

**PETALUMA CITY SCHOOLS
SONOMA COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2019**



PETALUMA CITY SCHOOLS
For the Fiscal Year Ended June 30, 2019
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Petaluma City Schools
Petaluma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

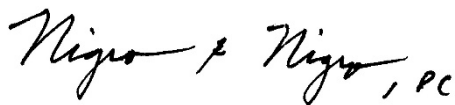
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of the District's proportionate share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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 62 to 67 and the schedule of expenditures of federal awards on page 68 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 61 and 69 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 13, 2019

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2019

This discussion and analysis of Petaluma City Schools' financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

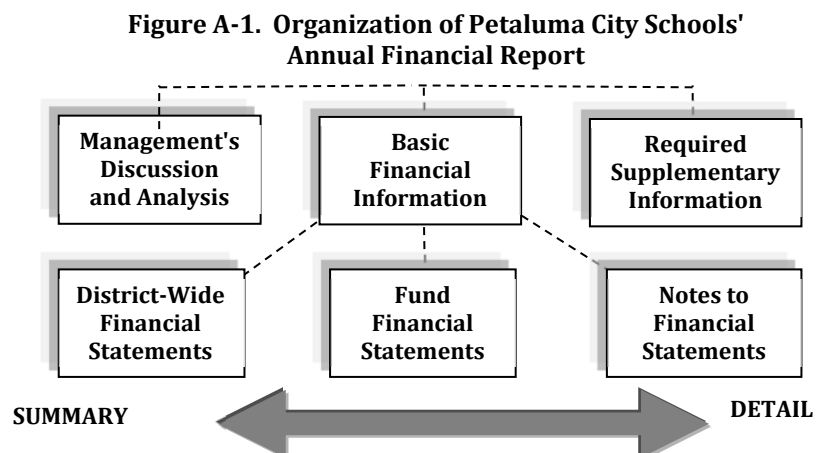
- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$3.2 million, or 95.5%.
- Governmental expenses were about \$102.4 million. Revenues were about \$105.6 million.
- The District acquired over \$4.6 million in new capital assets during the year.
- The District decreased its outstanding long-term debt by \$7.8 million. This was primarily due to payments on general obligation bonds.
- Grades K-12 average daily attendance (ADA) increased by 100, or 1.4%.
- Governmental funds increased by \$2.2 million, or 4.1%.
- Reserves for the General Fund increased by \$0.7 million, or 10.2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2019

Fund Financial Statements (continued)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2019, than it was the year before – increasing 95.5% to \$6.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)	Business-Type Activities		Variance Increase (Decrease)
	2019	2018		2019	2018	
Assets						
Current assets	\$ 63,825,732	\$ 61,742,907	\$ 2,082,825	\$ 9,050	\$ 8,866	\$ 184
Capital assets	93,720,589	97,349,981	(3,629,392)	1,421	1,421	-
Total assets	<u>157,546,321</u>	<u>159,092,888</u>	<u>(1,546,567)</u>	<u>10,471</u>	<u>10,287</u>	<u>184</u>
Deferred outflows of resources	<u>24,315,599</u>	<u>23,023,357</u>	<u>1,292,242</u>	-	-	-
Liabilities						
Current liabilities	8,754,229	8,884,651	(130,422)	-	-	-
Long-term liabilities	77,100,812	84,867,141	(7,766,329)	-	-	-
Net pension liability	84,680,104	80,562,673	4,117,431	-	-	-
Total liabilities	<u>170,535,145</u>	<u>174,314,465</u>	<u>(3,779,320)</u>	-	-	-
Deferred inflows of resources	<u>4,788,246</u>	<u>4,456,747</u>	<u>331,499</u>	-	-	-
Net position						
Net investment in capital assets	37,505,154	15,624,742	21,880,412	1,421	1,421	-
Restricted	22,792,575	20,446,460	2,346,115	9,050	8,866	184
Unrestricted	(53,759,200)	(32,726,169)	(21,033,031)	-	-	-
Total net position	<u>\$ 6,538,529</u>	<u>\$ 3,345,033</u>	<u>\$ 3,193,496</u>	<u>\$ 10,471</u>	<u>\$ 10,287</u>	<u>\$ 184</u>

Changes in net position, governmental activities. The District's total revenues increased 7.7% to \$105.6 million (See Table A-2). The increase is due primarily to increased LCFF funding as a result of increased ADA.

The total cost of all programs and services increased 5.3% to \$102.4 million. The District's expenses are predominantly related to educating and caring for students, 81.2%. The purely administrative activities of the District accounted for just 5.0% of total costs. A significant contributor to the increase in costs was increased salary and benefits costs.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	<u>Governmental Activities</u>		<u>Variance Increase (Decrease)</u>	<u>Business-Type Activities</u>		<u>Variance Increase (Decrease)</u>
	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>	
Revenues						
Program Revenues:						
Charges for services	\$ 3,009,176	\$ 2,681,986	\$ 327,190	\$ -	\$ -	\$ -
Operating grants and contributions	14,628,342	13,728,795	899,547	-	-	-
General Revenues:						
Property taxes	55,462,428	51,164,343	4,298,085	-	-	-
Federal and state aid not restricted	30,005,132	28,383,465	1,621,667	-	-	-
Other general revenues	2,477,962	2,103,610	374,352	184	121	63
Total Revenues	<u>105,583,040</u>	<u>98,062,199</u>	<u>7,520,841</u>	<u>184</u>	<u>121</u>	<u>63</u>
Expenses						
Instruction-related	70,696,992	68,441,445	2,255,547	-	-	-
Pupil services	12,472,575	11,064,965	1,407,610	-	-	-
Administration	5,136,270	4,721,540	414,730	-	-	-
Plant services	10,403,481	8,959,376	1,444,105	-	-	-
All other activities	3,680,226	4,053,331	(373,105)	-	-	-
Total Expenses	<u>102,389,544</u>	<u>97,240,657</u>	<u>5,148,887</u>			
Increase (decrease) in net position	<u>\$ 3,193,496</u>	<u>\$ 821,542</u>	<u>\$ 2,371,954</u>	<u>\$ 184</u>	<u>\$ 121</u>	<u>\$ 63</u>
Total net position	<u>\$ 6,538,529</u>	<u>\$ 3,345,033</u>		<u>\$ 10,471</u>	<u>\$ 10,287</u>	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$55.7 million, which is above last year's ending fund balance of \$53.5 million. The primary cause of the increased fund balance is increased state funding as a result of increased ADA.

Table A-3: The District's Fund Balances

Fund	<u>Fund Balances</u>				
	<u>July 1, 2018</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Sources and (Uses)</u>	<u>June 30, 2019</u>
General Fund	\$ 15,347,946	\$ 92,065,187	\$ 89,745,651	\$ (97,597)	\$ 17,569,885
Adult Education Fund	1,512,474	2,662,179	2,073,603	-	2,101,050
Cafeteria Fund	164,922	2,315,699	2,358,588	97,597	219,630
Deferred Maintenance Fund	72,596	1,404	51,463	-	22,537
Building Fund	22,550,116	462,222	2,970,917	-	20,041,421
Capital Facilities Fund	1,506,907	627,394	379,520	-	1,754,781
Special Reserve Fund (Capital Outlay)	1,396,230	1,485,476	556,284	-	2,325,422
Bond Interest and Redemption Fund	10,982,007	11,129,244	10,432,109	-	11,679,142
	<u>\$ 53,533,198</u>	<u>\$ 110,748,805</u>	<u>\$ 108,568,135</u>	<u>\$ -</u>	<u>\$ 55,713,868</u>

General Fund Budgetary Highlights

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

- Revenues – increased by \$3.5 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$1.8 million due to revised salary and benefits costs.
- Other non-personnel expenses – increased \$6.2 million to revise operational cost estimates.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$4.4 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.3 million. Actual revenues were \$2.5 million more than anticipated, and expenditures were \$4.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2019, that will be carried over into the 2019-20 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018-19 the District had acquired \$4.6 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$8.2 million.

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

	Governmental Activities		Variance
	2019	2018	Increase (Decrease)
Land	\$ 4,266,886	\$ 4,266,886	\$ -
Improvement of sites	19,847,951	19,194,884	653,067
Buildings	67,745,228	70,286,474	(2,541,246)
Equipment	750,997	620,413	130,584
Construction in progress	1,109,527	2,981,324	(1,871,797)
Total	<u>\$ 93,720,589</u>	<u>\$ 97,349,981</u>	<u>\$ (3,629,392)</u>

Long-Term Debt

At year-end the District had \$77.1 million in long-term debt other than pensions – a decrease of 9.2% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance
	2019	2018	Increase (Decrease)
General obligation bonds	\$ 76,256,856	\$ 84,232,777	\$ (7,975,921)
Compensated absences	446,919	634,364	(187,445)
Other postemployment benefits	397,037	-	397,037
Total	<u>\$ 77,100,812</u>	<u>\$ 84,867,141</u>	<u>\$ (7,766,329)</u>

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature passed the final budget package on June 13, 2019. The Governor signed the *2019-20 Budget Act* and 15 other budget-related bills on June 27, 2019.

Major Features of the 2019-20 Spending Plan

Makes \$5.9 Billion in Additional Unfunded Liability Payments

Teachers, administrators, and other certificated employees of school districts earn pension benefits from the California State Teachers' Retirement System (CalSTRS). Other school district employees, such as clerical staff, also earn pension benefits administered by California Public Employees' Retirement System (CalPERS). The state and school districts each have full responsibility for their respective CalPERS' unfunded liabilities associated with their own employees. In the case of CalSTRS, the state and school districts share responsibility for the system's total unfunded liability (about one-third is the responsibility of the state and two-thirds of the districts).

The spending plan allocates \$5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts (some of which is counted toward the state's Proposition 2 debt payment requirements). In particular, the spending plan dedicates:

- ***\$3.6 Billion to Address State's Unfunded Liabilities.*** The spending plan uses \$2.5 billion in General Fund monies to pay down the state's CalPERS unfunded liability. The spending plan also devotes \$1.1 billion General Fund to reduce the state's share of the CalSTRS unfunded liability, as part of the state's Proposition 2 debt payment requirements.
- ***\$2.3 Billion to Address School Districts' Unfunded Liabilities.*** The spending plan also devotes \$1.6 billion General Fund to reduce the school districts' share of the CalSTRS unfunded liability and \$660 million General Fund to address the school districts' CalPERS unfunded liability.

K-14 Education

Provides a Few Notable Ongoing Proposition 98 Augmentations

Under the spending plan, Proposition 98 funding for 2019-20 increases \$2.9 billion (3.7 percent) from the revised 2018-19 level. The spending plan devotes the largest share of this increase—\$2 billion—to school districts to cover changes in student attendance and provide a 3.26 percent cost-of-living adjustment (COLA) for the Local Control Funding Formula (general purpose per-student funding). The budget also provides two augmentations related to special education: (1) \$493 million for school districts based on the number of three- and four-year old children identified with disabilities affecting their education and (2) \$153 million for special education agencies with average or below average per-pupil funding rates.

Pays a Portion of Districts' Pension Costs for the Next Two Years

The spending plan also provides additional monies to school districts outside of the Proposition 98 funding requirement by paying a portion of districts' pension costs for the next two years. School districts' pension contribution rates for both CalPERS and CalSTRS have been rising and are set to continue increasing for at least the next few years. For CalSTRS, the budget provides \$606 million for the state to pay a portion of districts' costs (reducing district contribution rates by about 1 percent of payroll in 2019-20 and 2020-21). Similarly, the budget provides \$244 million for the state to cover a portion of districts' CalPERS costs (reducing district rates by about 1 percent of payroll in 2019-20 and 2020-21). Although district pension rates will continue to rise, the increases will be slower than previously projected.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

All of these factors were considered in preparing the Petaluma City Schools budget for the 2019-20 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PETALUMA CITY SCHOOLS*Statement of Net Position**June 30, 2019*

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash	\$ 59,043,413	\$ 9,050	\$ 59,052,463
Accounts receivable	4,730,234	-	4,730,234
Inventories	52,085	-	52,085
Capital assets:			
Non-depreciable assets	5,376,413	-	5,376,413
Depreciable assets	190,793,750	56,833	190,850,583
Less accumulated depreciation	<u>(102,449,574)</u>	<u>(55,412)</u>	<u>(102,504,986)</u>
Total assets	<u>157,546,321</u>	<u>10,471</u>	<u>157,556,792</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	24,142,462	-	24,142,462
Deferred amounts on refunding	<u>173,137</u>	<u>-</u>	<u>173,137</u>
Total deferred outflows of resources	<u>24,315,599</u>	<u>-</u>	<u>24,315,599</u>
LIABILITIES			
Accounts payable	8,251,264	-	8,251,264
Unearned revenue	502,965	-	502,965
Long-term liabilities other than pensions:			
Portion due or payable within one year	8,536,267	-	8,536,267
Portion due or payable after one year	68,564,545	-	68,564,545
Net pension liability	<u>84,680,104</u>	<u>-</u>	<u>84,680,104</u>
Total liabilities	<u>170,535,145</u>	<u>-</u>	<u>170,535,145</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>4,788,246</u>	<u>-</u>	<u>4,788,246</u>
NET POSITION			
Net investment in capital assets	37,505,154	1,421	37,506,575
Restricted for:			
Capital projects	3,097,873	-	3,097,873
Debt service	11,679,142	-	11,679,142
Categorical programs	7,606,212	-	7,606,212
Self-insurance program	409,348	-	409,348
Enterprise activities	-	9,050	9,050
Unrestricted	<u>(53,759,200)</u>	<u>-</u>	<u>(53,759,200)</u>
Total net position	<u>\$ 6,538,529</u>	<u>\$ 10,471</u>	<u>\$ 6,549,000</u>

PETALUMA CITY SCHOOLS
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities						
Instructional Services:						
Instruction	\$ 59,951,703	\$ 1,404,658	\$ 8,014,427	\$ (50,532,618)	\$ -	\$ (50,532,618)
Instruction-Related Services:						
Supervision of instruction	3,529,731	118,024	636,007	(2,775,700)	-	(2,775,700)
Instructional library, media and technology	1,269,257	60,237	286,305	(922,715)	-	(922,715)
School site administration	5,946,301	23,339	557,736	(5,365,226)	-	(5,365,226)
Pupil Support Services:						
Home-to-school transportation	2,664,586	25,291	441,254	(2,198,041)	-	(2,198,041)
Food services	2,344,782	883,777	1,363,929	(97,076)	-	(97,076)
All other pupil services	7,463,207	127,520	1,142,308	(6,193,379)	-	(6,193,379)
General Administration Services:						
Data processing services	761,574	-	21,490	(740,084)	-	(740,084)
Other general administration	4,374,696	59,164	466,576	(3,848,956)	-	(3,848,956)
Plant services	10,403,481	255,349	1,481,548	(8,666,584)	-	(8,666,584)
Ancillary services	723,088	19,047	83,862	(620,179)	-	(620,179)
Community services	292,795	17,501	81,107	(194,187)	-	(194,187)
Enterprise activities	51,361	8,749	37,556	(5,056)	-	(5,056)
Interest on long-term debt	2,535,094	-	-	(2,535,094)	-	(2,535,094)
Other outgo	77,888	6,520	14,237	(57,131)	-	(57,131)
Total Governmental Activities	102,389,544	3,009,176	14,628,342	(84,752,026)	-	(84,752,026)
Business-Type Activities						
Enterprise Activities	-	-	-	-	-	-
Totals	\$ 102,389,544	\$ 3,009,176	\$ 14,628,342	(84,752,026)	-	(84,752,026)
General Revenues:						
Property taxes				55,462,428	-	55,462,428
Federal and state aid not restricted to specific purpose				30,005,132	-	30,005,132
Interest and investment earnings				603,090	184	603,274
Interagency revenues				250,068	-	250,068
Miscellaneous				1,624,804	-	1,624,804
Total general revenues				87,945,522	184	87,945,706
Change in net position				3,193,496	184	3,193,680
Net position, July 1, 2018				3,345,033	10,287	3,355,320
Net position, June 30, 2019				\$ 6,538,529	\$ 10,471	\$ 6,549,000

PETALUMA CITY SCHOOLS
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 20,730,817	\$ 20,959,609	\$ 11,679,142	\$ 5,271,239	\$ 58,640,807
Accounts receivable	4,330,571	-	-	386,787	4,717,358
Due from other funds	353,387	-	-	1,407,625	1,761,012
Inventories	32,831	-	-	19,254	52,085
Total Assets	<u>\$ 25,447,606</u>	<u>\$ 20,959,609</u>	<u>\$ 11,679,142</u>	<u>\$ 7,084,905</u>	<u>\$ 65,171,262</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,944,594	\$ 918,188	\$ -	\$ 330,635	\$ 7,193,417
Due to other funds	1,407,625	-	-	353,387	1,761,012
Unearned revenue	502,965	-	-	-	502,965
Total Liabilities	<u>7,855,184</u>	<u>918,188</u>	<u>-</u>	<u>684,022</u>	<u>9,457,394</u>
Fund Balances					
Nonspendable	63,531	-	-	20,179	83,710
Restricted	6,590,866	20,041,421	11,679,142	4,093,965	42,405,394
Assigned	3,714,333	-	-	2,286,739	6,001,072
Unassigned	7,223,692	-	-	-	7,223,692
Total Fund Balances	<u>17,592,422</u>	<u>20,041,421</u>	<u>11,679,142</u>	<u>6,400,883</u>	<u>55,713,868</u>
Total Liabilities and Fund Balances	<u>\$ 25,447,606</u>	<u>\$ 20,959,609</u>	<u>\$ 11,679,142</u>	<u>\$ 7,084,905</u>	<u>\$ 65,171,262</u>

PETALUMA CITY SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2019

Total fund balances - governmental funds \$ 55,713,868

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

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

Capital assets at historical cost	196,170,163	
Accumulated depreciation	<u>(102,449,574)</u>	
Net:		93,720,589

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

173,137

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

(1,051,713)

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

Deferred outflows of resources from pensions	24,142,462	
Deferred inflows of resources from pensions	<u>(4,788,246)</u>	
Net:		19,354,216

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

General obligation bonds	76,256,856	
Compensated absences	446,919	
Other postemployment benefits	<u>397,037</u>	
Total:		(77,100,812)

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

(84,680,104)

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

409,348

Total net position - governmental activities \$ 6,538,529

PETALUMA CITY SCHOOLS

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2019*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 68,012,456	\$ -	\$ -	\$ -	\$ 68,012,456
Federal sources	2,756,502	-	-	1,329,827	4,086,329
Other state sources	11,497,800	838	72,148	2,401,617	13,972,403
Other local sources	9,799,833	461,384	11,057,096	3,359,304	24,677,617
Total Revenues	92,066,591	462,222	11,129,244	7,090,748	110,748,805
EXPENDITURES					
Current:					
Instruction	57,180,903	-	-	877,331	58,058,234
Instruction-Related Services:					
Supervision of instruction	2,555,654	-	-	160,880	2,716,534
Instructional library, media and technology	1,214,445	-	-	-	1,214,445
School site administration	5,497,177	-	-	548,824	6,046,001
Pupil Support Services:					
Home-to-school transportation	2,561,914	-	-	-	2,561,914
Food services	14,103	-	-	2,239,615	2,253,718
All other pupil services	6,293,879	-	-	163,813	6,457,692
Ancillary services	737,112	-	-	-	737,112
Community services	279,410	-	-	-	279,410
Enterprise activities	122,445	-	-	-	122,445
General Administration Services:					
Data processing services	729,666	-	-	-	729,666
Other general administration	3,991,262	-	-	-	3,991,262
Plant services	8,739,218	15,969	-	555,165	9,310,352
Transfers of indirect costs	(197,962)	-	-	197,962	-
Intergovernmental Transfers	77,888	-	-	-	77,888
Capital Outlay	-	2,954,948	-	624,405	3,579,353
Debt Service:					
Principal	-	-	5,262,116	-	5,262,116
Interest	-	-	5,169,993	-	5,169,993
Total Expenditures	89,797,114	2,970,917	10,432,109	5,367,995	108,568,135
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,269,477	(2,508,695)	697,135	1,722,753	2,180,670
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	97,597	97,597
Interfund transfers out	(97,597)	-	-	-	(97,597)
Total Other Financing Sources and Uses	(97,597)	-	-	97,597	-
Net Change in Fund Balances	2,171,880	(2,508,695)	697,135	1,820,350	2,180,670
Fund Balances, July 1, 2018	15,420,542	22,550,116	10,982,007	4,580,533	53,533,198
Fund Balances, June 30, 2019	\$ 17,592,422	\$ 20,041,421	\$ 11,679,142	\$ 6,400,883	\$ 55,713,868

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, 2019

Total net change in fund balances - governmental funds \$ 2,180,670

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

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

Expenditures for capital outlay	4,618,243	
Depreciation expense	<u>(8,247,635)</u>	
Net:		(3,629,392)

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

5,262,116

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

(40,396)

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

206,267

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

(38,509)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This year, differences between accrual-basis pension costs and actual employer contributions was:

(3,116,291)

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, differences between accrual-basis OPEB costs and actual employer contributions was:

(397,037)

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

2,507,538

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

187,445

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

71,085

Change in net position - governmental activities

\$ 3,193,496

PETALUMA CITY SCHOOLS*Statement of Net Position – Proprietary Fund
June 30, 2019*

	Governmental Activities	Business-Type Activities
	Self-Insurance Fund	Enterprise Fund
ASSETS		
Cash	\$ 402,606	\$ 9,050
Accounts receivable	12,876	-
Equipment	-	56,833
Less Accumulated Depreciation	-	(55,412)
	<hr/>	<hr/>
Total assets	415,482	10,471
LIABILITIES		
Accounts payable	6,134	-
	<hr/>	<hr/>
NET POSITION		
Net Investment in Capital Assets	-	1,421
Restricted	409,348	9,050
	<hr/>	<hr/>
Total Net Position	<u>\$ 409,348</u>	<u>\$ 10,471</u>

PETALUMA CITY SCHOOLS*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2019*

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
OPERATING REVENUES		
In-district premiums/contributions	\$ 125,220	\$ -
Total operating revenues	125,220	-
OPERATING EXPENSES		
Payments for claims and other operating expenses	60,609	-
Operating Income (Loss)	64,611	-
NON-OPERATING REVENUE		
Interest income	6,474	184
Change in net position	71,085	184
Net position, July 1, 2018	338,263	10,287
Net position, June 30, 2019	\$ 409,348	\$ 10,471

PETALUMA CITY SCHOOLS*Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2019*

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from self-insurance premiums	\$ 216,858	\$ -
Cash paid for operating expenses	(58,861)	-
Net cash provided (used) by operating activities	157,997	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	6,474	184
Net increase in cash	164,471	184
Cash, July 1, 2018	238,135	8,866
Cash, June 30, 2019	\$ 402,606	\$ 9,050
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 64,611	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(12,876)	-
Due from other funds	104,514	-
Accounts payable	1,748	-
Net cash provided (used) by operating activities	\$ 157,997	\$ -

PETALUMA CITY SCHOOLS
Statement of Fiduciary Net Position
June 30, 2019

	Agency Funds	Trust Funds	
	Student Body Funds	Foundation Trust Fund	Total Fiduciary Funds
ASSETS			
Cash	\$ 208,056	\$ 19,007	\$ 227,063
Investments	51,214	97,262	148,476
Total assets	<u>\$ 259,270</u>	<u>116,269</u>	<u>375,539</u>
LIABILITIES			
Due to student groups	\$ 259,270	-	259,270
Total liabilities	<u>\$ 259,270</u>	<u>-</u>	<u>259,270</u>
NET POSITION			
Restricted for foundation trust		<u>\$ 116,269</u>	<u>\$ 116,269</u>

PETALUMA CITY SCHOOLS

*Statement of Revenues, Expenses, and Changes in Fund Net Position – Fiduciary Fund
For the Fiscal Year Ended June 30, 2019*

	Trust Funds
	Foundation Trust Fund
ADDITIONS	
Interest and investment earnings	\$ 1,891
Other local revenues	201
Total additions	2,092
DEDUCTIONS	
Materials and supplies	42
Scholarships paid	3,000
Total deductions	3,042
Change in net position	(950)
Net Position - July 1, 2018	117,219
Net Position - June 30, 2019	\$ 116,269

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. Pursuant to the provisions of *Education Code* Section 35110, the Petaluma Joint Union High School District and the Petaluma City Elementary School District are organized and operated under a common Board of Education and administration with combined financial management and reporting, but are legally separate governmental entities. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Petaluma City Schools, this includes general operations, food service, and student related activities of the District.

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

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

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Fund Financial Statements

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

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The District also maintains a Deferred Maintenance Fund. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in this fund is being reported within the General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds: Special revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues that are restricted or committed for adult education programs.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Projects Funds: Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620-17626 and *Government Code* Section 65995 et seq.).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

Proprietary Funds

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

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds in the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code* Section 17566).

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

Fiduciary Funds

Fiduciary funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District maintains the following fiduciary funds:

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's proprietary funds and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual basis of accounting for reporting its assets and liabilities.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Revenues - Exchange and Non-Exchange Transactions

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

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories

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

3. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Capital Assets (continued)

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

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

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

7. Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

9. Fund Balances

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position

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

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

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

F. Minimum Fund Balance Policy

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

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

G. Property Tax Calendar

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Use of Estimates

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

I. New GASB Pronouncements

During the 2018-19 fiscal year, the following GASB Pronouncements became effective:

1. In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The District has implemented the provisions of this Statement as of June 30, 2019.

2. In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. (continued)

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The District has implemented the provisions of this Statement as of June 30, 2019.

J. Future Accounting Pronouncements

Other GASB pronouncements, which will be effective in future periods, are as follows:

1. In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

2. In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Early implementation is encouraged.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

3. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

4. (continued)
component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

5. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2019, are reported at fair value and consisted of the following:

	Governmental Activities			Business-Type	Fiduciary
	Governmental	Proprietary	Total	Activites	
	Funds	Funds		Enterprise	Funds
				Fund	
Pooled Funds:					
Cash in County Treasury	\$ 58,547,817	\$ 402,606	\$ 58,950,423	\$ 9,050	\$ 2
Deposits:					
Cash on hand and in banks	61,365	-	61,365	-	227,061
Cash in revolving fund	31,625	-	31,625	-	-
Total Deposits	92,990	-	92,990	-	227,061
Total Cash	\$ 58,640,807	\$ 402,606	\$ 59,043,413	\$ 9,050	\$ 227,063
Investments:					
Certificates of Deposit					\$ 148,476
Total Investments					\$ 148,476

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2019, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2019, \$216,499 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments – Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2019, consist of the following:

	Fair Value	Maturities			Fair Value Measurement
		Less Than One Year	One to Five Years	More Than Five Years	
Certificates of Deposit	\$ 148,476	\$ -	\$ 51,214	\$ 97,262	Level 1
	\$ 148,476	\$ -	\$ 51,214	\$ 97,262	

Investments – Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2019, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2019, the District had the following investments that represents more than five percent of the District's net investments.

Certificates of Deposit	100%
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PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements

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

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

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

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consisted of the following:

	Governmental Funds			Proprietary Fund
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Self-Insurance Fund
Federal Government:				
Categorical aid programs	\$ 1,868,550	\$ 196,092	\$ 2,064,642	\$ -
State Government:				
Lottery	789,914	-	789,914	-
Other state resources	395,464	123,508	518,972	-
Local:				
Interagency services	640,379	-	640,379	-
Other local resources	636,264	67,187	703,451	12,876
Total	\$ 4,330,571	\$ 386,787	\$ 4,717,358	\$ 12,876

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2019, consisted of the following:

	Due from other funds		Total Governmental Funds
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,407,625	\$ 1,407,625
Non-Major Governmental Funds	353,387	-	353,387
Totals	<u>\$ 353,387</u>	<u>\$ 1,407,625</u>	<u>\$ 1,761,012</u>
General Fund due to Cafeteria Fund for write-off of negative student meal accounts			\$ 2,255
General Fund due to Adult Education Fund for reimbursement of costs			55,000
General Fund due to Special Reserve Fund for Capital Outlay for RDA facilities portion			1,343,092
Adult Education Fund due to General Fund for indirect costs and expenditure transfers			77,453
Cafeteria Fund due to General Fund for fuel charges and temporary cash loan			275,934
Deferred Maintenance Fund due to Special Reserve Fund for Capital Outlay for reimbursement of costs			<u>7,278</u>
Total			<u>\$ 1,761,012</u>

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2019, consisted of the following:

General Fund transfer to Cafeteria Fund for expenditure transfers	<u>\$ 97,597</u>
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PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 5 – FUND BALANCES

At June 30, 2019, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 30,700	\$ -	\$ -	\$ 925	\$ 31,625
Stores inventories	32,831	-	-	19,254	52,085
Total Nonspendable	<u>63,531</u>	<u>-</u>	<u>-</u>	<u>20,179</u>	<u>83,710</u>
Restricted:					
Categorical programs	6,590,866	-	-	-	6,590,866
Adult education program	-	-	-	795,716	795,716
Food service program	-	-	-	200,376	200,376
Capital projects	-	20,041,421	-	3,097,873	23,139,294
Debt service	-	-	11,679,142	-	11,679,142
Total Restricted	<u>6,590,866</u>	<u>20,041,421</u>	<u>11,679,142</u>	<u>4,093,965</u>	<u>42,405,394</u>
Assigned:					
2% Reserve for economic uncertainty	1,796,865	-	-	-	1,796,865
South County Consortium reserve	839,636	-	-	-	839,636
Local site donations	355,295	-	-	-	355,295
Curriculum adoptions	700,000	-	-	-	700,000
Deferred maintenance program	22,537	-	-	-	22,537
Adult education program	-	-	-	1,304,409	1,304,409
Capital projects	-	-	-	982,330	982,330
Total Assigned	<u>3,714,333</u>	<u>-</u>	<u>-</u>	<u>2,286,739</u>	<u>6,001,072</u>
Unassigned:					
Reserve for economic uncertainties	2,695,297	-	-	-	2,695,297
Remaining unassigned balances	4,528,395	-	-	-	4,528,395
Total Unassigned	<u>7,223,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,223,692</u>
Total	<u>\$ 17,592,422</u>	<u>\$ 20,041,421</u>	<u>\$ 11,679,142</u>	<u>\$ 6,400,883</u>	<u>\$ 55,713,868</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, was as follows:

Governmental Activities	Balance, July 1, 2018	Additions	Retirements	Balance, June 30, 2019
Capital assets not being depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in progress	2,981,324	1,061,614	2,933,411	1,109,527
Total capital assets not being depreciated	<u>7,248,210</u>	<u>1,061,614</u>	<u>2,933,411</u>	<u>5,376,413</u>
Capital assets being depreciated:				
Improvement of sites	31,269,509	4,215,005	-	35,484,514
Buildings	145,988,102	1,971,020	-	147,959,122
Equipment	7,046,099	304,015	-	7,350,114
Total capital assets being depreciated	<u>184,303,710</u>	<u>6,490,040</u>	<u>-</u>	<u>190,793,750</u>
Accumulated depreciation for:				
Improvement of sites	(12,074,625)	(3,561,938)	-	(15,636,563)
Buildings	(75,701,628)	(4,512,266)	-	(80,213,894)
Equipment	(6,425,686)	(173,431)	-	(6,599,117)
Total accumulated depreciation	<u>(94,201,939)</u>	<u>(8,247,635)</u>	<u>-</u>	<u>(102,449,574)</u>
Total capital assets being depreciated, net	<u>90,101,771</u>	<u>(1,757,595)</u>	<u>-</u>	<u>88,344,176</u>
Governmental activity capital assets, net	<u>\$ 97,349,981</u>	<u>\$ (695,981)</u>	<u>\$ 2,933,411</u>	<u>\$ 93,720,589</u>
Business Type Activities	Balance, July 1, 2018	Additions	Retirements	Balance, June 30, 2019
Capital Assets being depreciated				
Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Accumulated depreciation for:				
Equipment	(55,412)	-	-	(55,412)
Business-type activity capital assets, net	<u>\$ 1,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,421</u>

Depreciation expense was charged to governmental activities as follows:

Depreciation Allocation

Instruction	\$ 5,138,671
Instruction-Related Services	894,888
Pupil Services	1,062,184
General Administration	427,311
Plant Services	<u>724,581</u>
 Total Depreciation	 <u>\$ 8,247,635</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the fiscal year ended June 30, 2019, were as follows:

	Balance, July 1, 2018	Additions	Deductions	Balance, June 30, 2019	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 79,042,116	\$ -	\$ 5,262,116	\$ 73,780,000	\$ 8,330,000
Accreted interest component	2,507,538	100,346	2,607,884	-	-
Bond issuance premiums	2,683,123	-	206,267	2,476,856	206,267
Total - Bonds	84,232,777	100,346	8,076,267	76,256,856	8,536,267
Compensated Absences	634,364	-	187,445	446,919	-
Other Postemployment Benefits	-	423,353	26,316	397,037	-
Totals	<u>\$ 84,867,141</u>	<u>\$ 523,699</u>	<u>\$ 8,290,028</u>	<u>\$ 77,100,812</u>	<u>\$ 8,536,267</u>

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

A. General Obligation Bonds

Election of 1992

On April 14, 1992, the voters of the District approved a measure authorizing the District to issue up to \$45 million of general obligation bonds for the purpose of renovating and modernizing school facilities. All bonds authorized by this election have been issued, but only the Series G bonds remain outstanding at June 30, 2019.

Election of 2014 (Elementary District, Measure E)

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

Election of 2014 (High School District, Measure C)

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

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, none of the defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2019, deferred amounts on refunding were \$173,137.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
 June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

A. General Obligation Bonds (continued)

Below is a schedule of bonds issued and outstanding as of June 30, 2019.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2018	Issuances	Redemptions	Balance, June 30, 2019
Elementary District								
Election of 2014								
Series A	8/27/2014	8/1/2039	3.0% - 5.0%	\$ 7,000,000	\$ 5,545,000	\$ -	\$ 175,000	\$ 5,370,000
Series B	5/24/2018	8/1/2042	2.0% - 5.0%	9,000,000	9,000,000	-	-	9,000,000
Refunding Issues								
2011 Refunding	11/1/2011	8/1/2027	3.0% - 4.0%	8,470,000	3,035,000	-	565,000	2,470,000
2013 Refunding	5/7/2013	8/1/2028	2.0% - 4.0%	1,880,000	1,470,000	-	110,000	1,360,000
2015 Refunding	11/17/2015	8/1/2023	2.0% - 4.0%	3,260,000	1,910,000	-	585,000	1,325,000
Total Elementary District					20,960,000	-	1,435,000	19,525,000
High School District								
Election of 1992								
Series G	6/17/2010	8/1/2024	2.0% - 5.0%	2,418,791	2,415,000	-	-	2,415,000
Election of 2014								
Series A	8/17/2014	8/1/2039	2.0% - 4.0%	23,000,000	18,045,000	-	595,000	17,450,000
Series B	2/8/2017	8/1/2041	3.0% - 5.0%	20,000,000	20,000,000	-	1,465,000	18,535,000
Refunding Issues								
1995 Refunding	11/28/1995	8/1/2018	4.65% - 5.80%	8,972,018	1,012,116	-	1,012,116	-
2010 Refunding	6/16/2010	8/1/2020	2.0% - 4.0%	9,095,000	7,145,000	-	-	7,145,000
2012 Refunding	8/9/2012	8/1/2024	2.0% - 4.0%	12,845,000	9,465,000	-	755,000	8,710,000
Total High School District					58,082,116	-	3,827,116	54,255,000
Total General Obligation Bonds					\$ 79,042,116	\$ -	\$ 5,262,116	\$ 73,780,000

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

Fiscal Year	Principal	Interest	Totals
2019-2020	\$ 8,330,000	\$ 2,470,188	10,800,188
2020-2021	6,680,000	2,229,944	8,909,944
2021-2022	7,330,000	2,030,100	9,360,100
2022-2023	2,565,000	1,892,281	4,457,281
2023-2024	2,735,000	1,795,456	4,530,456
2024-2029	8,535,000	7,836,400	16,371,400
2029-2034	9,660,000	6,263,266	15,923,266
2034-2039	14,770,000	4,110,234	18,880,234
2039-2043	13,175,000	960,388	14,135,388
	\$ 73,780,000	\$ 29,588,257	\$ 103,368,257

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District did not offer any retiree benefits other than pensions, but reported a net OPEB liability related to the Medicare Premium Payment Program.

Medicare Premium Payment (MPP) Program

Plan Description

The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

As of June 30, 2018, 5,984 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

The MPP Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. In accordance with California Education Code section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Total OPEB Liability

At June 30, 2019, the District reported a liability of \$397,037 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Total OPEB Liability (continued)

The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	Percentage Share of MPP Program		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net OPEB Liability	0.103728%	0.100629%	0.003099%

For the year ended June 30, 2019, the District reported OPEB expense of \$(26,316).

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date	June 30, 2018
Valuation Date	June 30, 2017
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.87%
Healthcare Cost Trend Rates	3.70% for Medicare Part A, and 4.10% for Medicare Part B

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459, or an average of 0.27 percent of the potentially eligible population (171,593).

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Actuarial assumptions and other inputs (continued)

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87%. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is The Bond Buyer’s 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

<u>Discount Rate</u>	<u>MPP OPEB Liability</u>
1% decrease (2.87%)	\$ 439,143
Current discount rate (3.87%)	\$ 397,037
1% increase (4.87%)	\$ 359,018

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

<u>Medicare Cost Trend Rates</u>	<u>MPP OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 362,057
Current rate (3.7% Part A and 4.1% Part B)	\$ 397,037
1% increase (4.7% Part A and 5.1% Part B)	\$ 434,656

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 8 – PENSION PLANS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 60,623,309	\$ 17,671,194	\$ 3,214,967	\$ 8,367,137
CalPERS	24,056,795	6,471,268	1,573,279	4,120,855
Total	\$ 84,680,104	\$ 24,142,462	\$ 4,788,246	\$ 12,487,992

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.

Benefits Provided

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 8 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS)

Benefits Provided (continued)

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	2% at 60	2% at 62
Benefit Formula	5 years of service	5 years of service
Benefit Vesting Schedule	Monthly for life	Monthly for life
Benefit Payments	60	62
Retirement Age	2.0%-2.4%	2.0%-2.4%
Monthly Benefits as a Percentage of Eligible Compensation	10.25%	10.205%
Required Member Contribution Rate	16.28%	16.28%
Required Employer Contribution Rate	9.828%	9.828%
Required State Contribution Rate		

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period.

The contribution rates for each program for the year ended June 30, 2019, are presented above and the District's total contributions were \$5,893,200.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 60,623,309
State's proportionate share of the net pension liability associated with the District	<u>34,709,680</u>
Total	<u>\$ 95,332,989</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.065962%	0.063225%	0.002737%

For the year ended June 30, 2019, the District recognized pension expense of \$8,367,137. In addition, the District recognized pension expense and revenue of \$1,183,593 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,893,200	\$ -
Net change in proportionate share of net pension liability	2,172,010	-
Difference between projected and actual earnings on pension plan investments	-	2,334,380
Changes of assumptions	9,417,993	-
Differences between expected and actual experience	187,991	880,587
Total	<u>\$ 17,671,194</u>	<u>\$ 3,214,967</u>

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

PETALUMA CITY SCHOOLS
Notes to Financial Statements
 June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,477,486
2021	1,602,176
2022	9,204
2023	1,580,409
2024	2,945,414
Thereafter	(51,662)
Total	<u>\$ 8,563,027</u>

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

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

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS’ general investment consultant (Pension Consulting Alliance–PCA) as inputs to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
 June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

For each future valuation, CalSTRS’ consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 88,806,054
Current discount rate (7.10%)	60,623,309
1% increase (8.10%)	37,257,079

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions of \$2,246,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State’s on-behalf contributions is \$5,528,558.

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.50%
Required Employer Contribution Rate	18.062%	18.062%

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 8 – PENSION 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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$2,294,908.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$24,056,795. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2019</u>	<u>Fiscal Year Ending June 30, 2018</u>	
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>	
Proportion of the Net Pension Liability	0.090225%	0.092541%	-0.002316%

For the year ended June 30, 2019, the District recognized pension expense of \$4,120,855. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,294,908	\$ -
Net change in proportionate share of net pension liability	-	1,573,279
Difference between projected and actual earnings on pension plan investments	197,320	-
Changes of assumptions	2,401,965	-
Differences between expected and actual experience	1,577,075	-
Total	<u>\$ 6,471,268</u>	<u>\$ 1,573,279</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,926,329
2021	1,311,393
2022	(382,714)
2023	(251,927)
2024	-
Thereafter	-
Total	<u>\$ 2,603,081</u>

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

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

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92%)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 35,025,543
Current discount rate (7.15%)	24,056,795
1% increase (8.15%)	14,956,648

NOTE 8 – PENSION PLANS (continued)

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

On-Behalf Payments

The State of California normally makes no contributions to CalPERS on behalf of the District. However, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated contributions of \$904,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$815,587.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

D. Payables to the Pension Plans

At June 30, 2019, the District did not have any outstanding payables for outstanding contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2019.

NOTE 9 – 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 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

B. Construction Commitments

As of June 30, 2019, the District had commitments with respect to unfinished capital projects of \$796,748.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2019.

NOTE 11 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2019, the District contracted with Redwood Empire Schools Insurance Group (RESIG). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the District retains the risk of loss (claims below the District's retained limits), are administered by the Self- Insurance Fund.

Workers' Compensation

For fiscal year 2018-19, the District participated in the Redwood Empire School Insurance Group (RESIG), an insurance purchasing pool. The intent of the RESIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage.

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

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Required Supplementary Information

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PETALUMA CITY SCHOOLS

*Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2019*

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 67,320,844	\$ 68,023,139	\$ 68,012,456	\$ (10,683)
Federal Sources	3,458,696	3,300,066	2,756,502	(543,564)
Other State Sources	6,946,833	8,505,672	11,497,800	2,992,128
Other Local Sources	8,267,582	9,706,294	9,798,429	92,135
Total Revenues	<u>85,993,955</u>	<u>89,535,171</u>	<u>92,065,187</u>	<u>2,530,016</u>
Expenditures				
Current:				
Certificated Salaries	35,520,329	36,800,884	36,439,186	361,698
Classified Salaries	12,374,645	13,058,696	12,759,568	299,128
Employee Benefits	23,295,775	23,114,466	25,980,698	(2,866,232)
Books and Supplies	3,776,584	9,322,981	4,059,524	5,263,457
Services and Other Operating	11,008,323	11,532,673	10,412,483	1,120,190
Capital Outlay	148,547	293,008	214,266	78,742
Other Outgo	(146,188)	(139,540)	(120,074)	(19,466)
Total Expenditures	<u>85,978,015</u>	<u>93,983,168</u>	<u>89,745,651</u>	<u>4,237,517</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>15,940</u>	<u>(4,447,997)</u>	<u>2,319,536</u>	<u>6,767,533</u>
Other Financing Sources and Uses				
Interfund Transfers Out	(97,597)	(97,597)	(97,597)	-
Net Change in Fund Balances	<u>(81,657)</u>	<u>(4,545,594)</u>	<u>2,221,939</u>	<u>6,767,533</u>
Fund Balances, July 1, 2018	<u>10,106,230</u>	<u>15,346,039</u>	<u>15,347,946</u>	<u>1,907</u>
Fund Balances, June 30, 2019	<u>\$ 10,024,573</u>	<u>\$ 10,800,445</u>	<u>17,569,885</u>	<u>\$ 6,769,440</u>
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
		Deferred Maintenance Fund	<u>22,537</u>	
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:			<u>\$ 17,592,422</u>	

PETALUMA CITY SCHOOLS

*Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2019*

	<i>Last Ten Fiscal Years*</i>				
	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
CalSTRS					
District's proportion of the net pension liability	<u>0.0660%</u>	<u>0.0632%</u>	<u>0.0693%</u>	<u>0.0561%</u>	<u>0.0639%</u>
District's proportionate share of the net pension liability	<u>\$ 60,623,309</u>	<u>\$ 58,470,686</u>	<u>\$ 56,036,666</u>	<u>\$ 37,738,597</u>	<u>\$ 37,339,236</u>
State's proportionate share of the net pension liability associated with the District	<u>34,709,680</u>	<u>34,590,764</u>	<u>31,905,371</u>	<u>19,959,504</u>	<u>22,547,269</u>
Totals	<u>\$ 95,332,989</u>	<u>\$ 93,061,450</u>	<u>\$ 87,942,037</u>	<u>\$ 57,698,101</u>	<u>\$ 59,886,505</u>
District's covered-employee payroll	<u>\$ 35,536,979</u>	<u>\$ 33,722,901</u>	<u>\$ 34,528,621</u>	<u>\$ 26,017,838</u>	<u>\$ 28,459,709</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>170.59%</u>	<u>173.39%</u>	<u>162.29%</u>	<u>145.05%</u>	<u>131.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS					
District's proportion of the net pension liability	<u>0.0902%</u>	<u>0.0925%</u>	<u>0.0984%</u>	<u>0.1040%</u>	<u>0.1038%</u>
District's proportionate share of the net pension liability	<u>\$ 24,056,795</u>	<u>\$ 22,091,986</u>	<u>\$ 19,441,662</u>	<u>\$ 15,329,711</u>	<u>\$ 11,782,491</u>
District's covered-employee payroll	<u>\$ 11,915,852</u>	<u>\$ 11,828,859</u>	<u>\$ 11,809,699</u>	<u>\$ 11,513,797</u>	<u>\$ 10,895,176</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>201.89%</u>	<u>186.76%</u>	<u>164.62%</u>	<u>133.14%</u>	<u>108.14%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

PETALUMA CITY SCHOOLS
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2019

	<i>Last Ten Fiscal Years*</i>				
	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
CalSTRS					
Contractually required contribution	\$ 5,893,200	\$ 5,127,986	\$ 4,242,341	\$ 3,622,620	\$ 2,871,580
Contributions in relation to the contractually required contribution	<u>5,893,200</u>	<u>5,127,986</u>	<u>4,242,341</u>	<u>3,622,620</u>	<u>2,871,580</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 36,199,016</u>	<u>\$ 35,536,980</u>	<u>\$ 33,722,901</u>	<u>\$ 33,761,603</u>	<u>\$ 32,337,613</u>
Contributions as a percentage of covered-employee payroll	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS					
Contractually required contribution	\$ 2,294,908	\$ 1,850,651	\$ 1,642,792	\$ 1,400,218	\$ 1,354,896
Contributions in relation to the contractually required contribution	<u>2,294,908</u>	<u>1,850,651</u>	<u>1,642,792</u>	<u>1,400,218</u>	<u>1,354,896</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 12,705,725</u>	<u>\$ 11,915,852</u>	<u>\$ 11,828,859</u>	<u>\$ 11,819,178</u>	<u>\$ 11,510,458</u>
Contributions as a percentage of covered-employee payroll	<u>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

PETALUMA CITY SCHOOLS*Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program
For the Fiscal Year Ended June 30, 2019*

	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability	0.1037%	0.1006%
District's proportionate share of net OPEB liability	\$ 397,037	\$ 423,353
Covered-employee payroll	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	0.40%	0.01%

Notes to Schedule:

As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

PETALUMA CITY SCHOOLS

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoptions with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Change of assumptions - In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

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Supplementary Information

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PETALUMA CITY SCHOOLS

Local Educational Agency Organization Structure

June 30, 2019

The Petaluma City Schools was established in 1857 and is comprised of the Petaluma Joint Union High School District and the Petaluma City Elementary School District. The District operates five elementary schools, two junior high schools, two comprehensive high schools, three continuation schools, a community day school, and six charter schools. The District also operates an independent study school and an adult school. There were no boundary changes during the year.

BOARD OF EDUCATION

Member	Office	Term Expires
Ellen Webster	President	November 2020
Mady Cloud	Clerk	November 2022
Sheldon Gen	Member	November 2020
Joanna Paun	Member	November 2022
Caitlin Quinn	Member	November 2022

DISTRICT ADMINISTRATORS

Gary Callahan,
Superintendent

Cliff DeGraw,
Assistant Superintendent, Educational Services

Matthew Harris,
Assistant Superintendent, Human Resources

Chris Thomas,
Chief Business Official

PETALUMA CITY SCHOOLS

*Schedule of Average Daily Attendance - District
For the Fiscal Year Ended June 30, 2019*

PETALUMA CITY ELEMENTARY		
	Second Period Report	Annual Report
	Certificate No. 50E7E516	Certificate No. 3A3AF093
Regular ADA:		
TK/Grades K-3	895.50	905.99
Grades 4-6	699.61	700.85
Total Regular ADA	1,595.11	1,606.84
Special Education, Nonpublic, Nonsectarian Schools:		
Grades 4-6	1.58	1.61
Total Special Education ADA	1.58	1.61
Total ADA	1,596.69	1,608.45

PETALUMA JOINT UNION HIGH		
	Second Period Report	Annual Report
	Certificate No. EC9163D2	Certificate No. 76CB60ED
Regular ADA:		
Grades 7-8	1,447.53	1,442.69
Grades 9-12	3,133.69	3,111.02
Total Regular ADA	4,581.22	4,553.71
Special Education, Nonpublic, Nonsectarian Schools:		
Grades 7-8	6.23	6.29
Grades 9-12	24.64	24.38
Total Special Education ADA	30.87	30.67
Total ADA	4,612.09	4,584.38

PETALUMA CITY SCHOOLS

*Schedule of Average Daily Attendance - Charters
For the Fiscal Year Ended June 30, 2019*

Mary Collins School at Cherry Valley		
	Second Period Report	Annual Report
	Certificate No.	Certificate No.
	94DE8B4F	7476F95A
Regular ADA:		
TK/Grades K-3	170.65	170.50
Grades 4-6	125.97	126.89
Grades 7-8	74.83	75.31
Total ADA	371.45	372.70
Total Classroom-Based ADA	371.45	372.70
Sixth Grade Charter Academy		
	Second Period Report	Annual Report
	Certificate No.	Certificate No.
	04E086AE	94D08A3C
Regular ADA:		
Grades 4-6	31.00	30.85
Total Classroom-Based ADA	31.00	30.85
Penngrove Elementary		
	Second Period Report	Annual Report
	Certificate No.	Certificate No.
	B7DFC99F	53FD2207
Regular ADA:		
TK/Grades K-3	236.88	237.49
Grades 4-6	145.96	146.05
Total ADA	382.84	383.54
Total Classroom-Based ADA	382.84	383.54
Gateway to College Academy		
	Second Period Report	Annual Report
	Certificate No.	Certificate No.
	14084C29	660C6832
Regular ADA:		
Grades 9-12	53.83	52.25
Total Classroom-Based ADA	53.83	52.25
Petaluma Accelerated		
	Second Period Report	Annual Report
	Certificate No.	Certificate No.
	5A759D2E	F35DC9F1
Regular ADA:		
Grades 7-8	106.29	105.55
Total Classroom-Based ADA	106.29	105.55

PETALUMA CITY SCHOOLS*Schedule of Instructional Time - District
For the Fiscal Year Ended June 30, 2019*

<u>Grade Level</u>	<u>Required</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	45,215	177	Complied*
Grade 1	50,400	50,010	177	Complied*
Grade 2	50,400	50,010	177	Complied*
Grade 3	50,400	50,010	177	Complied*
Grade 4	54,000	53,324	177	Complied*
Grade 5	54,000	53,324	177	Complied*
Grade 6	54,000	53,324	177	Complied*
Grade 7	54,000	53,958	177	Complied*
Grade 8	54,000	53,958	177	Complied*
Grade 9	64,800	68,960	177	Complied*
Grade 10	64,800	68,960	177	Complied*
Grade 11	64,800	68,960	177	Complied*
Grade 12	64,800	68,960	177	Complied*

* The California Department of Education has approved a request for 3 emergency days on November 9, 13, & 16, 2018 for all schools in Petaluma City Schools. These closure days may be used to meet the instructional time requirements pursuant to California Education Code sections 46200, 46201, 46207, and/or 46208.

PETALUMA CITY SCHOOLS
Schedule of Instructional Time - Charters
For the Fiscal Year Ended June 30, 2019

Mary Collins School at Cherry Valley				
Grade Level	Required	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	44,010	177	Complied
Grade 1	50,400	49,510	177	Complied*
Grade 2	50,400	49,510	177	Complied*
Grade 3	50,400	49,510	177	Complied*
Grade 4	54,000	53,790	177	Complied*
Grade 5	54,000	53,790	177	Complied*
Grade 6	54,000	54,490	177	Complied
Grade 7	54,000	54,490	177	Complied
Grade 8	54,000	54,490	177	Complied

Sixth Grade Charter Academy				
Grade Level	Required	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Grade 6	54,000	53,995	175	Complied*

Penngrove Elementary				
Grade Level	Required	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	47,670	177	Complied
Grade 1	50,400	50,591	177	Complied
Grade 2	50,400	50,591	177	Complied
Grade 3	50,400	50,591	177	Complied
Grade 4	54,000	53,863	177	Complied*
Grade 5	54,000	53,863	177	Complied*
Grade 6	54,000	53,863	177	Complied*

Petaluma Accelerated				
Grade Level	Required	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Grade 7	54,000	56,260	175	Complied
Grade 8	54,000	56,260	175	Complied

* The California Department of Education has approved a request for 3 emergency days on November 9, 13, & 16, 2018 for each of the charter schools in Petaluma City Schools. These closure days may be used for determining annual instructional minutes for purposes of California Education Code section 47612.5.

PETALUMA CITY SCHOOLS
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2019

General Fund	(Budget) 2020 ³	2019 ⁴	2018	2017
Revenues and other financing sources	\$ 90,777,020	\$ 92,065,187	\$ 83,992,735	\$ 82,957,679
Expenditures	91,818,161	89,745,651	83,451,296	80,061,737
Other uses and transfers out	150,000	97,597	152,393	125,000
Total outgo	91,968,161	89,843,248	83,603,689	80,186,737
Change in fund balance (deficit)	(1,191,141)	2,221,939	389,046	2,770,942
Ending fund balance	\$ 16,378,744	\$ 17,569,885	\$ 15,347,946	\$ 14,958,900
Available reserves ¹	\$ 7,722,631	\$ 7,223,692	\$ 6,552,510	\$ 4,907,554
Available reserves as a percentage of total outgo	8.4%	8.0%	7.8%	6.1%
Total long-term debt	\$ 153,244,649	\$ 161,780,916	\$ 165,429,814	\$ 156,607,571
Average daily attendance at P-2 ²	7,238	7,154	7,054	7,131

The General Fund balance has increased by \$2,610,985 over the past two years. The fiscal year 2019-20 adopted budget projects a decrease of \$1,191,141. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred operating deficits in any of the past three years, but anticipates incurring an operating deficit during the 2019-20 fiscal year. Long-term debt has increased by \$5,173,345 over the past two years.

Average daily attendance has increased by 23 over the past two years. An increase of 84 ADA is anticipated during fiscal year 2019-20.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Average daily attendance includes District and charter school ADA.

³ Revised Final Budget September, 2019.

⁴ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

PETALUMA CITY SCHOOLS

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2019*

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

PETALUMA CITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S.Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
School Breakfast Program - Basic	10.553	13525	\$ 2,065	
School Breakfast Program - Especially Needy	10.553	13526	310,937	
National School Lunch Program	10.555	13523	733,593	
USDA Donated Foods	10.555	N/A	93,575	
Summer Food Service Program for Children	10.559	13004	<u>37,305</u>	
Total Child Nutrition Cluster				\$ 1,177,475
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	58,644	
CACFP in Lieu of Commodities	10.558	N/A	<u>23,043</u>	
Subtotal Child and Adult Food Program Cluster				<u>81,687</u>
Total U.S.Department of Agriculture				<u>1,259,162</u>
U.S.Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		623,002
Title II, Part A, Supporting Effective Instruction	84.367	14341		148,306
English Language Acquisition Grants:				
Title III, Immigrant Education Program	84.365	15146	17,147	
Title III, Limited English Proficiency	84.365	14346	<u>94,909</u>	
Total English Language Acquisition Grants Cluster				112,056
Title IV, Part A Student Support & Academic Enrichment Grants	84.424	15396		<u>15,045</u>
Adult Education Cluster:				
Adult Basic Education & ELA	84.002A	14508	36,427	
Adult Secondary Education	84.002	13978	<u>34,238</u>	
Total Adult Education Cluster				70,665
Carl D. Perkins Carrer Technical Education	84.048	14894		49,628
Passed through Sonoma County SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379	1,461,099	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	79,891	
Preschool Local Entitlement, Part B	84.027A	13682	166,243	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	64,943	
Preschool Staff Development, Part B, Sec 619	84.173A	13431	<u>609</u>	
Total Special Education (IDEA) Cluster				<u>1,772,785</u>
Total U.S.Department of Education				<u>2,791,487</u>
U.S.Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Administrative Activities (MAA)	93.778	10060		<u>35,680</u>
Total U.S. Department of Health & Human Services				<u>35,680</u>
Total Expenditures of Federal Awards				<u>\$ 4,086,329</u>

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

PETALUMA CITY SCHOOLS
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2019

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

PETALUMA CITY SCHOOLS

Note to the Supplementary Information

June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has met its LCFF target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the Education Code.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

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

Schedule of Charter Schools

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

Other Independent Auditors' Reports

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

Board of Education
Petaluma City Schools
Petaluma, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Petaluma City Schools' basic financial statements, and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

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

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

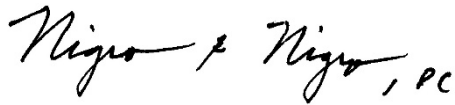
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

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

Murrieta, California
December 13, 2019



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

Board of Education
Petaluma City Schools
Petaluma, California

Report on Compliance for Each Major Federal Program

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Petaluma City Schools' major federal programs for the year ended June 30, 2019. Petaluma City Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

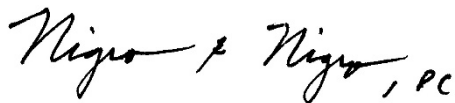
Report on Internal Control Over Compliance

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

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

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

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



Murrieta, California
December 13, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

Report on State Compliance

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the 2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Petaluma City Schools' state government programs as noted on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Petaluma City Schools' state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

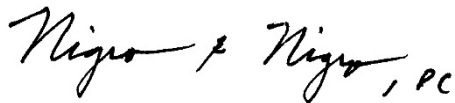
Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (No (see below)), Continuation Education (Yes), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Yes
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

Unmodified Opinion on Compliance with State Programs

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.



Murrieta, California
December 13, 2019

Findings and Questioned Costs

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PETALUMA CITY SCHOOLS
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster (IDEA)
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

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

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019*

SECTION II - FINANCIAL STATEMENT FINDINGS

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2018-19.

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

There were no federal award findings or questioned costs in 2018-19.

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019*

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2018-19.

PETALUMA CITY SCHOOLS
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019

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

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To the Board of Education
Petaluma City Schools
Petaluma, California

In planning and performing our audit of the basic financial statements of Petaluma City Schools for the year ending June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2019 on the financial statements of Petaluma City Schools.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: In our testing of cash receipts, we found several deposits that were not supported by adequate supporting documentation. Without adequate supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts.

Recommendation: Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event or activity are turned in and properly accounted for. We recommend that before any events are held, control procedures such as utilizing ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts, be established which will allow for the reconciliation between money collected and sales.

Observation: In our testing of cash receipts, we noted several deposits that were not deposited on a timely basis. Untimely deposits increase the risk of cash theft.

Recommendation: We recommend that deposits are made at least on a weekly basis or more often as needed. We further advise that money is never left over the weekend or holidays to help prevent theft since it often occurs during these times.

Observation: During our inquiries and testing of cash receipts, we noted that revenue potentials are not prepared. Revenue potentials are used as a budgeting and planning tool. These forms serve as a sales plan which includes expected sale levels, sale prices per unit, expected cost, and net income.

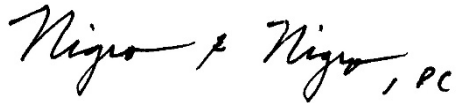
Recommendation: It is important for student organizations to have adequate internal controls over their fundraising events in order to properly evaluate the effectiveness of those events, and to account for a fundraiser's financial activity. We recommend that revenue potentials are prepared for all major fundraising activities.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: In our testing of cash disbursements, we noted disbursements that were approved by the district representative, the ASB advisor, and the student representative, but not until the expenditure had already been incurred.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative prior to disbursing the funds. As a best practice, we recommend that the approvals be obtained prior to incurring the expense.

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

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

Murrieta, California
December 13, 2019