

**PETALUMA CITY SCHOOLS
SONOMA COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2020**

**NIGRO
& NIGRO^{PC}**

PETALUMA CITY SCHOOLS
For the Fiscal Year Ended June 30, 2020
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
District-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Governmental Funds Financial Statements:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Proprietary Fund Financial Statements:	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Net Position.....	19
Statement of Cash Flows	20
Fiduciary Funds Financial Statements:	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position.....	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	59
Schedule of Proportionate Share of the Net Pension Liability	60
Schedule of Pension Contributions.....	61
Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program	62
Notes to the Required Supplementary Information	63

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	64
Schedule of Average Daily Attendance - District.....	65
Schedule of Average Daily Attendance - Charters	66
Schedule of Instructional Time - District	67
Schedule of Instructional Time - Charters.....	68
Schedule of Financial Trends and Analysis.....	69
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	70
Schedule of Expenditures of Federal Awards.....	71
Schedule of Charter Schools.....	72
Note to the Supplementary Information	73

PETALUMA CITY SCHOOLS
For the Fiscal Year Ended June 30, 2020
Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

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.....	74
Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.....	76
Independent Auditors' Report on State Compliance	78

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:	
Summary of Auditors' Results.....	80
Current Year Audit Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	85
Management Letter.....	86

Financial Section

(This page intentionally left blank)



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, 2020, 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 *2019-20 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, 2020, 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*

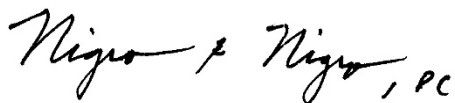
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of the District's proportionate share 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 65 to 70 and the schedule of expenditures of federal awards on page 71 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 64 and 72 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 March 15, 2021, 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 the effectiveness of the District's 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
March 15, 2021

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2020

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, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

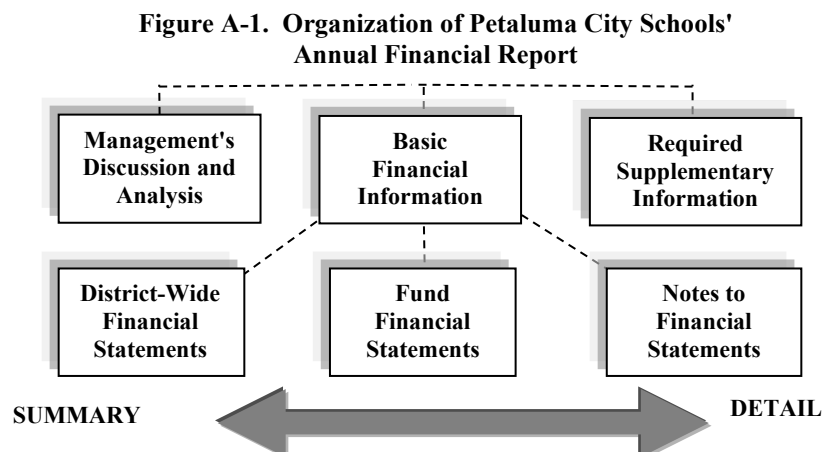
- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$3.1 million, or 47.2%.
- Governmental expenses were about \$108.0 million. Revenues were about \$104.9 million.
- The District acquired over \$4.9 million in new capital assets during the year.
- The District decreased its outstanding long-term debt other than pensions by \$8.4 million. This was primarily due to payments on general obligation bonds.
- Grades K-12 average daily attendance (ADA) decreased by 16, or 0.2%.
- Governmental funds decreased by \$5.6 million, or 10.1%.
- Reserves for the General Fund increased by \$329,752, or 4.6%. Revenues were \$93.5 million and expenditures and transfers out were \$93.4 million.

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, 2020

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.
- 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.

PETALUMA CITY SCHOOLS
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- 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 lower on June 30, 2020, than it was the year before – decreasing 47.2% to \$3.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance	Business-Type Activities		Variance
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Assets						
Current assets	\$ 59,681,484	\$ 63,825,732	\$ (4,144,248)	\$ 9,232	\$ 9,050	\$ 182
Capital assets	91,494,491	93,720,589	(2,226,098)	1,421	1,421	-
Total assets	<u>151,175,975</u>	<u>157,546,321</u>	<u>(6,370,346)</u>	<u>10,653</u>	<u>10,471</u>	<u>182</u>
Deferred outflows of resources	29,123,424	24,315,599	4,807,825	-	-	-
Liabilities						
Current liabilities	9,999,960	8,754,229	1,245,731	-	-	-
Long-term liabilities	68,652,510	77,100,812	(8,448,302)	-	-	-
Net pension liability	86,941,041	84,680,104	2,260,937	-	-	-
Total liabilities	<u>165,593,511</u>	<u>170,535,145</u>	<u>(4,941,634)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources	11,251,725	4,788,246	6,463,479	-	-	-
Net position						
Net investment in capital assets	39,725,227	37,505,154	2,220,073	1,421	1,421	-
Restricted	22,443,686	22,792,575	(348,889)	9,232	9,050	182
Unrestricted	(58,714,750)	(53,759,200)	(4,955,550)	-	-	-
Total net position	<u>\$ 3,454,163</u>	<u>\$ 6,538,529</u>	<u>\$ (3,084,366)</u>	<u>\$ 10,653</u>	<u>\$ 10,471</u>	<u>\$ 182</u>

Changes in net position, governmental activities. The District's total revenues decreased 0.7% to \$104.9 million (See Table A-2). The decrease is due primarily to a decrease in federal revenues.

The total cost of all programs and services increased 5.5% to \$108.0 million. The District's expenses are predominantly related to educating and caring for students, 80.5%. The purely administrative activities of the District accounted for just 4.8% of total costs. A significant contributor to the increase in costs was increased salary and benefit costs.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance	Business-Type Activities		Variance
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Revenues						
Program Revenues:						
Charges for services	\$ 3,334,860	\$ 3,009,176	\$ 325,684	\$ -	\$ -	\$ -
Operating grants and contributions	15,606,640	14,628,342	978,298	-	-	-
General Revenues:						
Property taxes	56,000,730	55,462,428	538,302	-	-	-
Federal and state aid not restricted	28,268,260	30,005,132	(1,736,872)	-	-	-
Other general revenues	1,681,156	2,477,962	(796,806)	182	184	(2)
Total Revenues	<u>104,891,646</u>	<u>105,583,040</u>	<u>(691,394)</u>	<u>182</u>	<u>184</u>	<u>(2)</u>
Expenses						
Instruction-related	73,997,868	70,696,992	3,300,876	-	-	-
Pupil services	12,874,584	12,472,575	402,009	-	-	-
Administration	5,215,263	5,136,270	78,993	-	-	-
Plant services	12,773,411	10,403,481	2,369,930	-	-	-
All other activities	3,114,886	3,680,226	(565,340)	-	-	-
Total Expenses	<u>107,976,012</u>	<u>102,389,544</u>	<u>5,586,468</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ (3,084,366)</u>	<u>\$ 3,193,496</u>	<u>\$ (6,277,862)</u>	<u>\$ 182</u>	<u>\$ 184</u>	<u>\$ (2)</u>
Total net position	<u>\$ 3,454,163</u>	<u>\$ 6,538,529</u>		<u>\$ 10,653</u>	<u>\$ 10,471</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 \$50.1 million, which is below last year's ending fund balance of \$55.7 million. The primary cause of the decreased fund balance is ongoing capital outlay expenditures.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2019	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2020
General Fund	\$ 17,569,885	\$ 93,503,444	\$ 93,234,564	\$ (154,614)	\$ 17,684,151
Adult Education Fund	2,101,050	2,039,840	1,942,555	-	2,198,335
Cafeteria Fund	219,630	1,928,598	2,170,965	154,614	131,877
Deferred Maintenance Fund	22,537	345	18,338	-	4,544
Building Fund	20,041,421	373,634	4,463,730	-	15,951,325
Capital Facilities Fund	1,754,781	468,189	277,253	-	1,945,717
Special Reserve Fund (Capital Outlay)	2,325,422	1,052,473	1,296,025	-	2,081,870
Bond Interest and Redemption Fund	11,679,142	9,213,286	10,806,938	-	10,085,490
Totals	<u>\$ 55,713,868</u>	<u>\$ 108,579,809</u>	<u>\$ 114,210,368</u>	<u>\$ -</u>	<u>\$ 50,083,309</u>

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2020

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

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 \$6.4 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$5.7 million to reflect revised cost estimates.
- Other non-personnel expenses – increased \$7.1 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$7.4 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.3 million. Actual revenues were \$3.7 million less than anticipated, and expenditures were \$11.3 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2020, that will be carried over into the 2020-21 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019-20 the District had acquired \$4.9 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 \$7.2 million.

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

	Governmental Activities		Variance
	2020	2019	Increase (Decrease)
Land	\$ 4,266,886	\$ 4,266,886	\$ -
Improvement of sites	17,806,205	19,847,951	(2,041,746)
Buildings	66,160,302	67,745,228	(1,584,926)
Equipment	870,995	750,997	119,998
Construction in progress	2,390,103	1,109,527	1,280,576
Total	<u>\$ 91,494,491</u>	<u>\$ 93,720,589</u>	<u>\$ (2,226,098)</u>

Long-Term Debt

At year-end the District had \$68.7 million in long-term debt other than pensions – a decrease of 11.0% 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
	2020	2019	Increase (Decrease)
General obligation bonds	\$ 67,720,589	\$ 76,256,856	\$ (8,536,267)
Compensated absences	547,713	446,919	100,794
Other postemployment benefits	384,208	397,037	(12,829)
Total	<u>\$ 68,652,510</u>	<u>\$ 77,100,812</u>	<u>\$ (8,448,302)</u>

Net pension liability increased during the year by \$2.3 million.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2020

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State Legislature passed a final budget package on June 26, 2020. The final budget package assumed that \$2 billion in federal funds would be forthcoming and took the Governor's approach in the May Revision to make other spending reductions contingent on other federal money. In addition, relative to the June 15 initial package, the final package made several changes, including increasing school deferrals by \$3.5 billion (assuming no federal money is forthcoming), increasing revenue assumptions by more than \$1 billion, and eliminating the plan to reinstate General Fund payment deferrals. The Governor signed the 2020-21 Budget Act and related budget legislation on June 29, 2020.

Proposition 98

Proposition 98 Establishes Minimum Funding Level for Schools and Community Colleges

This minimum funding requirement is commonly called the minimum guarantee. The state calculates the minimum guarantee by comparing three main formulas or "tests". Each test takes into account certain inputs, such as state General Fund revenue, per capita personal income, and K-12 student attendance. The state can choose to fund at the minimum guarantee or any level above it. It also can suspend the guarantee with a two-thirds vote of each house of the Legislature, allowing the state to provide less funding than the formulas require that year. The state meets the guarantee through a combination of state General Fund and local property tax revenue.

Minimum Funding Requirement Down Significantly in 2019-20 and 2020-21

Estimates of the minimum guarantee under the June 2020 budget plan have dropped significantly compared with June 2019 estimates. For 2019-20, the minimum requirement is down \$3.4 billion (4.2 percent). For 2020-21, the minimum requirement is down \$6.8 billion (8.7 percent) from the revised 2019-20 level and \$10.2 billion (12.5 percent) from the 2019-20 level estimated in June 2019. These drops mainly reflect reductions in state General Fund revenue. Test 1 remains operative in both years, with the drop in the General Fund portion of the guarantee equal to nearly 40 percent of the drop in revenues. The local property tax portion of the guarantee, by contrast, grows slowly from 2019-20 to 2020-21.

Budget Plan Implements Significant Payment Deferrals

In both 2019-20 and 2020-21, the budget plan reduces school and community college funding to the lower minimum requirement. It implements these reductions primarily by deferring \$12.5 billion in payments. (When the state defers payments from one fiscal year to the next, the state can reduce spending while allowing school districts to maintain programs by borrowing or using cash reserves.) Of the \$12.5 billion, \$11 billion applies to K-12 schools and \$1.5 billion applies to community colleges. Although the budget plan authorized the Department of Finance to rescind up to \$6.6 billion of the deferrals if the state received additional federal funding by October 15, 2020, Congress did not approve any additional funds prior to this deadline.

Makes a Few Other Spending Adjustments

In addition to the deferrals, the budget plan makes a few other adjustments to school and community college funding. Most notably, it does not provide the 2.31 percent statutory cost-of-living adjustment for school and community college programs in 2020-21. The budget plan also uses \$833 million in one-time funds to cover costs for the K-12 Local Control Funding Formula (LCFF) and community college apportionments in 2019-20 and 2020-21. These one-time funds consist of \$426 million in unspent prior-year funds and a \$407 million settle-up payment. In addition, the budget plan withdraws the entire \$377 million the state deposited into the Proposition 98 Reserve in the fall of 2019. (Formulas in the State Constitution govern Proposition 98 Reserve deposits and withdrawals.) Finally, the budget plan obtains \$240 million in savings (\$110 million in 2019-20 and \$130 million in 2020-21) from eliminating unallocated State Preschool slots.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Creates Supplemental Obligation to Increase Funding Beginning in 2021-22

This obligation has two parts. First, it requires the state to make temporary payments on top of the Proposition 98 guarantee beginning in 2021-22. Each payment will equal 1.5 percent of annual General Fund revenue. The state can allocate these payments for any school or community college purpose. Payments will continue until the state has paid \$12.4 billion—the amount of funding schools and community colleges could have received under Proposition 98 if state revenues had continued to grow. (Technically, the obligation equals the total difference between the Test 1 and Test 2 funding levels in 2019-20 and 2020-21.) Second, the obligation requires the state to increase the minimum share of General Fund revenue allocated to schools and community colleges from 38 percent to 40 percent on an ongoing basis. This increase is set to phase in over the 2022-23 and 2023-24 fiscal years.

K-12 Education

Proposition 98 Funding Decreases 12 Percent

The budget package includes \$62.5 billion in Proposition 98 funding for K-12 education in 2020-21—\$8.7 billion (12.2 percent) less than the 2019-20 Budget Act level.

Defers \$11 Billion in K-12 Payments, Allows Exemptions in Limited Circumstances

The state distributes funding for LCFF and special education following a monthly payment schedule established in law. The budget plan modifies this schedule in 2019-20 to defer \$1.9 billion in payments to the following fiscal year. In 2020-21, the budget plan maintains these deferrals and adopts \$9.1 billion in additional deferrals. Under the modified schedule, portions of the payments otherwise scheduled for the months of February through June will be paid over the July through November period. The total amount deferred equates to about 16 percent of all state and local funding schools receive for LCFF and special education, or 24 percent of the General Fund allocated for these programs. If a district or charter school can demonstrate it would be unable to meet its financial obligations because of the deferrals, and has exhausted all other sources of internal and external borrowing, it can apply for an exemption. The law allows the Department of Finance, State Controller, and State Treasurer to authorize up to \$300 million in deferral exemptions per month. If these exemption requests exceed the funding available, the earliest applications will be approved first.

Addresses Historically Low-Funded Special Education Regions

Most state special education funding is provided to Special Education Local Plan Areas (SELPAs) based on total student attendance within the area. (Most SELPAs are regional collaborations of neighboring districts, county offices of education [COEs], and charter schools, though some consist of only a single large district.) Each SELPA receives a unique per-student rate linked to certain historical factors. In 2019-20, these per-student rates varied from \$557 to more than \$900. The budget provides \$545 million to bring low-funded SELPAs to a new rate of \$625 per student. This rate is roughly equivalent to the 93rd percentile of current rates.

Allocates \$6.4 Billion in One-Time Federal Funding

The budget package allocates \$6.4 billion in one-time federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for K-12 education. The majority of funding (\$4.8 billion) is provided for learning loss mitigation. The budget also includes \$1.5 billion that can be used for a variety of activities and is distributed based on counts of low-income and disadvantaged children. The remaining funds are used to provide higher reimbursement rates for some school meals, create a competitive grant program for implementing the community schools model, and cover state costs of allocating and overseeing how CARES Act funds are spent.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education (continued)

Funds Learning Loss Mitigation Activities

The budget package provides \$5.3 billion in one-time funding for activities mitigating learning loss due to coronavirus disease 2019 (COVID-19) school closures. This amount consists of \$4.4 billion from the federal Coronavirus Relief Fund, \$540 million Proposition 98 General Fund, and \$355 million from the federal Governor's Emergency Education Relief Fund. Allocations from the Coronavirus Relief Fund can be used to cover eligible costs incurred between March 1, 2020 and December 30, 2020, while the remainder of the funding covers costs incurred between March 13, 2020 and September 30, 2022. Allowable activities include expanding learning supports, increasing instructional time, offering additional academic services (such as diagnostic assessments and devices and connectivity for distance learning), and addressing other barriers to learning (such as mental health services, professional development for teachers and parents, and student meals). Of this funding, \$2.9 billion is to be allocated based on LCFF supplemental and concentration grants, \$1.5 billion based on the number of students with disabilities, and \$980 million based on total LCFF allocation.

Funds Schools Based on 2019-20 Attendance Levels, Allows Growth Under Certain Conditions

For funding purposes, the state ordinarily credits school districts with their average daily attendance in the current or prior year, whichever is higher. Charter schools and COEs are funded according to their attendance in the current year only. In 2020-21, however, the state will not collect average daily attendance data. Instead, districts, charter schools, and COEs will be funded according to their 2019-20 attendance levels unless they had previously budgeted for attendance growth. Any attendance growth for a district or charter school is limited to the lower of its (1) previously projected increase in enrollment or attendance, as documented in its budget, or (2) actual increase in enrollment from October 2019 to October 2020. (For this calculation, enrollment numbers are converted to an equivalent amount of average daily attendance by adjusting them for the statewide average absence rate.) The trailer legislation also allows a few other attendance-related adjustments. Most notably, if a charter school closes during the 2020-21 school year, the attendance it previously generated will be credited to its sponsoring school district.

Modifies Instructional Requirements to Allow for Distance Learning

The budget package suspends requirements for annual instructional minutes for 2020-21 to provide additional flexibility to schools and allows minimum instructional day requirements be met through a combination of in-person instruction and distance learning. The budget package also sets expectations for distance learning. Among other specified activities, distance learning must be substantially equivalent to in-person instruction; include daily live interaction between teachers and students; and provide appropriate supports to students with disabilities, English learners, and other student subgroups.

Includes Additional Fiscal Flexibility in a Few Areas

Budget trailer legislation includes several changes to provide more spending flexibility for school districts:

- For the purposes of calculating minimum routine maintenance deposits, excludes one-time funding for state pension payments on behalf of school districts, learning loss mitigation funds, and federal Elementary and Secondary School Emergency Relief funds. Typically, school districts receiving funding from the state's School Facility Program are required to establish a restricted account for routine maintenance of school facilities and deposit 3 percent of the district's annual expenditures.
- Allows for proceeds from the sale or lease of surplus property purchased entirely with local funds to be used for one-time general fund purposes through 2023-24.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education (continued)

Includes Additional Fiscal Flexibility in a Few Areas (continued)

- For the purpose of spending restricted lottery revenues, permanently expands the definition of instructional materials to also include laptop computers and devices that provide internet access. Schools and community colleges receive about \$450 million in lottery revenues annually that must be spent on instructional materials.
- Allows the California Department of Education (CDE) to waive several programmatic requirements for the After School Education and Safety program.

Repurposes Prior Pension Payment to Reduce District Costs Over the Next Two Years

School district pension costs have been rising relatively quickly over the past several years. To help mitigate future cost increases, the 2019-20 budget plan included \$2.3 billion non-Proposition 98 General Fund to make a supplemental pension payment on behalf of schools and community colleges. Of this amount, \$1.6 billion was for the California State Teachers' Retirement System and \$660 million was for the California Public Employees' Retirement System. (Nearly all school employees are covered by one of these two pension systems.) At the time, the state estimated that the supplemental payment could reduce district pension costs by roughly 0.3 percent of annual pay over the next few decades. The 2020-21 budget plan repurposes this payment to reduce pension costs by a larger amount over the next two years. Specifically, districts will receive cost savings of approximately 2.2 percent of pay in 2020-21 and 2021-22, but will not experience savings over the following decades.

All of these factors were considered in preparing the Petaluma City Schools budget for the 2020-21 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, 2020*

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Deposits and investments	\$ 51,906,864	\$ 9,232	\$ 51,916,096
Accounts receivable	7,716,290	-	7,716,290
Inventories	58,330	-	58,330
Capital assets:			
Non-depreciable assets	6,656,989	-	6,656,989
Depreciable assets	194,438,518	56,833	194,495,351
Less accumulated depreciation	(109,601,016)	(55,412)	(109,656,428)
Total assets	<u>151,175,975</u>	<u>10,653</u>	<u>151,186,628</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	28,987,365	-	28,987,365
Deferred amounts on refunding	136,059	-	136,059
Total deferred outflows of resources	<u>29,123,424</u>	<u>-</u>	<u>29,123,424</u>
LIABILITIES			
Accounts payable	9,365,504	-	9,365,504
Unearned revenue	634,456	-	634,456
Long-term liabilities other than pensions:			
Portion due or payable within one year	6,886,267	-	6,886,267
Portion due or payable after one year	61,766,243	-	61,766,243
Net pension liability	86,941,041	-	86,941,041
Total liabilities	<u>165,593,511</u>	<u>-</u>	<u>165,593,511</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	11,251,725	-	11,251,725
NET POSITION			
Net investment in capital assets	39,725,227	1,421	39,726,648
Restricted for:			
Capital projects	3,655,809	-	3,655,809
Debt service	10,085,490	-	10,085,490
Categorical programs	8,196,084	-	8,196,084
Self-insurance program	506,303	-	506,303
Enterprise activities	-	9,232	9,232
Unrestricted	(58,714,750)	-	(58,714,750)
Total net position	<u>\$ 3,454,163</u>	<u>\$ 10,653</u>	<u>\$ 3,464,816</u>

PETALUMA CITY SCHOOLS
Statement of Activities
For the Fiscal Year Ended June 30, 2020

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	\$ 62,426,245	\$ 1,544,411	\$ 8,871,437	\$ (52,010,397)	\$ -	\$ (52,010,397)
Instruction-related services:						
Supervision of instruction	4,014,362	132,578	1,134,188	(2,747,596)	-	(2,747,596)
Instructional library, media and technology	1,364,150	76,374	240,728	(1,047,048)	-	(1,047,048)
School site administration	6,193,111	17,364	471,406	(5,704,341)	-	(5,704,341)
Pupil support services:						
Home-to-school transportation	2,513,002	25,175	80,051	(2,407,776)	-	(2,407,776)
Food services	2,268,659	767,032	1,230,943	(270,684)	-	(270,684)
All other pupil services	8,092,923	161,074	1,342,852	(6,588,997)	-	(6,588,997)
General administration services:						
Data processing services	709,893	-	3,049	(706,844)	-	(706,844)
Other general administration	4,505,370	50,316	433,906	(4,021,148)	-	(4,021,148)
Plant services	12,773,411	507,447	1,637,706	(10,628,258)	-	(10,628,258)
Ancillary services	596,579	17,175	55,922	(523,482)	-	(523,482)
Community services	303,933	21,827	66,858	(215,248)	-	(215,248)
Enterprise activities	(41,679)	6,129	18,772	66,580	-	66,580
Interest on long-term debt	2,164,123	-	-	(2,164,123)	-	(2,164,123)
Other outgo	91,930	7,958	18,822	(65,150)	-	(65,150)
Total Governmental Activities	107,976,012	3,334,860	15,606,640	(89,034,512)	-	(89,034,512)
Business-Type Activities						
Enterprise activities	-	-	-	-	-	-
Totals	\$ 107,976,012	\$ 3,334,860	\$ 15,606,640	(89,034,512)	-	(89,034,512)
General Revenues:						
Property taxes				56,000,730	-	56,000,730
Federal and state aid not restricted to specific purpose				28,268,260	-	28,268,260
Interest and investment earnings				597,756	182	597,938
Interagency revenues				284,799	-	284,799
Miscellaneous				798,601	-	798,601
Total general revenues				85,950,146	182	85,950,328
Change in net position				(3,084,366)	182	(3,084,184)
Net position, July 1, 2019				6,538,529	10,471	6,549,000
Net position, June 30, 2020				\$ 3,454,163	\$ 10,653	\$ 3,464,816

PETALUMA CITY SCHOOLS
Balance Sheet – Governmental Funds
June 30, 2020

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 18,196,315	\$ 17,672,907	\$ 10,085,490	\$ 5,484,941	\$ 51,439,653
Accounts receivable	7,412,230	-	-	297,301	7,709,531
Due from other funds	235,947	-	-	1,124,908	1,360,855
Inventories	18,076	-	-	40,254	58,330
Total Assets	<u>\$ 25,862,568</u>	<u>\$ 17,672,907</u>	<u>\$ 10,085,490</u>	<u>\$ 6,947,404</u>	<u>\$ 60,568,369</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 6,450,767	\$ 1,721,582	\$ -	\$ 281,230	\$ 8,453,579
Due to other funds	1,161,078	-	-	235,947	1,397,025
Unearned revenue	562,028	-	-	72,428	634,456
Total Liabilities	<u>8,173,873</u>	<u>1,721,582</u>	<u>-</u>	<u>589,605</u>	<u>10,485,060</u>
Fund Balances					
Nonspendable	48,276	-	-	41,254	89,530
Restricted	6,900,203	15,951,325	10,085,490	4,910,436	37,847,454
Assigned	3,186,772	-	-	1,406,109	4,592,881
Unassigned	7,553,444	-	-	-	7,553,444
Total Fund Balances	<u>17,688,695</u>	<u>15,951,325</u>	<u>10,085,490</u>	<u>6,357,799</u>	<u>50,083,309</u>
Total Liabilities and Fund Balances	<u>\$ 25,862,568</u>	<u>\$ 17,672,907</u>	<u>\$ 10,085,490</u>	<u>\$ 6,947,404</u>	<u>\$ 60,568,369</u>

PETALUMA CITY SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2020

Total fund balances - governmental funds \$ 50,083,309

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	201,095,507	
Accumulated depreciation	<u>(109,601,016)</u>	
Net:		91,494,491

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: 136,059

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: (908,088)

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	28,987,365	
Deferred inflows of resources from pensions	<u>(11,251,725)</u>	
Net:		17,735,640

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	67,720,589	
Compensated absences	547,713	
Other postemployment benefits	<u>384,208</u>	
Total:		(68,652,510)

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. (86,941,041)

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: 506,303

Total net position - governmental activities \$ 3,454,163

PETALUMA CITY SCHOOLS

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2020*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 70,683,321	\$ -	\$ -	\$ -	\$ 70,683,321
Federal sources	3,369,862	-	-	1,175,093	4,544,955
Other state sources	8,632,149	-	55,148	1,631,895	10,319,192
Other local sources	10,818,457	373,634	9,158,138	2,682,112	23,032,341
Total Revenues	93,503,789	373,634	9,213,286	5,489,100	108,579,809
EXPENDITURES					
Current:					
Instruction	58,555,896	-	-	901,437	59,457,333
Instruction-Related Services:					
Supervision of instruction	3,174,522	-	-	92,074	3,266,596
Instructional library, media and technology	1,266,549	-	-	-	1,266,549
School site administration	5,516,377	-	-	606,066	6,122,443
Pupil Support Services:					
Home-to-school transportation	2,380,980	-	-	-	2,380,980
Food services	67,400	-	-	2,072,225	2,139,625
All other pupil services	6,813,403	-	-	188,326	7,001,729
Ancillary services	603,209	-	-	-	603,209
Community services	282,745	-	-	-	282,745
Enterprise activities	72,580	-	-	-	72,580
General Administration Services:					
Data processing services	662,242	-	-	-	662,242
Other general administration	3,896,930	-	-	-	3,896,930
Plant services	10,001,566	756,378	-	516,895	11,274,839
Transfers of indirect costs	(170,131)	-	-	170,131	-
Intergovernmental Transfers	91,930	-	-	-	91,930
Capital Outlay	36,704	3,707,352	-	1,139,644	4,883,700
Debt Service:					
Principal	-	-	8,330,000	-	8,330,000
Interest	-	-	2,476,938	-	2,476,938
Total Expenditures	93,252,902	4,463,730	10,806,938	5,686,798	114,210,368
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	250,887	(4,090,096)	(1,593,652)	(197,698)	(5,630,559)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	154,614	154,614
Interfund transfers out	(154,614)	-	-	-	(154,614)
Total Other Financing Sources and (Uses)	(154,614)	-	-	154,614	-
Net Change in Fund Balances	96,273	(4,090,096)	(1,593,652)	(43,084)	(5,630,559)
Fund Balances, July 1, 2019	17,592,422	20,041,421	11,679,142	6,400,883	55,713,868
Fund Balances, June 30, 2020	\$ 17,688,695	\$ 15,951,325	\$ 10,085,490	\$ 6,357,799	\$ 50,083,309

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, 2020

Total net change in fund balances - governmental funds \$ (5,630,559)

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	4,945,787	
Depreciation expense	<u>(7,245,626)</u>	
Net:		(2,299,839)

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: 8,330,000

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: 73,741

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: 143,626

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: (3,879,514)

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: 12,829

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 governmental funds these charges are recognized as an expenditure. However, in the statement of activities these amounts are amortized over the shorter of the life of the refunded bonds or the refunding bonds. The difference between current year amounts and the current year amortization (37,078)

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: (100,794)

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: 96,955

Change in net position - governmental activities \$ (3,084,366)

PETALUMA CITY SCHOOLS*Statement of Net Position – Proprietary Fund**June 30, 2020*

	Governmental Activities	Business-Type Activities
	Self-Insurance Fund	Enterprise Fund
ASSETS		
Deposits and investments	\$ 467,211	\$ 9,232
Accounts receivable	6,759	-
Due from other funds	36,170	-
Capital assets:		
Equipment	-	56,833
Less accumulated depreciation	-	(55,412)
Total assets	<u>510,140</u>	<u>10,653</u>
LIABILITIES		
Accounts payable	<u>3,837</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	-	1,421
Restricted	506,303	9,232
Total Net Position	<u>\$ 506,303</u>	<u>\$ 10,653</u>

PETALUMA CITY SCHOOLS*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2020*

	Governmental Activities <u>Self-Insurance Fund</u>	Business-Type Activities <u>Enterprise Fund</u>
OPERATING REVENUES		
In-district premiums/contributions	\$ 146,196	\$ -
Total operating revenues	146,196	-
OPERATING EXPENSES		
Payments for claims and other operating expenses	<u>57,657</u>	<u>-</u>
Operating Income	88,539	-
NON-OPERATING REVENUE		
Interest income	<u>8,416</u>	<u>182</u>
Change in net position	96,955	182
Net position, July 1, 2019	<u>409,348</u>	<u>10,471</u>
Net position, June 30, 2020	<u>\$ 506,303</u>	<u>\$ 10,653</u>

PETALUMA CITY SCHOOLS
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2020

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from self-insurance premiums	\$ 110,026	\$ -
Cash paid for operating expenses	(59,954)	-
Net cash provided by operating activities	50,072	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	14,533	182
Net increase in cash	64,605	182
Cash, July 1, 2019	402,606	9,050
Cash, June 30, 2020	<u>\$ 467,211</u>	<u>\$ 9,232</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 88,539	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Due from other funds	(36,170)	-
Accounts payable	(2,297)	-
Net cash provided (used) by operating activities	<u>\$ 50,072</u>	<u>\$ -</u>

PETALUMA CITY SCHOOLS
Statement of Fiduciary Net Position
June 30, 2020

	Agency Funds	Trust Funds	
	Student Body Funds	Foundation Trust Funds	Total Fiduciary Funds
ASSETS			
Deposits and investments	\$ 247,616	\$ 116,320	\$ 363,936
Total assets	<u>\$ 247,616</u>	<u>116,320</u>	<u>363,936</u>
LIABILITIES			
Due to student groups	\$ 247,616	-	247,616
Total liabilities	<u>\$ 247,616</u>	<u>-</u>	<u>247,616</u>
NET POSITION			
Restricted for foundation trust		<u>\$ 116,320</u>	<u>\$ 116,320</u>

PETALUMA CITY SCHOOLS

*Statement of Revenues, Expenses, and Changes in Fund Net Position – Fiduciary Fund
For the Fiscal Year Ended June 30, 2020*

	Trust Funds
	Foundation Trust Funds
ADDITIONS	
Interest and investment earnings	\$ 51
Total additions	51
DEDUCTIONS	
Total deductions	-
Change in net position	51
Net Position - July 1, 2019	116,269
Net Position - June 30, 2020	\$ 116,320

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 the District, 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

District-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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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).

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 District-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 District-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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Revenues - Exchange and Non-Exchange Transactions (continued)

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 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 District-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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 Pronouncement

In May 2020, the GASB issued Statement No. 95. The primary objective of this Statement is to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update-2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update-2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in *each* pronouncement as originally issued.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements

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, 2019.

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 June 15, 2021.

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, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

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 component unit.

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

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

5. (continued)

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, 2021. Earlier application is encouraged.

6. In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

6. (continued)

- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

7. In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depending on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

8. In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement).

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination.

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 51,439,653
Proprietary funds	467,211
Governmental Activities	<u>51,906,864</u>
Business-type activities	9,232
Fiduciary funds	<u>363,936</u>
Total deposits and investments	<u><u>\$ 52,280,032</u></u>

Deposits and investments as of June 30, 2020 consist of the following:

Cash on hand and in banks	\$ 330,605
Cash in revolving fund	31,200
Investments	<u>51,918,227</u>
Total deposits and investments	<u><u>\$ 52,280,032</u></u>

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, 2020, 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).

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, 2020, \$13,189 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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, 2020, consist of the following:

	Rating	Reported Amount	Maturity		Fair Value Measurement
			Less Than One Year	One Year Through Five Years	
Investment maturities:					
Certificates of deposit	AA	\$ 97,262	\$ 97,262	\$ -	Level 1
County pool	N/A	51,820,965	51,820,965	-	Uncategorized
Total Investments		<u>\$ 51,918,227</u>	<u>\$ 51,918,227</u>	<u>\$ -</u>	

Investments – Credit Risk

The District’s investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2020, 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, 2020, the District had the following investments that represents more than five percent of the District’s net investments outside the County treasury.

Certificates of deposit	100%
-------------------------	------

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements (continued)

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, 2020, 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	\$ 2,708,839	\$ 130,320	\$ 2,839,159	\$ -
State Government:				
LCFF	1,814,303	-	1,814,303	-
Lottery	358,439	-	358,439	-
Categorical aid programs	979,302	128,384	1,107,686	-
Local:				
Interagency services	506,705	-	506,705	-
Special Education	892,671	-	892,671	-
Other local resources	151,971	38,597	190,568	6,759
Total	<u>\$ 7,412,230</u>	<u>\$ 297,301</u>	<u>\$ 7,709,531</u>	<u>\$ 6,759</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2020

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2020, consisted of the following:

	<u>Due from other funds</u>		Total Governmental Funds	Self- Insurance Funds
	General Fund	Non-Major Governmental Funds		
General Fund	\$ -	\$ 1,124,908	\$ 1,124,908	\$ 36,170
Non-Major Governmental Funds	235,947	-	235,947	-
Totals	<u>\$ 235,947</u>	<u>\$ 1,124,908</u>	<u>\$ 1,360,855</u>	<u>\$ 36,170</u>
General Fund due to Cafeteria Fund for write-off of negative student meal accounts				\$ 89,550
General Fund due to Adult Education Fund for Zellerback Family Grant				56,908
General Fund due to Special Reserve Fund for Capital Outlay for RDA facilities portion				978,450
General Fund due to Self-Insurance Fund for VSP clearing account transfer				36,170
Adult Education Fund due to General Fund for indirect costs and expenditure transfers				75,947
Cafeteria Fund due to General Fund for indirect costs and expenditure transfers				<u>160,000</u>
Total				<u>\$ 1,397,025</u>

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2020, consisted of the following:

General Fund transfer to Cafeteria Fund for expenditure transfers	<u>\$ 154,614</u>
---	-------------------

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2020

NOTE 5 – FUND BALANCES

At June 30, 2020, 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	\$ 30,200	\$ -	\$ -	\$ 1,000	\$ 31,200
Stores inventories	18,076	-	-	40,254	58,330
Total Nonspendable	48,276	-	-	41,254	89,530
Restricted:					
Categorical programs	6,900,203	-	-	-	6,900,203
Adult education program	-	-	-	1,163,004	1,163,004
Food service program	-	-	-	91,623	91,623
Capital projects	-	15,951,325	-	3,655,809	19,607,134
Debt service	-	-	10,085,490	-	10,085,490
Total Restricted	6,900,203	15,951,325	10,085,490	4,910,436	37,847,454
Assigned:					
2% Reserve for economic uncertainty	1,867,784	-	-	-	1,867,784
South County Consortium reserve	926,393	-	-	-	926,393
Local site donations	388,051	-	-	-	388,051
Deferred maintenance program	4,544	-	-	-	4,544
Adult education program	-	-	-	1,034,331	1,034,331
Capital projects	-	-	-	371,778	371,778
Total Assigned	3,186,772	-	-	1,406,109	4,592,881
Unassigned:					
Reserve for economic uncertainties	2,801,675	-	-	-	2,801,675
Remaining unassigned balances	4,751,769	-	-	-	4,751,769
Total Unassigned	7,553,444	-	-	-	7,553,444
Total	\$ 17,688,695	\$ 15,951,325	\$ 10,085,490	\$ 6,357,799	\$ 50,083,309

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2020

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2020, was as follows:

Governmental Activities	Balance, July 1, 2019	Additions	Retirements	Balance, June 30, 2020
Capital assets not being depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in progress	1,109,527	4,714,960	3,434,384	2,390,103
Total capital assets not being depreciated	5,376,413	4,714,960	3,434,384	6,656,989
Capital assets being depreciated:				
Improvement of sites	35,484,514	540,737	-	36,025,251
Buildings	147,959,122	2,893,647	-	150,852,769
Equipment	7,350,114	230,827	20,443	7,560,498
Total capital assets being depreciated	190,793,750	3,665,211	20,443	194,438,518
Accumulated depreciation for:				
Improvement of sites	(15,636,563)	(2,582,483)	-	(18,219,046)
Buildings	(80,213,894)	(4,478,573)	-	(84,692,467)
Equipment	(6,599,117)	(184,570)	(94,184)	(6,689,503)
Total accumulated depreciation	(102,449,574)	(7,245,626)	(94,184)	(109,601,016)
Total capital assets being depreciated, net	88,344,176	(3,580,415)	(73,741)	84,837,502
Governmental activity capital assets, net	\$ 93,720,589	\$ 1,134,545	\$ 3,360,643	\$ 91,494,491
Business-Type Activities	Balance, July 1, 2019	Additions	Retirements	Balance, June 30, 2020
Capital Assets being depreciated				
Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Accumulated depreciation for:				
Equipment	(55,412)	-	-	(55,412)
Business-type activity capital assets, net	\$ 1,421	\$ -	\$ -	\$ 1,421

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 4,514,372
Instruction-Related Services	786,168
Pupil Services	933,139
General Administration	375,396
Plant Services	636,551
 Total Depreciation	 \$ 7,245,626

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the fiscal year ended June 30, 2020, were as follows:

	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 73,780,000	\$ -	\$ 8,330,000	\$ 65,450,000	\$ 6,680,000
Bond issuance premiums	2,476,856	-	206,267	2,270,589	206,267
Total - Bonds	76,256,856	-	8,536,267	67,720,589	6,886,267
Compensated Absences	446,919	100,794	-	547,713	-
Other Postemployment Benefits	397,037	-	12,829	384,208	-
Totals	\$ 77,100,812	\$ 100,794	\$ 8,549,096	\$ 68,652,510	\$ 6,886,267

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, 2020.

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, 2020, 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, 2020, deferred amounts on refunding were \$136,059.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2020

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, 2020.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2019	Issuances	Redemptions	Balance, June 30, 2020
<i>Elementary District</i>								
<i>Election of 2014</i>								
Series A	8/27/2014	8/1/2039	3.0% - 5.0%	\$ 7,000,000	\$ 5,370,000	\$ -	\$ 200,000	\$ 5,170,000
Series B	5/24/2018	8/1/2042	2.0% - 5.0%	9,000,000	9,000,000	-	695,000	8,305,000
<i>Refunding Issues</i>								
2011 Refunding	11/1/2011	8/1/2027	3.0% - 4.0%	8,470,000	2,470,000	-	580,000	1,890,000
2013 Refunding	5/7/2013	8/1/2028	2.0% - 4.0%	1,880,000	1,360,000	-	115,000	1,245,000
2015 Refunding	11/17/2015	8/1/2023	2.0% - 4.0%	3,260,000	1,325,000	-	300,000	1,025,000
<i>Total Elementary District</i>					19,525,000	-	1,890,000	17,635,000
<i>High School District</i>								
<i>Election of 1992</i>								
Series G	6/17/2010	8/1/2024	2.0% - 4.5%	2,418,791	2,415,000	-	-	2,415,000
<i>Election of 2014</i>								
Series A	8/17/2014	8/1/2039	2.0% - 4.0%	23,000,000	17,450,000	-	670,000	16,780,000
Series B	2/8/2017	8/1/2041	3.0% - 5.0%	20,000,000	18,535,000	-	1,605,000	16,930,000
<i>Refunding Issues</i>								
2010 Refunding	6/16/2010	8/1/2020	2.0% - 4.0%	9,095,000	7,145,000	-	3,380,000	3,765,000
2012 Refunding	8/9/2012	8/1/2024	2.0% - 4.0%	12,845,000	8,710,000	-	785,000	7,925,000
<i>Total High School District</i>					54,255,000	-	6,440,000	47,815,000
<i>Total General Obligation Bonds</i>					\$ 73,780,000	\$ -	\$ 8,330,000	\$ 65,450,000

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

Fiscal Year	Principal	Interest	Totals
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
2024-2025	2,525,000	1,695,738	4,220,738
2025-2030	7,595,000	7,528,063	15,123,063
2030-2035	10,570,000	5,899,566	16,469,566
2035-2040	15,970,000	3,554,516	19,524,516
2040-2043	9,480,000	492,406	9,972,406
	\$ 65,450,000	\$ 27,118,069	\$ 92,568,069

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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

B. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2020, 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, 2018 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, 2019, 5,744 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, 2020, the District reported a liability of \$384,208 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, 2019, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total OPEB liability to June 30, 2019. 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. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	<u>Percentage Share of MPP Program</u>		
	<u>Fiscal Year</u>	<u>Fiscal Year</u>	<u>Change</u>
	<u>Ending</u>	<u>Ending</u>	<u>Increase/</u>
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>(Decrease)</u>
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	
Proportion of the Net OPEB Liability	0.103172%	0.103728%	-0.000556%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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)

For the year ended June 30, 2020, the District reported OPEB expense of \$(12,829).

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 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, 2019
Valuation Date	June 30, 2018
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.00%
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 380, or an average of 0.23% of the potentially eligible population (165,422).

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

Discount Rate

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, 2019, 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 California State Treasurer.

The discount rate used to measure the total OPEB liability was 3.50%. The MPP Program is funded on a pay-as-you-go basis as previously noted, 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 3.50%, which is the Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37% from 3.87% as of June 30, 2018.

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

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

Medicare Premium Payment (MPP) Program (continued)

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	\$ 419,259
Current discount rate	\$ 384,208
1% increase	\$ 351,980

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	\$ 350,102
Current trend rate	\$ 384,208
1% increase	\$ 423,295

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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, 2020, 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:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 60,288,959	\$ 22,576,941	\$ 9,679,977	\$ 8,738,056
CalPERS	26,652,082	6,410,424	1,571,748	5,276,525
Total	<u>\$ 86,941,041</u>	<u>\$ 28,987,365</u>	<u>\$ 11,251,725</u>	<u>\$ 14,014,581</u>

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, 2018, 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 non-employer 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, 2020

NOTE 8 – PENSION PLANS (continued)

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

Benefits Provided (continued)

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	17.10%	17.10%
Required State Contribution Rate	10.328%	10.328%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In June 2019, California Senate Bill 90 (SB 90) was signed into law and appropriated approximately \$2.2 billion in fiscal year 2018–19 from the state's General Fund as contributions to CalSTRS on behalf of employers. The bill requires portions of the contribution to supplant the amounts remitted by employers such that the amounts remitted will be 1.03 and 0.70 percentage points less than the statutorily required amounts due for fiscal years 2019–20 and 2020–21, respectively. The remaining portion of the contribution is allocated to reduce the employers' share of the unfunded actuarial obligation of the DB Program.

The contribution rates for each program for the year ended June 30, 2020, are presented above, and the District's total contributions were \$6,613,241.

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

At June 30, 2020, 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	\$	60,288,959
State's proportionate share of the net pension liability associated with the District		<u>32,891,652</u>
Total	\$	<u>93,180,611</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2020</u>	<u>Fiscal Year Ending June 30, 2019</u>	
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	
Proportion of the Net Pension Liability	0.066753%	0.065962%	0.000792%

For the year ended June 30, 2020, the District recognized pension expense of \$8,738,056. In addition, the District recognized pension expense and revenue of \$899,904 for support provided by the State. At June 30, 2020, 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	\$ 6,613,241	\$ -
Net change in proportionate share of net pension liability	8,047,420	5,519,908
Difference between projected and actual earnings on pension plan investments	138,846	2,461,196
Changes of assumptions	7,625,236	-
Differences between expected and actual experience	152,198	1,698,873
Total	<u>\$ 22,576,941</u>	<u>\$ 9,679,977</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, 2020

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 of Resources	Deferred Inflows of Resources
2021	\$ 3,718,715	\$ 2,045,906
2022	3,718,715	3,657,999
2023	3,718,715	2,067,935
2024	3,859,564	833,579
2025	427,497	873,631
Thereafter	520,494	200,927
Total	<u>\$ 15,963,700</u>	<u>\$ 9,679,977</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, 2018 and rolling forward the total pension liability to June 30, 2019. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price of Inflation	2.75%
Wage Growth	3.50%

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

The long-term investment 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) 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, 2020

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

For each future valuation, CalSTRS' independent 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%	4.8%
Fixed Income	12%	1.3%
Real Estate	13%	3.6%
Private Equity	13%	6.3%
Risk Mitigating Strategies	9%	1.8%
Inflation Sensitive	4%	3.3%
Cash/Liquidity	2%	(0.4%)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates in accordance with the rate increases. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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%)	\$ 89,775,250
Current discount rate (7.10%)	60,288,959
1% increase (8.10%)	35,839,208

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. 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 \$4,588,077.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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, 2018 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-resources/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, 2020, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
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	2.0 – 2.5%	2.0 – 2.5%
Required Employee Contribution Rate	7.00%	7.00%
Required Employer Contribution Rate	19.721%	19.721%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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, 2020 are presented above, and the total District contributions were \$2,621,924.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$26,652,082. The net pension liability was measured as of June 30, 2019. 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:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	
Measurement Date	June 30, 2019	June 30, 2018	
Proportion of the Net Pension Liability	0.091449%	0.090225%	0.001224%

For the year ended June 30, 2020, the District recognized pension expense of \$5,276,525. At June 30, 2020, 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	\$ 2,621,924	\$ -
Net change in proportionate share of net pension liability	269,692	1,010,470
Difference between projected and actual earnings on pension plan investments	314,075	561,278
Changes of assumptions	1,268,722	-
Differences between expected and actual experience	1,936,011	-
Total	\$ 6,410,424	\$ 1,571,748

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 4.1 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 of Resources	Deferred Inflows of Resources
2021	\$ 2,332,828	\$ 548,373
2022	904,283	839,579
2023	377,774	183,796
2024	167,036	-
2025	6,579	-
Thereafter	-	-
Total	<u>\$ 3,788,500</u>	<u>\$ 1,571,748</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, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018 used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2018
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.50%
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. These tables are used to estimate the value of benefits expected to be paid for service and disability retirements. For disability retirements, impaired longevity is recognized by a separate table.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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 and forecasted information for all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative 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 discount rate is not adjusted for administrative expenses. The fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for the pension plan's investments was applied to all periods of projected benefit payments to determine the 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%)	\$ 38,417,224
Current discount rate (7.15%)	26,652,082
1% increase (8.15%)	16,892,084

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, 2020, the District reported payables of \$281 and \$-0- for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2020.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

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.

B. Construction Commitments

As of June 30, 2020, the District had commitments with respect to unfinished capital projects of \$647,049.

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, 2020.

D. Impact of COVID-19

On March 13, 2020, a presidential emergency was declared due to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. The declaration made federal disaster assistance available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act to the State of California to supplement the local recovery efforts by the K-12 education community. On that same date, Governor Newsom issued Executive Order N-26-20, guaranteeing continued State funding, holding LEAs harmless from several regulations, and providing guidelines for LEAs to operate under a "distance learning" environment.

In response, the District announced the closing of all schools in mid-March. With nearly all districts in California shut down to stem the spread of COVID-19, officials statewide hastily put in place plans to deliver "grab and go" meals with minimal contact between cafeteria staff, volunteers and families in need. In addition, the District worked to implement distance learning for all students for the remainder of the 2019-20 school year. Construction projects were able to begin earlier than planned due to the absence of students resulting from the school closures.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2020

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

D. Impact of COVID-19 (continued)

A companion bill to Executive Order N-26-20, Senate Bill 117 changed the method used by the District to calculate average daily attendance (ADA) for both the P-2 and Annual period apportionment to include all full school months from July 1, 2019 to February 29, 2020. As events unfold and changes are made on a daily basis, the future impacts of COVID-19 on the District's operations are not fully known at this time.

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, 2020, 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 2019-20, 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.

Required Supplementary Information

(This page intentionally left blank)

PETALUMA CITY SCHOOLS

*Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2020*

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 70,829,988	\$ 70,783,897	\$ 70,683,321	\$ (100,576)
Federal Sources	3,690,578	4,066,077	3,369,862	(696,215)
Other State Sources	6,939,254	11,030,511	8,632,149	(2,398,362)
Other Local Sources	9,317,200	11,284,952	10,818,112	(466,840)
Total Revenues	90,777,020	97,165,437	93,503,444	(3,661,993)
Expenditures				
Current:				
Certificated Salaries	37,248,983	39,072,507	38,773,771	298,736
Classified Salaries	13,305,137	13,725,372	13,176,756	548,616
Employee Benefits	24,243,835	27,654,543	25,493,850	2,160,693
Books and Supplies	5,953,395	11,053,997	4,503,188	6,550,809
Services and Other Operating	11,077,691	12,822,594	11,112,676	1,709,918
Capital Outlay	104,078	311,644	252,524	59,120
Other Outgo	(114,958)	(108,065)	(78,201)	(29,864)
Total Expenditures	91,818,161	104,532,592	93,234,564	11,298,028
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(1,041,141)	(7,367,155)	268,880	7,636,035
Other Financing Sources and Uses				
Interfund Transfers Out	(150,000)	(150,000)	(154,614)	(4,614)
Net Change in Fund Balances	(1,191,141)	(7,517,155)	114,266	7,631,421
Fund Balances, July 1, 2019	10,800,445	17,569,888	17,569,885	(3)
Fund Balances, June 30, 2020	<u>\$ 9,609,304</u>	<u>\$ 10,052,733</u>	17,684,151	<u>\$ 7,631,418</u>
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
		Deferred Maintenance Fund	<u>4,544</u>	
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:			<u>\$ 17,688,695</u>	

PETALUMA CITY SCHOOLS

*Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2020*

	<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>	<u>2013-14</u>
CalSTRS						
District's proportion of the net pension liability	<u>0.0668%</u>	<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>\$ 60,288,959</u>	<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>32,891,652</u>	<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>\$ 93,180,611</u>	<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>\$ 36,199,017</u>	<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>166.55%</u>	<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>73%</u>	<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>0.0914%</u>	<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>\$ 26,652,082</u>	<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>\$ 12,705,725</u>	<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>209.76%</u>	<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>70%</u>	<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, 2020

	<i>Last Ten Fiscal Years*</i>					
	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
CalSTRS						
Contractually required contribution	\$ 6,613,241	\$ 5,893,200	\$ 5,127,986	\$ 4,242,341	\$ 3,622,620	\$ 2,871,580
Contributions in relation to the contractually required contribution	<u>6,613,241</u>	<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>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 38,673,922</u>	<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>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS						
Contractually required contribution	\$ 2,621,924	\$ 2,294,908	\$ 1,850,651	\$ 1,642,792	\$ 1,400,218	\$ 1,354,896
Contributions in relation to the contractually required contribution	<u>2,621,924</u>	<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>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 13,295,086</u>	<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>19.721%</u>	<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, 2020*

Last Ten Fiscal Years*

	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>
District's proportion of net OPEB liability	0.1032%	0.1037%	0.1006%
District's proportionate share of net OPEB liability	\$ 384,208	\$ 397,037	\$ 423,353
Covered-employee payroll	N/A	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	(0.81%)	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, 2020

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 - There were no changes in economic assumptions since the previous valuations for either CalSTRS or CalPERS.

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 discount rate was changed from 3.87 percent to 3.50 percent since the previous valuation.

(This page intentionally left blank)

Supplementary Information

(This page intentionally left blank)

PETALUMA CITY SCHOOLS

Local Educational Agency Organization Structure

June 30, 2020

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, 2020*

PETALUMA CITY ELEMENTARY		
	Second Period Report	Annual Report
	Certificate No. 34E53740	Certificate No. 309EEC35
Regular ADA:		
TK/Grades K-3	880.31	880.31
Grades 4-6	713.26	713.26
Total Regular ADA	1,593.57	1,593.57
Special Education, Nonpublic, Nonsectarian Schools:		
Grades 4-6	0.56	0.56
Total Special Education ADA	0.56	0.56
Total ADA	1,594.13	1,594.13

PETALUMA JOINT UNION HIGH		
	Second Period Report	Annual Report
	Certificate No. 36B849AE	Certificate No. 3D0C1C37
Regular ADA:		
Grades 7-8	1,397.21	1,397.21
Grades 9-12	3,124.48	3,124.48
Total Regular ADA	4,521.69	4,521.69
Special Education, Nonpublic, Nonsectarian Schools:		
Grades 7-8	6.05	6.05
Grades 9-12	23.11	23.11
Total Special Education ADA	29.16	29.16
Total ADA	4,550.85	4,550.85

PETALUMA CITY SCHOOLS

*Schedule of Average Daily Attendance - Charters
For the Fiscal Year Ended June 30, 2020*

Mary Collins School at Cherry Valley		
	Second Period Report	Annual Report
	Certificate No. 5BA689B2	Certificate No. 02F7F3E6
Regular ADA:		
TK/Grades K-3	179.74	179.74
Grades 4-6	129.65	129.65
Grades 7-8	82.77	82.77
Total ADA	<u>392.16</u>	<u>392.16</u>
Total Classroom-Based ADA	<u>392.16</u>	<u>392.16</u>

Sixth Grade Charter Academy		
	Second Period Report	Annual Report
	Certificate No. 5C82F5A2	Certificate No. 3DD4327D
Regular ADA:		
Grades 4-6	25.87	25.87
Total Classroom-Based ADA	<u>25.87</u>	<u>25.87</u>

Penngrove Elementary		
	Second Period Report	Annual Report
	Certificate No. C2BCF937	Certificate No. 85A7733D
Regular ADA:		
TK/Grades K-3	277.24	277.24
Grades 4-6	141.81	141.81
Total ADA	<u>419.05</u>	<u>419.05</u>
Total Classroom-Based ADA	<u>419.05</u>	<u>419.05</u>

Gateway to College Academy		
	Second Period Report	Annual Report
	Certificate No. D161F2D6	Certificate No. B9F9476B
Regular ADA:		
Grades 9-12	46.18	46.18
Total Classroom-Based ADA	<u>46.18</u>	<u>46.18</u>

Petaluma Accelerated		
	Second Period Report	Annual Report
	Certificate No. 59677A9E	Certificate No. 066C2A5D
Regular ADA:		
Grades 7-8	110.02	110.02
Total Classroom-Based ADA	<u>110.02</u>	<u>110.02</u>

PETALUMA CITY SCHOOLS
Schedule of Instructional Time - District
For the Fiscal Year Ended June 30, 2020

PETALUMA CITY SCHOOLS				
Grade Level	Required	2019-20	Number of Days	Status
		Offered	Traditional	
		Minutes	Calendar	
Kindergarten	36,000	46,240	180	Complied
Grade 1	50,400	50,955	180	Complied
Grade 2	50,400	50,955	180	Complied
Grade 3	50,400	50,955	180	Complied
Grade 4	54,000	54,025	180	Complied
Grade 5	54,000	54,025	180	Complied
Grade 6	54,000	54,025	180	Complied
Grade 7	54,000	54,906	180	Complied
Grade 8	54,000	54,906	180	Complied
Grade 9	64,800	65,170	180	Complied
Grade 10	64,800	65,170	180	Complied
Grade 11	64,800	65,315	180	Complied
Grade 12	64,800	65,170	180	Complied

PETALUMA CITY SCHOOLS
Schedule of Instructional Time - Charters
For the Fiscal Year Ended June 30, 2020

Mary Collins School at Cherry Valley				
Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	43,845	180	Complied
Grade 1	50,400	50,445	180	Complied
Grade 2	50,400	50,445	180	Complied
Grade 3	50,400	50,445	180	Complied
Grade 4	54,000	54,825	180	Complied
Grade 5	54,000	54,825	180	Complied
Grade 6	54,000	57,120	180	Complied
Grade 7	54,000	57,120	180	Complied
Grade 8	54,000	57,120	180	Complied

Sixth Grade Charter Academy				
Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Grade 6	54,000	54,906	180	Complied

Penngrove Elementary				
Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	48,300	180	Complied
Grade 1	50,400	52,356	180	Complied
Grade 2	50,400	52,356	180	Complied
Grade 3	50,400	53,436	180	Complied
Grade 4	54,000	55,626	180	Complied
Grade 5	54,000	55,626	180	Complied
Grade 6	54,000	55,626	180	Complied

Gateway to College Academy				
Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Grade 9	64,800	65,200	180	Complied
Grade 10	64,800	65,200	180	Complied
Grade 11	64,800	65,200	180	Complied
Grade 12	64,800	65,200	180	Complied

Petaluma Accelerated				
Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Grade 7	54,000	57,210	180	Complied
Grade 8	54,000	57,210	180	Complied

PETALUMA CITY SCHOOLS
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2020

General Fund	(Budget)	2020	2019	2018
	2021 ³			
Revenues and other financing sources	\$ 97,149,468	\$ 93,503,444	\$ 92,065,187	\$ 83,992,735
Expenditures	97,584,457	93,234,564	89,745,651	83,451,296
Other uses and transfers out	175,000	154,614	97,597	152,393
Total outgo	97,759,457	93,389,178	89,843,248	83,603,689
Change in fund balance (deficit)	(609,989)	114,266	2,221,939	389,046
Ending fund balance	\$ 17,074,162	\$ 17,684,151	\$ 17,569,885	\$ 15,347,946
Available reserves ¹	\$ 6,563,206	\$ 7,553,444	\$ 7,223,692	\$ 6,552,510
Available reserves as a percentage of total outgo	6.7%	8.1%	8.0%	7.8%
Total long-term debt	\$ 148,707,284	\$ 155,593,551	\$ 161,780,916	\$ 165,429,814
Average daily attendance at P-2 ²	N/A	7,138	7,154	7,054

The General Fund balance has increased by \$2,336,205 over the past two years. The fiscal year 2020-21 adopted budget projects a decrease of \$609,989. 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 2020-21 fiscal year. Long-term debt has decreased by \$9,836,263 over the past two years.

Average daily attendance has increased by 84 over the past two years. No ADA will be reported in 2020-21.

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 August, 2020.

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, 2020*

*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, 2020

Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S.Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	\$ 3,975	
School Breakfast Program - Especially Needy	10.553	13526	225,576	
National School Lunch Program	10.555	13523	555,944	
Summer Feeding Option	10.555	13523	109,520	
USDA Donated Foods	10.555	N/A	102,819	
Subtotal Child Nutrition Cluster:				\$ 997,834
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	47,938	
CACFP in Lieu of Commodities	10.558	N/A	3,879	
Subtotal Child and Adult Food Program Cluster				51,817
Total U.S.Department of Agriculture				1,049,651
U.S. Department of Treasury:				
Passed through California Dept. of Education (CDE):				
COVID 19-Coronavirus Relief Fund (CRF)	21.019	25516		373,544
U.S.Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	495,871	
School Improvement Funding for LEAs	84.010	15438	617,498	
Subtotal Title I, Part A Cluster				1,113,369
Title II, Part A, Supporting Effective Instruction	84.367	14341		110,305
English Language Acquisition Grants:				
Title III, Immigrant Education Program	84.365	15146	13,992	
Title III, Limited English Proficiency	84.365	14346	102,743	
Total English Language Acquisition Grants Cluster				116,735
Title IV, Part A Student Support & Academic Enrichment Grants	84.424	15396		16,338
Adult Education Cluster:				
Adult Basic Education & ELA	84.002A	14508	52,326	
Adult Secondary Education	84.002	13978	69,237	
Total Adult Education Cluster				121,563
Carl D. Perkins Career Technical Education	84.048	14894		52,906
COVID-19 Education Stabilization Funds:				
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536		110,876
Passed through Sonoma County SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Basic Local Assistance Entitlement, Part B	84.027	13379	1,725,813	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	73,443	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	160,953	
Total Special Education (IDEA) Cluster				1,960,209
Total U.S.Department of Education				3,602,301
Total Expenditures of Federal Awards				\$ 5,025,496

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, 2020

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

* School closed effective June 30, 2020

PETALUMA CITY SCHOOLS

Note to the Supplementary Information

June 30, 2020

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. 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*. The instructional time presented in this schedule includes the days that the District was closed due to the COVID-19 pandemic.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been expended but have not been recorded as revenues by June 30, 2020.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 4,544,955
Differences between Federal Revenues and Expenditures:		
Child and Adult Food Care Program	10.558	(3,879)
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425	110,876
Coronavirus Relief Fund(CRF): Learning Loss Mitigation	21.019	<u>373,544</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,025,496</u>

Schedule of Charter Schools

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

Other Independent Auditors' Reports

(This page intentionally left blank)



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, 2020, and the related notes to the financial statements, which collectively comprise Petaluma City Schools' basic financial statements, and have issued our report thereon dated March 15, 2021.

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) as a basis for designing 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.

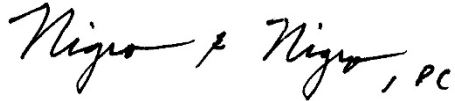
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Murrieta, California
March 15, 2021



**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, 2020. 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, 2020.

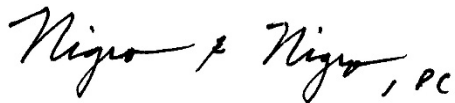
Report on Internal Control Over Compliance

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
March 15, 2021



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 2019-20 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, 2020.

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 2019-20 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

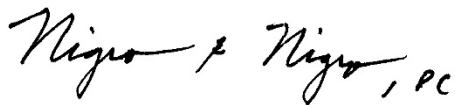
In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2020.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2020-001. Our opinion on each state program is not modified with respect to this matter.

District's Response to Finding

Petaluma City Schools' response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Petaluma City Schools' response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California
March 15, 2021

Findings and Questioned Costs

(This page intentionally left blank)

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020*

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster (IDEA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

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

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020*

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 2019-20.

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020*

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 2019-20.

PETALUMA CITY SCHOOLS

Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2020

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2020-001: Unduplicated Pupil Counts (40000)

Criteria:

California Education Code section 42238.01 states, in part:

“Eligible for free or reduced-price meals” means determined to meet federal income eligibility criteria, either through completing an application for the federal National School Lunch Program or through an alternative household income data collection form, or deemed to be categorically eligible for free or reduced-price meals under the federal National School Lunch Program, as described in Part 245 of Title 7 of the Code of Federal Regulations.

“Pupils of limited English proficiency” means pupils who do not have the clearly developed English language skills of comprehension, speaking, reading, and writing necessary to receive instruction only in English at a level substantially equivalent to pupils of the same age or grade whose primary language is English. “English learner” shall have the same meaning as provided for in subdivision (a) of Section 306 and as “pupils of limited English proficiency.”

California Education Code section 42238.02(b)(1) states:

For purposes of this section “unduplicated pupil” means a pupil enrolled in a school district or a charter school who is either classified as an English learner, eligible for a free or reduced-price meal, or is a foster youth. A pupil shall be counted only once for purposes of this section if any of the following apply:

- (A) The pupil is classified as an English learner and is eligible for a free or reduced-price meal.
- (B) The pupil is classified as an English learner and is a foster youth.
- (C) The pupil is eligible for a free or reduced-price meal and is classified as a foster youth.
- (D) The pupil is classified as an English learner, is eligible for a free or reduced-price meal, and is a foster youth.

California Education Code section 42238.02(b)(2) states:

Under procedures and timeframes established by the Superintendent, commencing with the 2013-14 fiscal year, a school district or charter school shall annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System.

California Education Code section 42238.02(b)(4) states:

The Superintendent shall make the calculations pursuant to this section using the data submitted by local educational agencies, including charter schools, through the California Longitudinal Pupil Achievement Data System. Under timeframes and procedures established by the Superintendent, school districts and charter schools may review and revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

PETALUMA CITY SCHOOLS

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020*

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

Finding 2020-001: Unduplicated Pupil Counts (40000) (continued)

Condition: During our review of the District’s Unduplicated Local Control Funding Formula (LCFF) Pupil Counts, we noted an error with one student who was improperly reported as free or reduced meal program eligible.

Context: We found one error in our sample of 51 students who were classified as FRPM eligible. We expanded our sample by an additional 40 students with no further exceptions.

Cause: The District reported a student as “Free” who was supposed to be classified as “Paid” based on their NSLP application.

Effect: The error results in a loss of apportionment of \$844. Refer to the summary chart below.

Program/Site:	<u>CALPADS Reported</u>	<u>Adjusted based on FRPM eligibility</u>	<u>Adjusted Total</u>
Mary Collins Charter School	<u>96</u>	<u>(1)</u>	<u>95</u>

The enrollment count of 409 was not impacted as a result of the procedures performed.

Recommendation: We recommend that the District implement controls to ensure that contemporaneous supporting documentation is maintained to support all students reported for the unduplicated pupil counts and implement policies and procedures to ensure that the CALPADS is updated with changes in students’ FRPM and EL designations.

Views of Responsible Officials: The District was made aware of the discrepancy and immediately made the change in the CALPADS system for this student on the final day of the "amendment window" for Fall 1 and it was certified by District staff. Due to the timing of the correction in the actual CALPADS system and the fact that the CALPADS system itself was experiencing processing challenges during that time, the system did not process the final certification with these changes and therefore did not provide the District with the corrected "snapshot". Staff have implemented procedures to make corrections earlier to avoid these processing delays.

PETALUMA CITY SCHOOLS
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2020

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



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, 2020, 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 March 15, 2021 on the financial statements of Petaluma City Schools.

ASSOCIATED STUDENT BODY (ASB)

Observation: In our sample of cash receipts, we found 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. 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.

Recommendation: 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: During our testing of cash disbursements, we noted some disbursements lacked preapprovals by the District representative, the ASB advisor, and/or the student representative. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

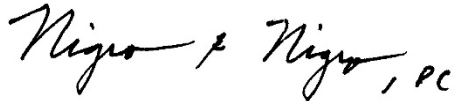
Recommendation: As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines. We recommend that the site adopt a procedure for compliance with the Education Code in obtaining the required approvals.

ASSOCIATED STUDENT BODY (ASB) (continued)

Observation: We noted at one of the sites tested there were two disbursements made were not consistent with the description of approved items noted on the purchase order.

Recommendation: We recommend that the sites emphasize the importance of properly filling out the purchase order. Proper description of items or services to be purchased should be noted to ensure goods or services being purchased by the ASB are allowable.

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

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

Murrieta, California
March 15, 2021