80	2018	\$ 8,972,019	\$ 10,811,776	\$ 500,865	\$ 2,345,000	\$ 8,967,641
Total Capital Appreciation Bonds			\$ 8,972,019	\$ 10,811,776	\$ 500,865	\$ 2,345,000	\$ 8,967,641

The outstanding obligation for the refunding capital appreciation bonds at June 30, 2016, is as follows:

Year Ended June 30	Rate %	Amount of Original Issue (Principal)	Accreted Interest	Totals
2017	5.70%	\$ 800,922	\$ 1,747,229	\$ 2,548,151
2018	5.70%	1,005,584	2,193,747	3,199,331
2019	5.70%	1,012,116	2,208,043	3,220,159
Totals		\$ 2,818,622	\$ 6,149,019	\$ 8,967,641

The annual requirements to amortize the refunding capital appreciation bonds at June 30, 2016, are as follows:

Year Ended June 30	Principal	Interest	Totals
2017	\$ 800,922	\$ 1,759,078	\$ 2,560,000
2018	1,005,584	2,394,416	3,400,000
2019	1,012,116	2,607,884	3,620,000
Totals	\$ 2,818,622	\$ 6,761,378	\$ 9,580,000

**NOTE 7 - CAPITAL LEASE**

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 7 - CAPITAL LEASE (CONCLUDED)**

Future minimum lease payments under these agreements are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 213,797	\$ 136,078	\$ 349,875
2018	222,430	122,796	345,226
2019	231,412	108,978	340,390
2020	240,756	94,603	335,359
2021	250,477	79,647	330,124
2022-2026	1,107,215	156,578	1,263,793
Totals	<u>\$ 2,266,087</u>	<u>\$ 698,680</u>	<u>\$ 2,964,767</u>

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

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*Plan Descriptions:* The Post Employment Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by Petaluma City Schools. The Plan provides medical insurance benefits to eligible retirees and their spouses. Eligible employees are those who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65 and are capped at negotiated amounts. As of June 30, 2016, membership of the Plan consists of 7 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no active plan members.

*Contribution Information:* The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to refund benefits as determined annually through the agreements between the District, CEA, CSEA and the unrepresented groups. For fiscal year 2015-16, the District contributed \$29,089 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums). The remainder of the premiums were funded from beginning net position and interest earnings.

Future estimated payments required under the plan are as follows:

Year Ended <u>June 30</u>	<u>Other Post-Employment Benefits</u>
2017	<u>\$ 27,946</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)**

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

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

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

**NOTE 9 - RETIREMENT PLANS**

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

The District reported net pension liabilities, deferred outflows of resources, and deferred inflows of resources in the accompanying statement of net position as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
CalSTRS	\$ 37,738,597	\$ 3,622,620	\$ 8,979,321
CalPERS	15,329,711	2,307,826	1,515,436
Totals	<u>\$ 53,068,308</u>	<u>\$ 5,930,446</u>	<u>\$ 10,494,757</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers and certain other employees of the public-school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP.

The STRP Defined Benefit Program has two benefit formulas:

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

The Defined Benefit Program provides retirement benefits based on a members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

CalSTRS 2% at 60

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



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Benefits Provided (Concluded)

CalSTRS calculates retirement benefits based on one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of service, or for classroom teachers with less than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service.

CalSTRS 2% at 62

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

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for any 36 consecutive months of credited service.

Contributions

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

Members: Under CalSTRS 2% at 60, the member contribution rate was 9.20% of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, the member contribution rate was 8.56% of applicable member earnings for fiscal year 2015-16. The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 10.73% of applicable member earnings for fiscal year 2015-16. The District contributed \$3,622,620 to the plan for the fiscal year ended June 30, 2016.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2016 was 2.874%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 7.391% for the fiscal year ended June 30, 2016.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 37,738,597
State's proportionate share of the net pension liability associated with the District	799,233
Total net pension liability attributed to District	\$ 38,537,830

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on a District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0639%
Proportion - June 30, 2015	0.0561%
Change - Increase (Decrease)	-0.0078%

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$6,795,152, inclusive of \$2,131,158 of support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 3,622,620	
Differences between expected and actual experience		\$ 630,378
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		4,426,266
Net differences between projected and actual earnings on plan investments		3,922,677
Totals	\$ 3,622,620	\$ 8,979,321

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (2,398,097)
2018	(2,398,097)
2019	(2,398,097)
2020	(99,482)
2021	(842,774)
2022	(842,774)

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return <sup>1</sup>	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

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

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

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

\* 10-year geometric average

Discount Rate

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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

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

	Discount Rate 1% Decrease 6.60%	Discount Rate Current Rate 7.60%	Discount Rate 1% Increase 8.60%
District's proportionate share of the net pension liability	\$ 56,982,345	\$ 37,738,597	\$ 21,745,491

*Pension Plan's Fiduciary Net Position*

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

B. California Public Employees' Retirement System (CalPERS)

*Plan Description, Benefits Provided, and Employees Covered*

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 11.847% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2016 was \$1,400,218.

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

As of June 30, 2016, the District reported a liability of \$15,329,711 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.1038%
Proportion - June 30, 2015	<u>0.1040%</u>
Change - Increase (Decrease)	<u><u>0.0002%</u></u>

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$1,461,348. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,400,218	
Differences between expected and actual experience	883,668	
Changes of assumptions		\$ 950,019
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	23,940	46,710
Net differences between projected and actual earnings on plan investments		518,707
Totals	\$ 2,307,826	\$ 1,515,436

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (420,206)
2018	(420,206)
2019	(396,851)
2020	629,435

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial methods and assumptions:

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions (Concluded)

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Consumer Price Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return (1)	7.50%
Post Retirement Benefit Increase (2)	

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

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

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

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

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



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 9 - RETIREMENT PLANS (CONTINUED)**

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

Discount Rate

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

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

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

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

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 9 - RETIREMENT PLANS (CONCLUDED)**

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

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate 1% Decrease 6.50%	Discount Rate Current Rate 7.50%	Discount Rate 1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 24,950,382	\$ 15,329,711	\$ 7,329,480

**Pension Plan Fiduciary Net Position**

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

**C. Social Security**

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

**D. Tax Deferred Annuity**

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 10 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2016, is shown below:

	Balances			Balances	
	July 1, 2015	Additions	Deductions	June 30, 2016	Due within One Year
Compensated Absences	\$ 477,039	\$ 458,330	\$ 477,039	\$ 458,330	\$ 458,330
General Obligation Bonds:					
Current Interest	63,275,000	3,260,000	8,795,000	57,740,000	5,630,000
Capital Appreciation	10,811,776	500,865	2,345,000	8,967,641	2,548,151
Bond Premium	1,331,903	223,700	133,742	1,421,861	145,900
Capital Lease	2,471,587		205,500	2,266,087	213,797
Other Post-Employment Benefits	57,035		29,089	27,946	27,946
Net Pension Liability - CalSTRS	37,339,236	399,361		37,738,597	
Net Pension Liability - CalPERS	11,782,491	3,547,220		15,329,711	
Totals	<u>\$ 127,546,067</u>	<u>\$ 8,389,476</u>	<u>\$ 11,985,370</u>	<u>\$ 123,950,173</u>	<u>\$ 9,024,124</u>

The general obligation bonds are an obligation of the Bond Interest and Redemption Fund. All other long-term liabilities are primarily obligations of the General Fund.

**NOTE 11 - FUND BALANCES**

The components of fund balance as of June 30, 2016, are as follows:

	General Fund	Bond Interest & Redemption Fund	Measure C - Building Fund	Non-Major Governmental Fund	Totals
Nonspendable:					
Revolving Cash	\$ 24,693			\$ 182	\$ 24,875
Stores Inventory	51,004			11,081	62,085
Prepaid Expenditures	7,730				7,730
Total Nonspendable	<u>83,427</u>			<u>11,263</u>	<u>94,690</u>
Restricted:					
Categorical Programs	1,570,641			916,564	2,487,205
Local Programs	1,224,482			3,315	1,227,797
Bond Proceeds			\$ 4,951,392	2,844,067	7,795,459
Developer Fees				1,127,685	1,127,685
Debt Service		<u>\$ 10,169,642</u>			<u>10,169,642</u>
Total Restricted	<u>2,795,123</u>	<u>10,169,642</u>	<u>4,951,392</u>	<u>4,891,631</u>	<u>22,807,788</u>
Assigned:					
2% Reserve for Economic Uncertainties	1,570,684				1,570,684
South County Consortium	227,560				227,560
Local Site Donations	581,218				581,218
Curriculum Adoptions	1,500,000				1,500,000
School Transportation	300,000				300,000
Technology Replacement	200,000			1,666,500	1,866,500
Total Assigned	<u>4,379,462</u>	<u>0</u>	<u>0</u>	<u>1,666,500</u>	<u>6,045,962</u>
Unassigned:					
Reserve for Economic Uncertainties	2,356,026				2,356,026
Remaining Unassigned Balance	2,518,891			(4,565)	2,514,326
Total Unassigned	<u>4,874,917</u>	<u>0</u>	<u>0</u>	<u>(4,565)</u>	<u>4,870,352</u>
Total Fund Balances	<u>\$ 12,132,929</u>	<u>\$ 10,169,642</u>	<u>\$ 4,951,392</u>	<u>\$ 6,564,829</u>	<u>\$ 33,818,792</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**NOTE 12 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA**

The District was the recipient of on-behalf payments made by the State of California to the California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$2,131,158 to CalSTRS (7.12589% of creditable compensation subject to CalSTRS).

**NOTE 13 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015-16, the District participated in Redwood Empire Schools Insurance Group (RESIG) for purposes of pooling risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

**NOTE 14 - 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 15 - CHARTER SCHOOLS**

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**NOTE 16 - DEFEASED DEBT**

Certain general obligation bonds of the District have been defeased by placing the proceeds of refunding bonds in irrevocable escrow accounts held and managed by bank trustees, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the District's financial statements. The defeased general obligation bonds that are considered extinguished consist of \$3.3 million of the outstanding 2008 General Obligation Refunding Bonds, maturing August 2016 through August 2024.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

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

**B. State and Federal Allowances, Awards and Grants**

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

**C. Questioned Costs**

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

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

The District submitted an appeal for Findings 14-5 and 15-4 to the Education Audit Appeals Panel. However, as of June 30, 2016, the outcome of the appeal had not been determined. (See Note 18)

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**NOTE 18 - SUBSEQUENT EVENT**

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 7, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements, except as follows:

**Settlement Agreement**

On November 7, 2016, the Education Audit Appeals Panel adopted a Stipulated Agreement for purposes of completely settling and resolving the appeal of Audit Findings 14-5 and 15-4, which are discussed in Note 17C on the previous page. Under the terms of the agreement, the District is required to repay \$244,584, which shall be withheld in equal installments from the District's principle apportionments for the next two years, without interest. The District has recorded a liability in these financial statements to reflect this obligation.

REQUIRED SUPPLEMENTARY INFORMATION SECTION





**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 30,583,778	\$ 29,304,212	\$ 26,101,852	\$ (3,202,360)
Local Sources	29,240,277	31,067,438	34,186,184	3,118,746
Total LCFF Sources	59,824,055	60,371,650	60,288,036	(83,614)
Federal Revenue	2,789,905	3,025,339	2,663,867	(361,472)
Other State Revenue	6,656,066	9,747,039	9,078,184	(668,855)
Other Local Revenue	9,973,847	8,770,698	9,762,521	991,823
Total Revenues	79,243,873	81,914,726	81,792,608	(122,118)
<b><u>Expenditures</u></b>				
Certificated Salaries	35,382,260	34,614,100	34,340,044	274,056
Classified Salaries	11,123,787	11,674,413	11,593,966	80,447
Employee Benefits	17,194,511	19,516,873	18,662,097	854,776
Books and Supplies	2,784,602	3,407,011	2,548,072	858,939
Services and Other				
Operating Expenditures	9,295,620	11,582,317	10,458,007	1,124,310
Capital Outlay	20,467	45,403	42,861	2,542
Debt Service:				
Principal Retirement	237,835	290,823	290,823	
Interest and Fiscal Charges	187,076	89,899	89,899	
Other Expenditures	2,396,862	81,660	(12,361)	94,021
Total Expenditures	78,623,020	81,302,499	78,013,408	3,289,091
Excess of Revenues Over Expenditures	620,853	612,227	3,779,200	3,166,973
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers In			38,338	38,338
Operating Transfers Out		(68,612)	(463,108)	(394,496)
Total Other Financing Sources (Uses)	0	(68,612)	(424,770)	(356,158)
Net Change in Fund Balances	620,853	543,615	3,354,430	<u>\$ 2,810,815</u>
Fund Balances - July 1, 2015	8,778,499	8,778,499	8,778,499	
Fund Balances - June 30, 2016	<u>\$ 9,399,352</u>	<u>\$ 9,322,114</u>	<u>\$ 12,132,929</u>	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
06/30/16	\$ 0	\$ 27,946	\$ 27,946	0%	\$ 0	0%
06/30/15	0	57,035	57,035	0%	0	0%
06/30/14	0	86,957	86,957	0%	0	0%

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

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

JUNE 30, 2016

---

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Employee Payroll	District's Proportionate Share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2016	0.0561%	\$ 37,738,597	\$ 799,233	\$ 38,537,830	\$ 26,017,838	145.05%	74.02%
2015	0.0639%	37,339,236	883,989	38,223,225	28,459,709	131.20%	76.52%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

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

JUNE 30, 2016

---

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

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

PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALSTRS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

---

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

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

PETALUMA CITY SCHOOLS

SCHEDULE OF CONTRIBUTIONS - CALPERS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

---

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

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object. There was no excess of expenditures over appropriations in the General Fund as of June 30, 2016.

**B. Schedule of Funding Progress**

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

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

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

**D. Schedule of Contributions**

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





SUPPLEMENTARY INFORMATION SECTION



**PETALUMA CITY SCHOOLS**  
**ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

ORGANIZATION

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

BOARD OF EDUCATION

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

ADMINISTRATION

Gary Callahan  
Superintendent

Chris Thomas  
Chief Business Official

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<b><u>Assets</u></b>			
Deposits and Investments	\$ 113,972	\$ 221,381	\$ 1,404,049
Receivables	103,315	168,346	82,855
Due from Other Funds	75,515	15,052	214,733
Stores Inventory		11,081	
Total Assets	<u>\$ 292,802</u>	<u>\$ 415,860</u>	<u>\$ 1,701,637</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts Payable	\$ 35,799	\$ 8,518	\$ 200,982
Due to Other Funds		400,826	182,706
Unearned Revenue			70,000
Total Liabilities	<u>35,799</u>	<u>409,344</u>	<u>453,688</u>
Fund Balances:			
Nonspendable		11,081	182
Restricted	3,315		500,068
Assigned	253,688		747,699
Unassigned		(4,565)	
Total Fund Balances	<u>257,003</u>	<u>6,516</u>	<u>1,247,949</u>
Total Liabilities and Fund Balances	<u>\$ 292,802</u>	<u>\$ 415,860</u>	<u>\$ 1,701,637</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
\$ 1,142,253	\$ 2,848,014	\$ 163	\$ 531,371	\$ 6,261,203
55			814,158	354,516
<u>\$ 1,142,308</u>	<u>\$ 2,848,014</u>	<u>\$ 163</u>	<u>\$ 1,345,529</u>	<u>\$ 7,746,313</u>
\$ 14,623	\$ 3,947	\$ 163	\$ 6,006	\$ 269,875
			257,914	841,609
<u>14,623</u>	<u>3,947</u>	<u>163</u>	<u>263,920</u>	<u>1,181,484</u>
1,127,685	2,844,067		416,496	11,263
			665,113	4,891,631
<u>1,127,685</u>	<u>2,844,067</u>	<u>0</u>	<u>1,081,609</u>	<u>1,666,500</u>
<u>\$ 1,142,308</u>	<u>\$ 2,848,014</u>	<u>\$ 163</u>	<u>\$ 1,345,529</u>	<u>\$ 7,746,313</u>
				(4,565)
				6,564,829

**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<b><u>Revenues</u></b>			
Federal Revenue		\$ 1,136,745	\$ 93,655
State Revenue		94,534	1,230,645
Local Revenue	\$ 103,656	810,508	812,863
Total Revenues	<u>103,656</u>	<u>2,041,787</u>	<u>2,137,163</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction			916,024
School Site Administration			338,418
Food Services		2,120,648	
Other Pupil Services			113,875
Other General Administration		77,661	41,372
Plant Services	94,112	7,068	18,340
Facilities Acquisition and Construction	694,735		
Total Expenditures	<u>788,847</u>	<u>2,205,377</u>	<u>1,428,029</u>
Excess of Revenues Over (Under) Expenditures	<u>(685,191)</u>	<u>(163,590)</u>	<u>709,134</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Operating Transfers In	314,496	148,612	
Operating Transfers Out			
Total Other Financing Sources (Uses)	<u>314,496</u>	<u>148,612</u>	<u>0</u>
Net Change in Fund Balances	(370,695)	(14,978)	709,134
Fund Balances - July 1, 2015	<u>627,698</u>	<u>21,494</u>	<u>538,815</u>
Fund Balances - June 30, 2016	<u>\$ 257,003</u>	<u>\$ 6,516</u>	<u>\$ 1,247,949</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
				\$ 1,230,400
			\$ 894,662	2,219,841
\$ 990,714	\$ 27,766	\$ 1	674,069	3,419,577
<u>990,714</u>	<u>27,766</u>	<u>1</u>	<u>1,568,731</u>	<u>6,869,818</u>
				916,024
				338,418
				2,120,648
				113,875
65,424				184,457
35,535			15,139	170,194
351,718	2,300,874	108	862,989	4,210,424
<u>452,677</u>	<u>2,300,874</u>	<u>108</u>	<u>878,128</u>	<u>8,054,040</u>
<u>538,037</u>	<u>(2,273,108)</u>	<u>(107)</u>	<u>690,603</u>	<u>(1,184,222)</u>
55				463,163
<u>55</u>	<u>0</u>	<u>(55)</u>	<u>0</u>	<u>(55)</u>
538,092	(2,273,108)	(162)	690,603	(721,114)
589,593	5,117,175	162	391,006	7,285,943
<u>\$ 1,127,685</u>	<u>\$ 2,844,067</u>	<u>\$ 0</u>	<u>\$ 1,081,609</u>	<u>\$ 6,564,829</u>

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<b>P-2 Report</b>				<b>Total</b>
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	
Regular	891.92	744.65	1,481.40	3,104.59	6,222.56
Extended Year - Special Education	0.43	0.81	0.85	1.03	3.12
Special Education - Nonpublic		4.50	6.04	19.53	30.07
Extended Year - Nonpublic	0.23	0.86	1.36	3.95	6.40
Community Day School			9.08	7.58	16.66
<b>Totals</b>	<b>892.58</b>	<b>750.82</b>	<b>1,498.73</b>	<b>3,136.68</b>	<b>6,278.81</b>

	<b>Annual Report</b>				<b>Total</b>
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	
Regular	895.66	744.53	1,478.80	3,082.21	6,201.20
Extended Year - Special Education	0.43	0.81	0.85	1.03	3.12
Special Education - Nonpublic		4.34	5.69	19.72	29.75
Extended Year - Nonpublic	0.23	0.87	1.41	4.05	6.56
Community Day School			10.42	7.83	18.25
<b>Totals</b>	<b>896.32</b>	<b>750.55</b>	<b>1,497.17</b>	<b>3,114.84</b>	<b>6,258.88</b>



PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>P-2 Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
<b><u>Penngrove</u></b>				
TK / K - 3	207.29	207.63	207.41	207.66
Grades 4 - 6	149.38	149.60	150.59	150.76
<b><u>Sixth Grade Charter Academy</u></b>				
Grades 4 - 6	37.66	37.80	37.74	37.89
<b><u>Petaluma Accelerated</u></b>				
Grades 7 - 8	45.03	45.03	44.28	44.28
<b><u>Mary Collins School at Cherry Valley</u></b>				
TK / K - 3	169.69	169.87	170.01	170.18
Grades 4 - 6	139.67	139.91	139.74	139.97
Grades 7 - 8	59.53	59.53	59.65	59.65
<b><u>Gateway to Callege Academy</u></b>				
Grades 9 - 12	<u>50.16</u>	<u>50.16</u>	<u>48.40</u>	<u>48.40</u>
Totals	<u>858.41</u>	<u>859.53</u>	<u>857.82</u>	<u>858.79</u>

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	46,320	180	N/A	In Compliance
Grade 1	50,400	50,426	180	N/A	In Compliance
Grade 2	50,400	50,426	180	N/A	In Compliance
Grade 3	50,400	50,426	180	N/A	In Compliance
Grade 4	54,000	54,025	180	N/A	In Compliance
Grade 5	54,000	54,025	180	N/A	In Compliance
Grade 6	54,000	54,025	180	N/A	In Compliance
Grade 7	54,000	54,198	180	N/A	In Compliance
Grade 8	54,000	54,198	180	N/A	In Compliance
Grade 9	64,800	67,115	180	N/A	In Compliance
Grade 10	64,800	67,300	180	N/A	In Compliance
Grade 11	64,800	67,115	180	N/A	In Compliance
Grade 12	64,800	67,115	180	N/A	In Compliance

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
<b><u>Penngrove</u></b>					
Kindergarten	36,000	45,420	180	N/A	In Compliance
Grade 1	50,400	50,954	180	N/A	In Compliance
Grade 2	50,400	50,954	180	N/A	In Compliance
Grade 3	50,400	50,954	180	N/A	In Compliance
Grade 4	54,000	54,059	180	N/A	In Compliance
Grade 5	54,000	54,059	180	N/A	In Compliance
Grade 6	54,000	54,059	180	N/A	In Compliance
<b><u>6th Grade Charter Academy</u></b>					
Grade 6	54,000	54,091	180	N/A	In Compliance
<b><u>Petaluma Accelerated</u></b>					
Grade 7	54,000	57,650	180	N/A	In Compliance
Grade 8	54,000	57,650	180	N/A	In Compliance
<b><u>Mary Collins School at Cherry Valley</u></b>					
Kindergarten	36,000	37,620	180	N/A	In Compliance
Grade 1	50,400	50,755	180	N/A	In Compliance
Grade 2	50,400	50,755	180	N/A	In Compliance
Grade 3	50,400	50,755	180	N/A	In Compliance
Grade 4	54,000	55,485	180	N/A	In Compliance
Grade 5	54,000	55,485	180	N/A	In Compliance
Grade 6	54,000	57,395	180	N/A	In Compliance
Grade 7	54,000	57,395	180	N/A	In Compliance
Grade 8	54,000	57,395	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Agriculture:</b>				
Passed Through California Department of Education (CDE):				
<i>Child Nutrition Cluster:</i>				
National School Lunch	10.555	13524		\$ 811,494
School Needy Breakfast	10.553	13526		<u>325,251</u>
<b>Total U.S. Department of Agriculture</b>				<u>1,136,745</u>
<b>U.S. Department of Education:</b>				
Passed Through CDE:				
Carl D. Perkins Career and Technical Education	84.048	14894		58,293
NCLB: Title I Basic Grant Low-Income & Neglected	84.010	14329		646,246
NCLB: Title II Improving Teacher Quality	84.367	14341		112,701
NCLB: Title II Administrator Training	84.367	14344		4,145
NCLB: Title III Immigrant Education	84.365	14346		593
NCLB: Title III Limited English Proficient	84.365	10084		100,129
<i>Adult Education Cluster:</i>				
Adult Basic Education & ESL	84.002A	14508		38,239
Adult Secondary Education	84.002	13978		30,701
English Literacy & Civics	84.002A	14109		<u>24,715</u>
Subtotal Adult Education Cluster				<u>93,655</u>
Passed Through Sonoma County SELPA:				
<i>Special Education Cluster:</i>				
IDEA Part B Basic Local Assistance	84.027	13379		1,521,828
IDEA Part B Preschool Grants	84.173	13430		91,380
IDEA Part B Preschool Local Entitlement	84.027A	13682		<u>126,320</u>
Subtotal Special Education Cluster				<u>1,739,528</u>
<b>Total U.S. Department of Education</b>				<u>2,755,290</u>
<b>U.S. Department of Health and Human Services:</b>				
Passed Through Sonoma County Office of Education:				
Medi-Cal Administrative Activities	93.778	10060		<u>2,232</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>2,232</u>
Totals			<u>\$ 0</u>	<u>\$ 3,894,267</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT**  
**WITH AUDITED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

Auditor's Comments

The audited financial statements of all funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2016.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	GENERAL FUND			
	(Budget) (1) 2016-17	2015-16	2014-15	2013-14
Revenues and Other Financial Sources	\$ 76,760,237	\$ 81,830,946	\$ 72,534,244	\$ 67,782,823
Expenditures	77,179,052	78,013,408	74,305,976	68,639,651
Other Uses and Transfers Out	177,159	463,108	56,026	100
Total Outgo	77,356,211	78,476,516	74,362,002	68,639,751
Change in Fund Balance	(595,974)	3,354,430	(1,827,758)	(856,928)
Ending Fund Balance	\$ 11,536,955	\$ 12,132,929	\$ 8,778,499	\$ 10,606,257
Available Reserves	\$ 4,424,752	\$ 6,445,602	\$ 6,170,440	\$ 7,353,491
Reserve for Economic Uncertainties (2)	\$ 3,864,700	\$ 3,926,710	\$ 2,244,371	\$ 2,057,671
Available Reserves as a Percentage of Total Outgo	5.7%	8.2%	8.3%	10.7%
Total Long-Term Liabilities	\$ 114,926,049	\$ 123,950,173	\$ 127,546,067	\$ 121,013,956
Average Daily Attendance (ADA) at P-2 (Inclusive of Charter School ADA)	7,062	7,138	7,130	7,303

(1) The fiscal year 2016-17 budget information is presented for analytical purposes only and has not been audited.

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

The fund balance of the General Fund increased \$1,526,672 (14.4%) over the past two years. The fiscal year 2016-17 budget projects a decrease of \$595,974 (4.9%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred operating deficits of \$856,928 and \$1,827,758, during fiscal years 2013-14 and 2014-15, respectively, and produced an operating surplus of \$3,354,430, during fiscal year 2015-16, due primarily to the current year receipt of one-time funds for outstanding mandate claims totaling \$3,776,740. The fiscal year 2016-17 budget projects an operating deficit of \$595,974. (See **Finding 2016-001** in the Findings and Questioned Costs Section of this report.)

Total long-term liabilities increased \$2,936,217 over the past two years, due primarily to the prior year issuance of \$30 million of general obligation bonds.

Average daily attendance (ADA) has decreased 165 ADA over the past two years. The District anticipates a further decrease of 76 ADA during fiscal year 2016-17.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF CHARTER SCHOOLS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**Charter Schools**

**District Audit**

Penngrove	Included
6 <sup>th</sup> Grade Charter Academy	Included
Petaluma Accelerated	Included
Mary Collins School at Cherry Valley	Included
Gateway to College Academy	Included
Live Oak Charter	Excluded

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**MEASURE D & MEASURE C - PARCEL TAX**

	<b>Elementary Measure D</b>	<b>High School Measure C</b>	<b>Totals</b>
<b><u>Revenues</u></b>			
Parcel Tax Revenue, Net	\$ 753,808	\$ 1,153,179	\$ 1,906,987
<b><u>Expenditures</u></b>			
Certificated Salaries	446,511	652,220	1,098,731
Classified Salaries	62,131	138,007	200,138
Employee Benefits	180,693	285,055	465,748
Books and Supplies	30,913	237,853	268,766
Services and Operating Expenditures	8,627	60,777	69,404
Other Outgo		10,351	10,351
Total Expenditures	<u>728,875</u>	<u>1,384,263</u>	<u>2,113,138</u>
Net Change in Fund Balances	24,933	(231,084)	(206,151)
Fund Balances - Beginning	<u>183,110</u>	<u>1,000,599</u>	<u>1,183,709</u>
Fund Balances - Ending	<u>\$ 208,043</u>	<u>\$ 769,515</u>	<u>\$ 977,558</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION



**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

**A. Combining Statements**

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

**B. Schedule of Average Daily Attendance**

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

**C. Schedule of Average Daily Attendance - Charter Schools**

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

**D. Schedule of Instructional Time**

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

**E. Schedule of Instructional Time - Charter Schools**

Education Code Section 47612.5 requires classroom-based charter schools to offer a minimum number of minutes of instruction. This schedule presents information on the amount of instructional time offered by each of the District's charter schools and whether they complied with the provisions of Education Code Section 47612.5(a)(1).

**F. Schedule of Expenditures of Federal Awards**

*Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position of the District.

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

F. Schedule of Expenditures of Federal Awards (Concluded)

*Summary of Significant Accounting Policies*

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

*Indirect Cost Rates*

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

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

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

H. Schedule of Financial Trends and Analysis

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

I. Schedule of Charter Schools

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

J. Schedule of Parcel Tax

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

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

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

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION



**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Education  
Petaluma City Schools  
Petaluma, California

Report on State Compliance

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the District's state programs occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

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

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

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

Opinion on State Compliance

In our opinion, Petaluma City Schools' complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 7, 2016





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**

*Certified Public Accountants*

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

Board of Education  
Petaluma City Schools  
Petaluma, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency, as noted in **Finding 2016 - 001**.

### Compliance and Other Matters

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

### District's Response to Finding

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

### Purpose of this Report

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

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 7, 2016

**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education  
Petaluma City Schools  
Petaluma, California

**Report on Compliance for Each Major Federal Program**

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Petaluma City Schools' major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 7, 2016

## FINDINGS AND QUESTIONED COSTS SECTION



**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

	_____ Yes	_____ <u>X</u> No	
--	-----------	-------------------	--

Identification of major programs:

CFDA Numbers  
84.027 / 84.027A / 84.173

Federal Program  
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

	_____ Yes	_____ <u>X</u> No	
--	-----------	-------------------	--

**State Awards**

Any audit findings required to be reported in accordance with the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?*

	_____ Yes	_____ <u>X</u> No	
--	-----------	-------------------	--

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

Unmodified

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2016 - 001 / 30000**

**SIGNIFICANT DEFICIENCY**

**DEFICIT SPENDING**

Criteria: In accordance with Title 5, CCR, Section 15450, the State recommends the District maintain available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

Condition: The District's General Fund incurred operating deficits of \$972,274, \$856,928, and \$1,827,758, during fiscal years 2012-13, 2013-14 and 2014-15, respectively. During fiscal year 2015-16, the District reported an operating surplus of \$3,354,430. However, the current year operating surplus was not due to curbing expenditures, but instead was due primarily to the receipt of \$3,776,740 of one-time funding related to outstanding mandate claims. Accordingly, exclusive of the one-time funding, the District's General Fund would have incurred an operating deficit of \$422,310.

Questioned Costs: None.

Context: Exclusive of the receipt of the one-time funding, the District would have experienced its fourth consecutive year of significant deficit spending. The District's adopted budget for fiscal year 2016-17 projects an operating deficit of \$595,974.

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

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

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

District Response: The District has convened a Budget Advisory Committee in order to assist with the development of the LCAP and in an effort to review and discuss the level of affordability for various programs included in the LCAP. In addition, the Budget Advisory Committee will be reviewing data on Revenues, program costs and other budgetary information in order to make suggestions and/or recommendations for the Board to consider for program reductions and/or other options that may be identified to align the District budget with the Board priorities and create long-term sustainability. The District is committed to developing a thoughtful and inclusive plan for a balanced budget over the next 2-3 years."



**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

There are no matters to report for the fiscal year ended June 30, 2016.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

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

There are no matters to report for the fiscal year ended June 30, 2016.

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS</u></b>		
<b>15 - 1 / 30000</b>		
<b>SIGNIFICANT DEFICIENCY</b>		
<b><u>DEFICIT SPENDING</u></b>		
The District should take appropriate action to reduce its program spending down to a level, which can be supported by the amount of revenue received by the District.	Partially Implemented	Comment Repeated (See Finding 2016-001)
<b>15 - 2 / 30000</b>		
<b>MATERIAL WEAKNESS</b>		
<b><u>EXPENDITURE RECOGNITION</u></b>		
The District should establish procedures to ensure that all significant expenditures are recorded in the appropriate financial reporting period.	Implemented	
<b>15 - 3 / 30000</b>		
<b>SIGNIFICANT DEFICIENCY</b>		
<b><u>CLEARING ACCOUNTS</u></b>		
The District should establish appropriate procedures to ensure that all general ledger clearing accounts are reconciled on a periodic basis and unsupported balances are investigated and removed the clearing accounts, if appropriate.	Implemented	

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

---

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>STATE AWARDS</u></b>		
<b>15 - 4 / 40000 / 30000</b>		
<b><u>MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES</u></b>		
The Charter School should perform a thorough review of all of its policies and procedures to ensure that it complies with all applicable requirements. In addition, if conflicts are noted, the Charter School should take immediate action to minimize any adverse fiscal impact.	Implemented	
<b>15 - 5 / 10000 / 40000</b>		
<b><u>TRANSITIONAL KINDERGARTEN / UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS</u></b>		
The District should establish procedures to ensure that only age eligible students are allowed to enroll in the transitional kindergarten program. In addition, the P-2 and Annual attendance reports and the apportionment software should be revised to reflect the audited ADA, enrollment, and unduplicated pupil counts.	Implemented	
<b>15 - 6 / 10000 / 40000</b>		
<b><u>INSTRUCTIONAL TIME</u></b>		
Each school should minimize the number of different class schedules used throughout the year, and establish procedures to ensure that students in all grades receive at least the absolute minimum number of instructional minutes on a daily and annual basis.	Implemented	