

**SANTA ROSA CITY SCHOOLS
SCHOOL DISTRICT
COUNTY OF SONOMA
SANTA ROSA, CALIFORNIA**

AUDIT REPORT

June 30, 2017



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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**SANTA ROSA CITY SCHOOLS
SONOMA COUNTY**

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SONOMA COUNTY**

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Santa Rosa City Schools
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Rosa City Schools (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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, each major fund, and the aggregate remaining fund information of Santa Rosa City Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Deficit Net Position

As of June 30, 2017, the District's net position in its Government-wide financial statements was at a deficit \$20,791,622 mostly because of the long-term pension liabilities and deferrals as reported in Note 9. Our opinion is not modified with respect to this matter.

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 pension contributions, schedule of proportionate share of net pension liability and schedule of funding progress for the retiree healthcare plan, as listed in the table of contents, 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.

Supplementary 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 combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards*, and the other information listed in the supplementary section of the table of contents, as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.



The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are the responsibility of management and were derived from and relates 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 combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of Santa Rosa City Schools's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Rosa City Schools's internal control over financial reporting and compliance.

C & A LLP

January 31, 2018
San Jose, California

Management's Discussion and Analysis

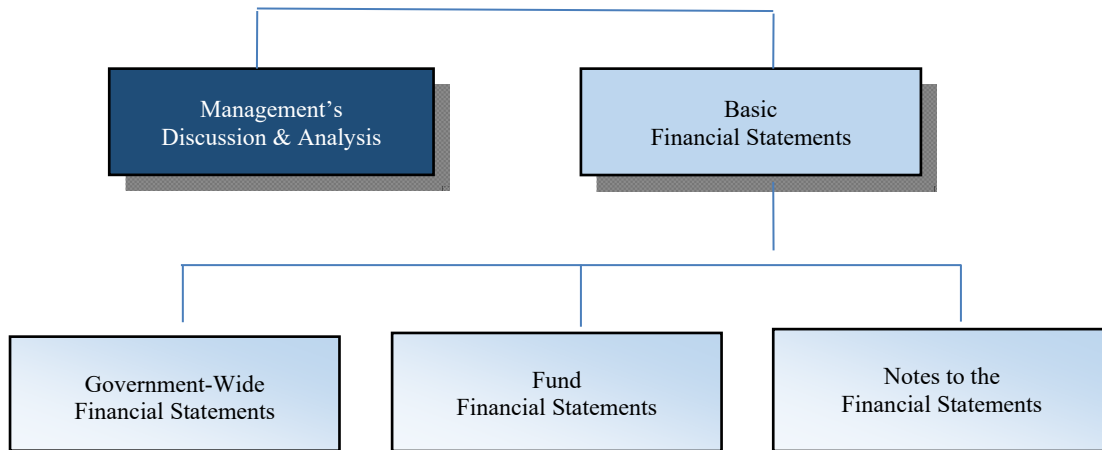
Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2017 were as follows:

- Total net position decreased by \$10,508,132 (102.18%), which included a decrease in unrestricted net position of \$14,916,869, from June 30, 2016 to June 30, 2017.
- The District recorded deferred outflows of resources of \$52,243,640 and deferred inflows of resources of \$19,012,064 as required by GASB 68 for pension accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 1 in the notes to financial statements for a definition.
- The District had \$226,176,376 in government-wide expenses which is 103% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$33,388,692, or 15%, of the total revenues of \$220,429,840.
- General revenue of \$187,041,148 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 85% of total revenues in 2017 versus 81% in 2016.

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

- The fund balances of all governmental funds increased by \$53,772,507, which is a 78% increase from 2016 due to bond proceeds and premiums.
- Total governmental fund revenues and expenditures totaled \$218,828,541 and \$237,016,222, respectively.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2016 - 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on with the Balance Sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, Charter School Fund, Building Fund and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

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 program for property and liability claims.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2017 as compared to June 30, 2016:

Table 1 - Summary of Statement of Net Position				
Description	2017	2016	Change	Percentage Change
Assets				
Current Assets	\$ 140,240,217	\$ 80,286,092	\$ 59,954,125	74.68%
Capital Assets	184,851,232	194,219,412	(9,368,180)	-4.82%
Total Assets	\$ 325,091,449	\$ 274,505,504	\$ 50,585,945	18.43%
Total Deferred Outflows of Resources	\$ 52,243,640	\$ 23,138,377	\$ 29,105,263	55.71%
Liabilities				
Current Liabilities	\$ 18,825,501	\$ 12,485,041	\$ 6,340,460	50.78%
Long-term Liabilities	360,289,146	279,579,836	80,709,310	28.87%
Total Liabilities	\$ 379,114,647	\$ 292,064,877	\$ 87,049,770	29.80%
Total Deferred Inflows of Resources	\$ 19,012,064	\$ 15,862,494	\$ 3,149,570	16.57%
Net Position				
Net Investment in Capital Assets	\$ 76,244,170	\$ 78,684,361	\$ (2,440,191)	-3.10%
Restricted	36,677,714	29,828,786	6,848,928	22.96%
Unrestricted	(133,713,506)	(118,796,637)	(14,916,869)	-12.56%
Total Net Position	\$ (20,791,622)	\$ (10,283,490)	\$ (10,508,132)	-102.18%

During the year, deferred outflows of resources increased by 56%, deferred inflows of resources increased by 17%, and long-term liabilities increased by 29% mostly because of changes in pension amounts and actuarial assumptions related to GASB 68. GASB 68 requires all local governments that participate in cost sharing pension plans to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. There was no impact on fund balance as a result of GASB 68.

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Table 2 shows the changes in net position for fiscal year 2017 as compared to 2016:

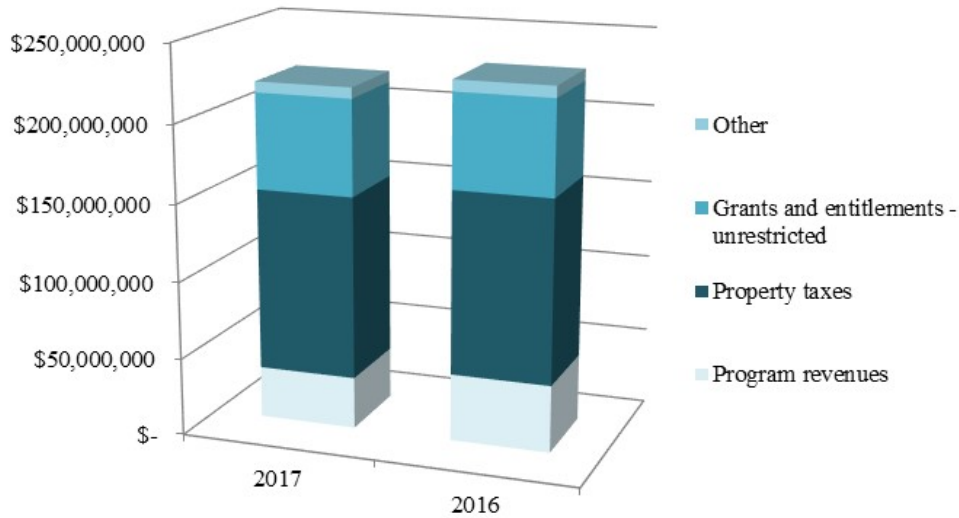
Table 2 - Summary of Changes in Statement of Activities				
Description	2017	2016	Change	Percentage Change
Revenues				
Program revenues	\$ 33,388,692	\$ 43,437,170	\$ (10,048,478)	-23.13%
General revenues:				
Property taxes	118,067,199	118,003,832	63,367	0.05%
Grants and entitlements - unrestricted	61,998,254	60,581,931	1,416,323	2.34%
Other	6,975,695	7,351,253	(375,558)	-5.11%
Total Revenues	220,429,840	229,374,186	(8,944,346)	-3.90%
Program Expenses				
Instruction	128,349,259	114,422,874	13,926,385	12.17%
Instruction-related services	25,940,739	22,807,469	3,133,270	13.74%
Pupil services	25,011,251	21,657,665	3,353,586	15.48%
General administration	11,072,594	8,798,292	2,274,302	25.85%
Plant services	24,945,274	18,916,608	6,028,666	31.87%
Ancillary services	3,693,913	3,602,091	91,822	2.55%
Community services	1,224,865	1,107,731	117,134	10.57%
Other outgo	242,059	263,593	(21,534)	-8.17%
Interest on long-term debt	5,696,422	5,564,908	131,514	2.36%
Total Expenses	226,176,376	197,141,231	29,035,145	14.73%
Special Item				
Loss on disposal of capital assets	(4,761,596)	-	(4,761,596)	100.00%
Change in Net Position	(10,508,132)	32,232,955	(42,741,087)	-132.60%
Beginning Net Position, as Adjusted	(10,283,490)	(42,516,445)	32,232,955	75.81%
Ending Net Position	\$ (20,791,622)	\$ (10,283,490)	\$ (10,508,132)	-102.18%

The District's expenses for instructional services was 68% of total expenses in 2016-17 as compared to 70% in 2015-16. The purely administrative activities of the District accounted for 5% of total costs in 2016-17 as compared to 4% in 2015-16. Interest on long-term debt represented 3% of total expenses in 2016-17 and 2015-16. Total expenses were 103% of revenue in 2016-17 versus 86% in 2015-16, which is reflected in the decrease in net position of \$10,508,132 in 2016-17 versus an increase in net position of \$32,232,955 in 2015-16. In regard to revenue, program revenues were 15% of total revenues in 2016-17 and 19% of total revenues in 2015-16.

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

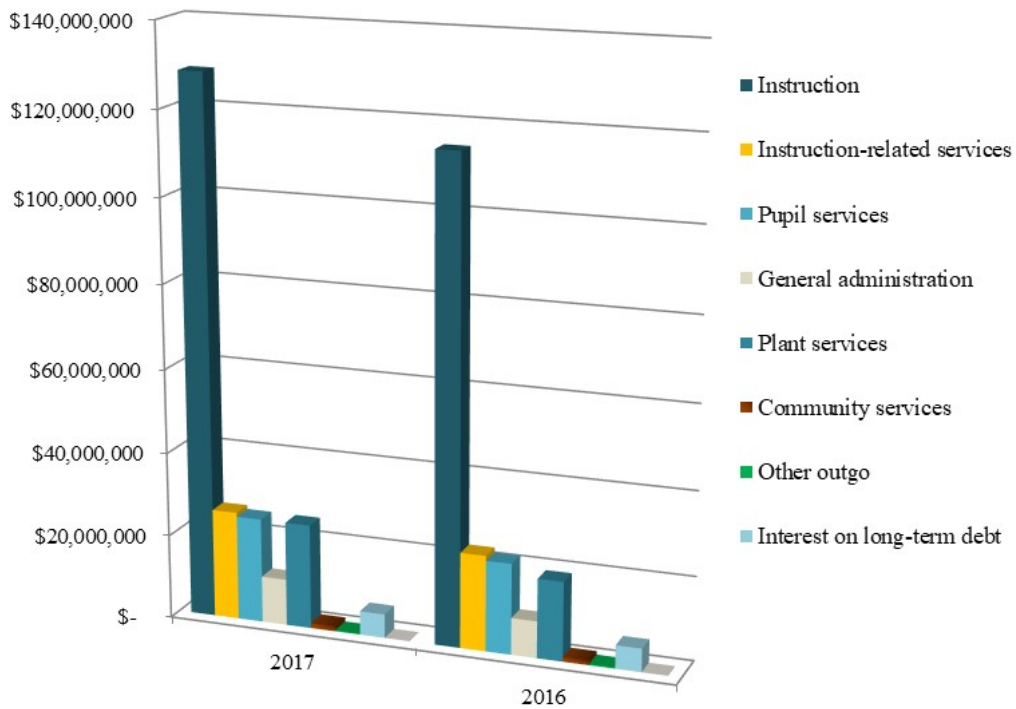
The following is a summary of government wide revenues for the fiscal year ended June 30, 2017:

Gov't Wide Revenues



The following is a summary of expenses by function for the fiscal year ended June 30, 2017:

Gov't Wide Program Expenses



Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services				
Description	2017	2016	Change	Percentage Change
Instruction	\$ 108,206,997	\$ 85,821,904	\$ 22,385,093	26.1%
Instruction-related services	22,539,860	18,848,948	3,690,912	19.6%
Pupil services	16,415,815	13,341,399	3,074,416	23.0%
General administration	10,438,134	8,161,303	2,276,831	27.9%
Plant services	24,541,765	17,451,080	7,090,685	40.6%
Ancillary services	3,504,929	3,420,161	84,768	2.5%
Community services	1,224,842	1,107,696	117,146	10.6%
Other outgo	218,920	(13,338)	232,258	106.1%
Interest on long-term debt	5,696,422	5,564,908	131,514	2.4%
Total Net Cost of Services	\$ 192,787,684	\$ 153,704,061	\$ 39,083,623	25.43%

The following summarizes the District's functions:

- *Instruction* expenditures include activities directly dealing with the teaching of pupils.
- *Instruction-related Services* include the activities involved with assisting staff with the content and process of educating students.
- *Pupil Services* include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- *General Administration* reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.
- *Plant Services* involve keeping the school grounds and equipment in effective working condition.
- *Ancillary Services* represent the expenditures associated with co-curricular and athletic programs.
- *Community Services* are expenses related to direct support around the community.
- *Other Outgo* includes tuitions and transfers of resources between the District and other educational agencies for services provided to District students.

THE DISTRICT'S FUNDS

Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

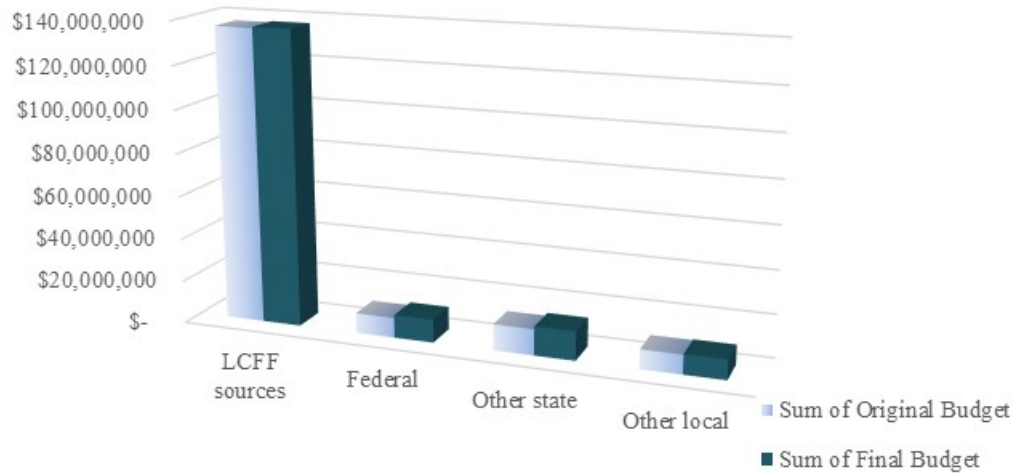
Table 4 - Summary of Fund Balances				
Description	2017	2016	Change	Percentage Change
General Fund	\$ 23,254,315	\$ 26,177,402	\$ (2,923,087)	-11.2%
Charter School Fund	2,186,124	1,559,423	626,701	40.2%
Building Fund	59,853,382	10,615,393	49,237,989	463.8%
Bond Interest and Redemption Fund	29,737,073	22,659,619	7,077,454	31.2%
Nonmajor Funds	7,963,426	8,209,976	(246,550)	-3.0%
Total Fund Balances	\$ 122,994,320	\$ 69,221,813	\$ 53,772,507	77.7%

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

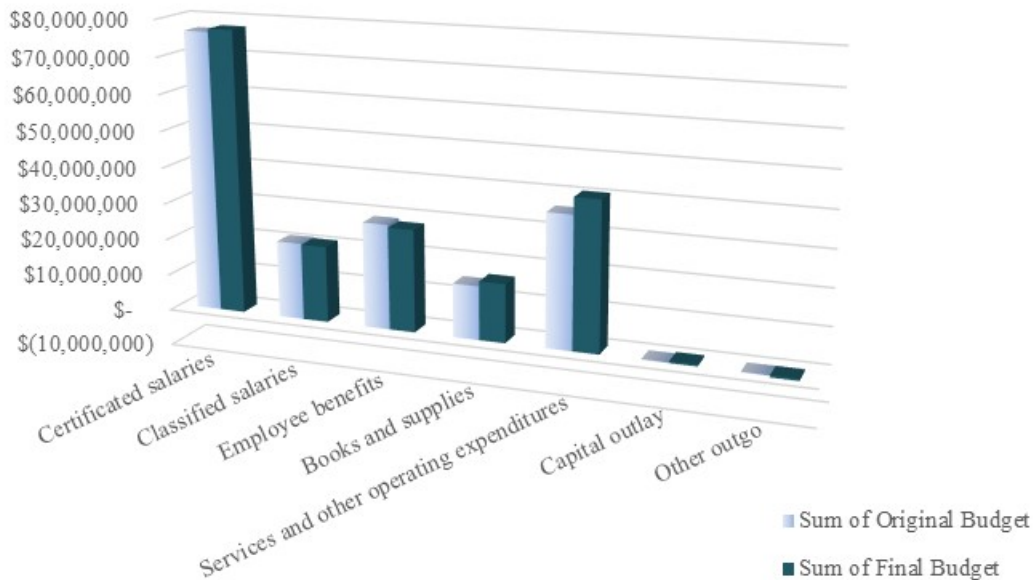
FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2016-17 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The following charts summarize the changes from the District's original and final budgets.

General Fund Budgeted Revenues



General Fund Budgeted Expenditures



Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSETS

Table 5 shows June 30, 2017 balances as compared to June 30, 2016.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2017	2016	Change	Percentage Change
Land	\$ 8,929,571	\$ 8,929,571	\$ -	0.00%
Work-in-Progress	14,547,573	12,020,906	2,526,667	21.02%
Buildings and improvements	153,274,882	167,582,989	(14,308,107)	-8.54%
Equipment	8,099,206	5,685,946	2,413,260	42.44%
Total Capital Assets - Net	\$184,851,232	\$194,219,412	\$ (9,368,180)	-4.82%

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities				
Description	2017	2016	Change	Percentage Change
General Obligation Bonds	\$ 176,668,227	\$128,946,181	\$47,722,046	37.01%
Certificates of Participation	8,219,538	8,164,803	54,735	0.67%
Net Pension Obligations	160,459,090	128,792,689	31,666,401	24.59%
Net OPEB Obligation	13,341,188	12,070,281	1,270,907	10.53%
Compensated Absences	1,601,103	1,605,882	(4,779)	-0.30%
Total Long-term Liabilities	\$ 360,289,146	\$279,579,836	\$80,709,310	28.87%

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that will affect the Santa Rosa City Schools' future.

The District had a decrease in ADA for 2016-2017 and is projecting level enrollment in future years.

One significant issue the District will face over the next few years is higher costs arising from scheduled pension contribution rate increases.

By far the largest unknown for California school districts is the implementation of the Local Control Funding Formula (LCFF) which replaced the state Revenue Limit funding model in 2013-2014. The eight years necessary to bring the District to target funding could be unpredictable and unstable, thereby creating a need for a larger reserve than past years.

Projections of California's economic future by the Department of Finance are positive, and the state has made significant progress toward the full implementation of the LCFF target funding. The economy has finished its seventh year of expansion, lasting two years longer than the average recovery. The Governor and the Department of Finance urge the Legislature and local governments, including School districts, to plan for the next recession. School districts are advised to budget conservatively and to maintain adequate reserves over the minimum typical 3%-5% required by the state.

Santa Rosa City Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Future predictions and uncertainties with the changes to the State funding formula, enrollment and aging District facilities require management to plan carefully and prudently to provide the necessary resources to meet the student's needs and continue to keep pace with inflation increases over the next several years.

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, please contact the Fiscal Services Office at 211 Ridgway Avenue, Santa Rosa, CA 95401 or call (707) 528-5206.

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Basic Financial Statements

SANTA ROSA CITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 131,199,732
Accounts receivable	8,815,129
Stores inventories and other assets	225,356
Total current assets	<u>140,240,217</u>
Noncurrent assets:	
Non-depreciable capital assets	23,477,144
Depreciable capital assets - net	161,374,088
Total noncurrent assets	<u>184,851,232</u>
Total Assets	<u><u>\$ 325,091,449</u></u>
 Deferred Outflows of Resources	
Pension adjustments	\$ 50,118,154
Deferred loss on early retirement of long-term debt	2,125,486
Total Deferred Outflows of Resources	<u><u>\$ 52,243,640</u></u>
 Liabilities	
Current liabilities:	
Accounts payable	\$ 14,946,953
Unearned revenue	1,673,548
Accrued interest	2,205,000
Total current liabilities	<u>18,825,501</u>
Long-term liabilities:	
Due within one year	22,955,000
Due after one year	337,334,146
Total long-term liabilities	<u>360,289,146</u>
Total Liabilities	<u><u>\$ 379,114,647</u></u>
 Deferred Inflows of Resources	
Pension adjustments	<u><u>\$ 19,012,064</u></u>
 Net Position	
Net investment in capital assets	\$ 76,244,170
Restricted for:	
Capital projects	3,808,699
Debt service	29,737,073
Cafeteria programs	621,305
Educational programs	2,510,637
Total restricted net position	<u>36,677,714</u>
Unrestricted	<u>(133,713,506)</u>
Total Net Position	<u><u>\$ (20,791,622)</u></u>

The notes to basic financial statements are an integral part of this statement

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

	Program Revenues				Net (Expense)
		Operating	Capital		
	Charges for	Grants and	Grants and		
	Services	Contributions	Contributions		
	Expenses				Changes in
					Net Position
Governmental activities:					
Instruction	\$ 128,349,259	\$ -	\$ 20,141,031	\$ 1,231	\$ (108,206,997)
Instruction-related services:					
Supervision of instruction	7,725,857	118,539	2,369,334	-	(5,237,984)
Instruction library, media and technology	1,463,530	-	15,168	-	(1,448,362)
School site administration	16,751,352	111	897,727	-	(15,853,514)
Pupil services:					
Home-to-school transportation	7,130,896	-	63,643	-	(7,067,253)
Food services	6,701,544	2,168,305	3,691,498	-	(841,741)
All other pupil services	11,178,811	-	2,671,990	-	(8,506,821)
General administration:					
Data processing	1,253,530	-	-	-	(1,253,530)
All other general administration	9,819,064	108,288	526,172	-	(9,184,604)
Plant services	24,945,274	39,787	363,722	-	(24,541,765)
Ancillary services	3,693,913	-	188,984	-	(3,504,929)
Community services	1,224,865	-	23	-	(1,224,842)
Payments to other agencies	242,059	-	23,139	-	(218,920)
Interest on long-term debt	5,696,422	-	-	-	(5,696,422)
Total governmental activities	<u>\$ 226,176,376</u>	<u>\$ 2,435,030</u>	<u>\$ 30,952,431</u>	<u>\$ 1,231</u>	<u>(192,787,684)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					90,067,580
Taxes levied for debt service					27,377,024
Taxes levied for other specific purposes					622,595
Federal and state aid non restricted to specific purposes					61,998,254
Interest and investment earnings					2,530,825
Interagency revenues					61,019
Miscellaneous					4,383,851
Special item - loss on disposal of capital assets					(4,761,596)
Total general revenues and special items					<u>182,279,552</u>
Change in net position					(10,508,132)
Net position beginning					<u>(10,283,490)</u>
Net position ending					<u>\$ (20,791,622)</u>

The notes to basic financial statements are an integral part of this statement

SANTA ROSA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 25,474,190	\$ 4,654,109	\$ 63,398,441	\$ 29,737,073	\$ 7,555,779	\$ 130,819,592
Accounts receivable	7,453,941	474,040	-	-	887,148	8,815,129
Due from other funds	3,487,904	431,676	1,356,722	-	2,353,442	7,629,744
Stores inventories and other assets	92,359	-	-	-	132,997	225,356
Total Assets	\$ 36,508,394	\$ 5,559,825	\$ 64,755,163	\$ 29,737,073	\$ 10,929,366	\$ 147,489,821
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 10,760,605	\$ 125,172	\$ 3,407,998	\$ -	\$ 598,635	\$ 14,892,410
Due to other funds	1,363,394	3,248,529	1,493,783	-	1,823,837	7,929,543
Unearned revenue	1,130,080	-	-	-	543,468	1,673,548
Total Liabilities	13,254,079	3,373,701	4,901,781	-	2,965,940	24,495,501
Fund balances:						
Nonspendable:						
Revolving fund	36,750	1,500	-	-	200	38,450
Stores inventory	92,359	-	-	-	132,997	225,356
Restricted for:						
Cafeteria programs	-	-	-	-	621,305	621,305
Capital projects	-	-	59,853,382	-	3,808,699	63,662,081
Educational programs	2,429,541	81,096	-	-	-	2,510,637
Debt service	-	-	-	29,737,073	-	29,737,073
Assigned for:						
Instructional Materials	5,467,822	-	-	-	-	5,467,822
Synthetic field replacement	390,982	-	-	-	-	390,982
Capital projects	-	-	-	-	2,685,172	2,685,172
Charter school programs	-	2,103,528	-	-	-	2,103,528
Child care program	-	-	-	-	1,099	1,099
Deferred maintenance	-	-	-	-	713,954	713,954
Unassigned:						
Economic uncertainties	5,254,142	-	-	-	-	5,254,142
Unappropriated	9,582,719	-	-	-	-	9,582,719
Total Fund Balances	23,254,315	2,186,124	59,853,382	29,737,073	7,963,426	122,994,320
Total Liabilities and Fund Balances	\$ 36,508,394	\$ 5,559,825	\$ 64,755,163	\$ 29,737,073	\$ 10,929,366	\$ 147,489,821

The notes to basic financial statements are an integral part of this statement

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

Total fund balances - governmental funds	\$ 122,994,320
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Amounts reported in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets at cost	\$ 352,546,565	
Accumulated depreciation	<u>(167,695,333)</u>	184,851,232

The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position, while contributions made in the current were reported as deferred outflows of resources because they were not paid as of the plans' valuation dates.	31,106,090
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Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(2,205,000)
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An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	625,396
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

General obligation bonds	\$ 176,668,227	
Certificates of participation	8,219,538	
Loss on early retirement of long-term debt	(2,125,486)	
Net pension obligations	160,459,090	
Annual net OPEB obligation	13,341,188	
Compensated absences (vacation)	<u>1,601,103</u>	<u>(358,163,660)</u>

Total net position - governmental activities	<u><u>\$ (20,791,622)</u></u>
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The notes to basic financial statements are an integral part of this statement

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

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
LCFF sources	\$ 135,753,325	\$ 9,373,101	\$ -	\$ -	\$ -	\$ 145,126,426
Federal revenue	8,953,738	-	-	-	4,077,990	13,031,728
Other state	16,352,214	869,797	676	198,901	1,040,612	18,462,200
Other local	10,724,391	97,048	422,941	27,362,593	3,601,214	42,208,187
Total revenues	171,783,668	10,339,946	423,617	27,561,494	8,719,816	218,828,541
Expenditures:						
Current						
Instruction	110,407,366	6,583,988	-	-	451,382	117,442,736
Instruction-related services:						
Supervision of instruction	7,309,164	183,548	-	-	-	7,492,712
Instruction library, media and technology	963,621	68,535	-	-	-	1,032,156
School site administration	13,776,044	857,640	-	-	-	14,633,684
Pupil services:						
Home-to-school transportation	6,910,468	-	-	-	-	6,910,468
Food services	17,505	-	-	-	6,513,645	6,531,150
All other pupil services	10,751,514	84,349	-	-	-	10,835,863
General administration:						
Data processing	934,989	-	-	-	-	934,989
All other general administration	8,125,626	1,050,635	-	-	324,601	9,500,862
Plant services	12,680,694	453,219	10,590,513	-	996,130	24,720,556
Facilities acquisition and construction	-	-	5,292,125	-	393,376	5,685,501
Ancillary services	1,877,290	-	-	-	-	1,877,290
Community services	1,187,002	-	-	-	-	1,187,002
Payments to other agencies	196,803	-	-	-	38,978	235,781
Debt service:						
Principal	-	-	-	22,690,000	-	22,690,000
Interest and fees	-	-	302,990	4,754,228	248,254	5,305,472
Total expenditures	175,138,086	9,281,914	16,185,628	27,444,228	8,966,366	237,016,222
Excess (deficiency) of revenues over (under) expenditures	(3,354,418)	1,058,032	(15,762,011)	117,266	(246,550)	(18,187,681)
Other financing sources (uses):						
Transfers in	733,000	301,669	-	-	60,000	1,094,669
Transfers out	(301,669)	(733,000)	-	-	(60,000)	(1,094,669)
Proceeds from bond issuance	-	-	65,000,000	-	-	65,000,000
Premium from bond issuance	-	-	-	6,960,188	-	6,960,188
Total other financing sources (uses)	431,331	(431,331)	65,000,000	6,960,188	-	71,960,188
Net changes in fund balances	(2,923,087)	626,701	49,237,989	7,077,454	(246,550)	53,772,507
Fund balances beginning	26,177,402	1,559,423	10,615,393	22,659,619	8,209,976	69,221,813
Fund balances ending	\$ 23,254,315	\$ 2,186,124	\$ 59,853,382	\$ 29,737,073	\$ 7,963,426	\$ 122,994,320

The notes to basic financial statements are an integral part of this statement

SANTA ROSA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Total net change in fund balances - governmental funds		\$ 53,772,507
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital assets additions	\$ 5,906,058	
Depreciation expense	<u>(10,512,642)</u>	(4,606,584)
Losses and adjustments on the disposal of capital assets are recorded as special items in the government-wide statement of activities but are not reported in the governmental funds.		
		(4,761,596)
Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements.		
		(54,735)
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		
		(5,586,493)
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The net effect of these differences in the treatment of long-term debt and related items is as follows:		
Repayment of debt principal		22,690,000
Amortization of loss on early retirement of long-term debt		(124,215)
Proceeds from bond issuances		(65,000,000)
Discounts and premiums related to bond issues are recorded as other financing sources and uses in the fund financial statements, but are recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:		
		(5,412,046)
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by:		
		4,779
In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net postemployment benefit obligation is not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of:		
		(1,270,907)
An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The net revenue of the internal service fund is reported with governmental activities		
		53,158
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
		<u>(212,000)</u>
Changes in net position of governmental activities		<u><u>\$(10,508,132)</u></u>

The notes to basic financial statements are an integral part of this statement

SANTA ROSA CITY SCHOOLS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Internal Service Self Insurance Fund
Assets	
Cash	\$ 380,140
Due from other funds	<u>299,799</u>
Total Assets	<u><u>\$ 679,939</u></u>
Liabilities	
Accounts payable	<u>\$ 54,543</u>
Total Liabilities	<u><u>\$ 54,543</u></u>
Net Position	
Restricted	<u>\$ 625,396</u>
Total Net Position	<u><u>\$ 625,396</u></u>

The notes to basic financial statements are an integral part of this statement

**SANTA ROSA CITY SCHOOLS
STATEMENT OF ACTIVITIES
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Internal Service Self Insurance Fund
Operating Revenues	
Charges to other funds	\$ 2,367,873
Operating Expenses	
Services and other operating expenditures	<u>2,317,207</u>
Operating Income (Loss)	50,666
Nonoperating Revenues (Expenses):	
Interest income	<u>2,492</u>
Change in Net Position	53,158
Beginning Net Position	<u>572,238</u>
Ending Net Position	<u><u>\$ 625,396</u></u>

The notes to basic financial statements are an integral part of this statement

**SANTA ROSA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2017**

	Internal Service Self Insurance Fund
Cash Flows from Operating Activities	
Cash received from assessments made to other funds	\$ 2,068,074
Cash paid for insurance and operating expenses	(2,306,266)
Net cash provided by (used for) operating activities	<u>(238,192)</u>
Cash Flows from Investing Activities	
Interest income	<u>2,492</u>
Increase in Cash and Cash Equivalents	(235,700)
Cash and Cash Equivalents - Beginning	<u>615,840</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 380,140</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 50,666
(Increase) decrease in due from other funds	(299,799)
Increase (decrease) in accounts payable	10,941
Net cash provided by operating activities	<u><u>\$ (238,192)</u></u>

The notes to basic financial statements are an integral part of this statement

SANTA ROSA CITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Expendable Trust Scholarship Fund	Student Body Agency Fund	Total
Assets			
Cash	\$ 27,525	\$ 1,044,923	\$ 1,072,448
Total Assets	<u>\$ 27,525</u>	<u>\$ 1,044,923</u>	<u>\$ 1,072,448</u>
Liabilities			
Due to student groups	\$ -	\$ 1,044,923	\$ 1,044,923
Total Liabilities	<u>\$ -</u>	<u>\$ 1,044,923</u>	<u>\$ 1,044,923</u>
Net Position			
Restricted	\$ 27,525	\$ -	\$ 27,525
Total Net Position	<u>\$ 27,525</u>	<u>\$ -</u>	<u>\$ 27,525</u>

The notes to financial statements are an integral part of this statement.

**SEQUOIA UNION HIGH SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Expendable Trust Scholarship Fund</u>
Additions	
Other local revenues	\$ 19,775
Deductions	
Other services and operating expenses	<u>15,024</u>
Changes in net position	4,751
Net position beginning	<u>22,774</u>
Net position ending	<u><u>\$ 27,525</u></u>

The notes to financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

The District does not have any component units and is not a component unit of any reporting entity for the fiscal year ended June 30, 2017.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements

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

are prepared. Governmental fund financial statements, therefore, include the reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

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

Fund Financial Statements:

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

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

Proprietary fund operating revenues 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 result from non-exchange transactions or ancillary activities.

Fiduciary funds are reported using the economic resources measurement focus except for agency fund, which have no measurement focus.

D. Basis of Accounting

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

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

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

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

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

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

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund and includes transactions accounted for in the Special Reserve Fund for Other Than Capital Outlay Projects. This fund is not substantially composed of restricted or committed revenue sources and does not meet the definition of a special revenue 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.

The *Charter Schools Fund* is used to account for the operations of the District's Charter Schools.

The *Building Fund* is used to account for the acquisition and construction of major governmental capital facilities and buildings from the sale of bond proceeds.

The *Bond Interest and Redemption Fund* is used to account for the interest and redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund.

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

The District maintains three nonmajor special revenue funds:

- The *Child Development Fund* is used to account for revenues received and expenditures made to the child development program subcontracted by the District.
- The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service programs.
- The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains three nonmajor capital projects funds:

- The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act ("CEQA").
- The *County School Facilities Fund* is used to account for apportionments from the State Schools Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects and facility hardship grants.
- The *Special Reserve Fund for Capital Outlay Projects* exists primarily to account for funds set aside for Board designated construction projects.

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:

- *Internal Service Fund* - The Self Insurance Fund is used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates this fund to account for dental insurance premiums.

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

- *Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.
- The *Scholarship Fund* is used to account for assets held by the District as trustee.

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F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

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

G. Encumbrances

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

H. 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 Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and CalSTRS. 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.

I. Assets, Liabilities, and Equity

1. Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other Districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. All District-directed investments are governed by *Government Code* Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

2. Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

3. Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District's central warehouse inventory is valued at a moving average cost and consists of expendable supplies held for consumption. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the

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benefiting period. The District has chosen to report the expenditure during the benefiting period, or when consumed.

4. Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of \$5,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-50
Furniture and fixtures	20
Vehicles	8
Computer system and equipment	5

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. 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.

6. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

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

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7. Fund Balance Classifications

The District maintains a minimum unassigned fund balance of not less than 3 percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which basic aid districts are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Nonspendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Assignments may be identified by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.
- *Unassigned* fund balance includes positive amounts within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

8. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in

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the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital projects restrictions will be used for the acquisition and construction of capital facilities.

Debt service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Cafeteria program restrictions reflect the amounts to be expended for federal and state funded school lunch and breakfast programs.

Educational program restrictions reflect the amounts to be expended on specific school programs that are legally restricted.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

9. Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, however, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and the new LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation*

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Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

10. Risk management

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District participated in the Northern California ReLiEF public entity risk pool for property and liability insurance coverage. 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.

Workers' Compensation

For fiscal year 2017, the District participated in the RESIG JPA for workers compensation.

11. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated as part of the reconciliation to the government-wide financial statements.

12. Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. Implemented New Accounting Pronouncements

GASB Statement No. 77, Tax Abatement Disclosures - Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District). This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the District under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated,

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provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients

- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial*

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Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement

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requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB 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 financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

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GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement 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 financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

NOTE 2 – CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2017 is as follows:

Description	Carrying Amount	Fair Value
Government-Wide Statements:		
Cash on hand	\$ 21,853	\$ 21,853
Cash with fiscal agent	139,342	139,342
Cash in revolving fund	38,450	38,450
Cash with County	131,000,087	130,582,050
Total Cash and Investments	\$ 131,199,732	\$ 130,781,695
Fiduciary Funds:		
Cash in Banks	\$ 1,072,448	\$ 1,072,448

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Cash on Hand, in Banks and in Revolving Fund

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2017, the bank balance of the District's bank accounts was \$1,087,388, of which \$590,014 was not insured by the FDIC.

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Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

As of June 30, 2017, the cash in the County investment pool of \$130,582,050 was valued using Level 2 inputs.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Policies and Practices

The District is authorized under California Government Code Section 53635 to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

1. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Sonoma County Investment Pool with a fair value of approximately \$2.218 billion and an amortized book value of \$2.229 billion. The average weighted maturity for this pool is 569 days.

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2. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County of Sonoma's investment pool is not rated, however, the investments within the pool are rated AA by Standard & Poor's and Moody's Investor Services.

3. 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. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2017, none 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.

4. Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2017:

Receivables	General Fund	Charter School Fund	Nonmajor Funds	Total
Federal	\$ 4,330,675	\$ -	\$ 771,132	\$ 5,101,807
State	1,682,128	52,229	75,248	1,809,605
Local	185,338	-	-	185,338
Other resources	1,255,800	421,811	40,768	1,718,379
Total Accounts Receivable	<u>\$ 7,453,941</u>	<u>\$ 474,040</u>	<u>\$ 887,148</u>	<u>\$ 8,815,129</u>

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NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2017 were as follows:

Capital Assets	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Land - not depreciable	\$ 8,929,571	\$ -	\$ -	\$ 8,929,571
Work-in-progress - not depreciable	12,020,906	2,526,667	-	14,547,573
Buildings and improvements	333,995,344	-	(24,289,624)	309,705,720
Furniture and equipment	15,984,310	3,379,391	-	19,363,701
Total capital assets	370,930,131	5,906,058	(24,289,624)	352,546,565
Less accumulated depreciation for:				
Buildings and improvements	166,412,355	9,546,511	(19,528,028)	156,430,838
Furniture and equipment	10,298,364	966,131	-	11,264,495
Total accumulated depreciation	176,710,719	10,512,642	(19,528,028)	167,695,333
Total capital assets - net depreciation	<u>\$ 194,219,412</u>	<u>\$ (4,606,584)</u>	<u>\$ (4,761,596)</u>	<u>\$ 184,851,232</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 6,118,660
Instruction library, media and technology	400,637
School site administration	1,678,245
Data processing	288,717
Food services	169,836
All other general administration	59,014
Plant services	40,791
Ancillary services	1,756,742
Total depreciation expense	<u>\$ 10,512,642</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2017 were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 733,000	\$ 301,669
Charter School Fund	301,669	733,000
Nonmajor Funds	60,000	60,000
Totals	<u>\$ 1,094,669</u>	<u>\$ 1,094,669</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Interfund Receivables/Payables (Due From/Due To)

Interfund receivables and payables consisted of the following as of June 30, 2017:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 3,487,904	\$ 1,363,394
Charter School Fund	431,676	3,248,529
Building Fund	1,356,722	1,493,783
Internal Service Self Insurance Fund	299,799	-
Nonmajor Funds	2,353,442	1,823,837
Totals	<u>\$ 7,929,543</u>	<u>\$ 7,929,543</u>

NOTE 6 – LONG-TERM DEBT

Schedule of Changes in Long-term Debt

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

Description	Balance July 01, 2016	Additions	Adjustments & Deletions	Balance June 30, 2017	Due Within One Year
General Obligation Bonds	\$ 128,946,181	\$ 71,960,188	\$ 24,238,142	\$ 176,668,227	\$ 22,955,000
Certificates of Participation:					
Principal Payments	8,140,444	-	-	8,140,444	-
Accreted Interest	24,359	54,735	-	79,094	-
Total COP's	<u>8,164,803</u>	<u>54,735</u>	<u>-</u>	<u>8,219,538</u>	<u>-</u>
Net Pension Obligations	128,792,689	54,209,824	22,543,423	160,459,090	-
Net OPEB Obligation	12,070,281	2,825,346	1,554,439	13,341,188	-
Compensated Absences	1,605,882	-	4,779	1,601,103	-
Total Long-term Liabilities	<u>\$ 279,579,836</u>	<u>\$129,050,093</u>	<u>\$ 48,340,783</u>	<u>\$ 360,289,146</u>	<u>\$ 22,955,000</u>

Payments on the general obligation bonds are made from the Bond Interest and Redemption Fund using local revenues. Compensated absences, other postemployment benefits and pension obligations are paid by the fund for which the employee worked.

General Obligation Bonds Payable

2015 General Obligation Refunding Bonds

On February 25, 2015, the District issued \$27,370,000 (High School District) and \$5,415,000 (Elementary School District) of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from May 1, 2015 through May 1, 2022. The net proceeds of \$36,623,038 (after premiums of \$3,936,393 and issuance costs and underwriter's discount of \$399,572) were used to prepay a portion of the District's outstanding Election of 2006, Series 2006 Bonds.

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2016 General Obligation Bonds

In 2016, the District issued \$9,500,000 in 2014 General Obligation Bonds, Series 2016A and 2016B, (Elementary School District), with an interest rate of 2-5%, for capital projects throughout the District. The District also issued \$12,165,000 in 2014 General Obligation Bonds, Series 2016A, (High School District), with an interest rate of 2-4%, for capital projects throughout the District. The net proceeds of \$22,098,070 (after payment of \$450,220 in underwriting fees, insurance, and other issuance costs and premiums of \$883,290).

In 2017, the District issued \$15,000,000 in 2014 General Obligation Bonds, Series 2016C, (Elementary School District), with an interest rate of 2-5% for capital projects throughout the District. The District also issued \$50,000,000 in 2014 General Obligation Bonds, Series 2016B, (High School District), with an interest rate of 2-5% for capital projects throughout the District. The net proceeds of \$71,420,188 (after payment of \$540,000 in issuance costs and premiums of \$6,960,188).

A summary of the District's general obligation bonded debt as of June 30, 2017 is as follows:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2016	Issued	Adjustments & Redeemed	Bonds Outstanding June 30, 2017
2011 GO Refunding Bonds	2026	2-5	\$ 18,575,000	\$ 14,600,000	\$ -	\$ 1,080,000	\$ 13,520,000
2011 GO Refunding Bonds	2026	2-4.125	4,950,000	3,830,000	-	295,000	3,535,000
2013 GO Refunding Bonds	2030	2-5	51,510,000	41,850,000	-	5,045,000	36,805,000
2013 GO Refunding Bonds	2030	2-4	9,815,000	8,890,000	-	490,000	8,400,000
2015 GO Refunding Bonds	2021	2-5	27,370,000	22,560,000	-	4,490,000	18,070,000
2015 GO Refunding Bonds	2022	2-5	5,415,000	4,615,000	-	740,000	3,875,000
2016 GO Bonds, Series A	2035	2-5	5,700,000	5,700,000	-	1,530,000	4,170,000
2016 GO Bonds, Series B	2018	2-4	3,800,000	3,800,000	-	1,000,000	2,800,000
2016 GO Bonds, Series A	2018	2-4	12,165,000	12,165,000	-	8,020,000	4,145,000
2016 GO Bonds, Series B	2041	2-5	50,000,000	-	50,000,000	-	50,000,000
2016 GO Bonds, Series C	2041	2-5	15,000,000	-	15,000,000	-	15,000,000
Subtotal General Obligation Bonds			204,300,000	118,010,000	65,000,000	22,690,000	160,320,000
Bond Premiums				10,936,181	6,960,188	1,548,142	16,348,227
Total General Obligation Bonds			<u>\$204,300,000</u>	<u>\$ 128,946,181</u>	<u>\$ 71,960,188</u>	<u>\$ 24,238,142</u>	<u>\$ 176,668,227</u>

The annual debt service requirements of the bonds as of June 30, 2017 are as follows:

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 22,955,000	\$ 5,713,280	\$ 28,668,280
2019	23,545,000	6,080,338	29,625,338
2020	14,295,000	5,173,188	19,468,188
2021	9,200,000	4,596,738	13,796,738
2022	5,710,000	4,190,556	9,900,556
2023-2027	30,240,000	16,901,588	47,141,588
2028-2032	19,375,000	10,626,768	30,001,768
2033-2037	14,335,000	7,285,750	21,620,750
2038-2042	20,665,000	3,267,750	23,932,750
Total Debt Service	<u>\$ 160,320,000</u>	<u>\$ 63,835,956</u>	<u>\$ 224,155,956</u>

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Certificates of Participation (COP's)

On November 19, 2015, the Public Property Financing Corporation of California issued certificates of participation in the aggregate amount of \$8,195,444. The certificates were issued as \$6,865,000 of current interest certificates and \$1,330,444 of capital appreciation certificates. The proceeds from the sale of the certificates were used to refund the June 12, 2008 certificates of participation which was issued to finance the 2008 Capital Project, that consisted of the acquisition, construction, installation, and equipping of improvements to various facilities within the Santa Rosa City High School District. As a result of the refunding, the District recognized a deferred loss on early retirement of long-term debt of \$552,542 which will be amortized over the life of the debt in the government-wide financial statements.

The annual debt service requirements of the COP's as of June 30, 2017 are as follows:

For the Fiscal Year Ending June 30,	Principal	Interest	Accreted Interest	Total
2018	\$ -	\$ 247,044	\$ -	\$ 247,044
2019	37,072	247,044	2,928	287,044
2020	65,000	246,394	-	311,394
2021	95,000	244,794	-	339,794
2022	125,000	242,594	-	367,594
2023-2027	869,505	1,192,656	285,495	2,347,656
2028-2032	1,673,867	1,145,264	516,133	3,335,264
2033-2037	4,145,000	666,188	-	4,811,188
2038-2042	1,130,000	22,600	-	1,152,600
Total Debt Service COP's	\$ 8,140,444	\$ 4,254,578	\$ 804,556	\$ 13,199,578

NOTE 7 – JOINT POWERS AGREEMENTS

The Santa Rosa City Schools participates in joint ventures under joint powers agreements with the Redwood Empire Schools' Insurance Group (RESIG), a Joint Powers Authority (JPA), for benefits. The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage as well as health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed audited financial information is available by contacting the JPA directly.

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NOTE 8 – COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Award, and Grants

The District has received federal and state 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.

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, 2017.

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	CalPERS	
	Tier 1	Tier 2
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	13.888%	6.25%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and

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shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	CalPERS
Contributions - employer	\$ 2,331,997
Contributions - employee	1,439,267
Total	<u>\$ 3,771,264</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
CalPERS	<u>\$ 32,700,460</u>

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

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

	CalPERS
Proportion - June 30, 2015	0.1648%
Proportion - June 30, 2016	0.1656%
Change in Proportions	<u>0.0008%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$4,764,238 for the Plan.

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At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,926,108	\$ -
Changes in assumptions	-	(1,003,392)
Differences between expected and actual experiences	1,436,406	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(591,454)
Net differences between projected and actual earnings on plan investments	8,480,342	(3,298,146)
Total	<u>\$ 12,842,856</u>	<u>\$ (4,892,992)</u>

The District reported \$2,926,108 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ 659,519
2019	663,207
2020	2,348,523
2021	1,352,507
Total	<u>\$ 5,023,756</u>

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Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Varies by age and service

(2) Net of pension plan investment expenses, including inflation

(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-

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term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalPERS
1% Decrease	6.65%
Net Pension Liability	\$ 48,611,228
Current Discount Rate	7.65%
Net Pension Liability	\$ 32,700,460
1% Increase	8.65%
Net Pension Liability	\$ 19,451,614

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

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California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS 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 credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law. The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	55
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	12.580%	12.580%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2017 the contributions recognized as part of pension expense for the Plan were as follows:

	CalSTRS
Contributions - employer	\$ 13,064,507
Contributions - employee	4,553,780
Total	<u>\$ 17,618,287</u>

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Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	\$ 127,758,630

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

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

	CalSTRS
Proportion - June 30, 2015	0.1552%
Proportion - June 30, 2016	0.1580%
Change in Proportions	0.0027%

For the year ended June 30, 2017, the District recognized pension expense of \$13,794,492 for the Plan. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,046,129	\$ -
Changes in assumptions	-	-
Differences between expected and actual experiences	-	(3,039,080)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	6,246,361	-
Net differences between projected and actual earnings on plan investments	20,982,808	(11,079,992)
Total	<u>\$ 37,275,298</u>	<u>\$ (14,119,072)</u>

The District reported \$10,046,129 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended

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June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ 702,656
2019	702,656
2020	6,242,652
2021	4,200,612
2020	486,440
Thereafter	775,081
Total	<u>\$ 13,110,097</u>

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.6% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using STRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan'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.

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

Asset Class	New Strategic Allocation	Long-Term Expected Rate of Return
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Inflation Sensitive	4.00%	3.80%
Private Equity	13.00%	9.30%
Real Estate	13.00%	5.20%
Absolute Return/Risk Mitigation	9.00%	2.90%
Liquidity	2.00%	-1.00%
Total	<u>100.00%</u>	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>CalSTRS</u>
1% Decrease	6.60%
Net Pension Liability	\$ 184,625,028
Current Discount Rate	7.60%
Net Pension Liability	\$ 127,758,630
1% Increase	8.60%
Net Pension Liability	\$ 80,528,705

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the following groups of employees.

Certificated employees may retire with District-paid health benefits after the late of age 55 and completion of at least 15 years of full-time District service.

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

Classified Local 75 and Classified Local 367 employees may retire with District-paid health benefits after the later of age 55 and completion of at least 15 years of District service in a classified position of at least 4 hours or more.

Management, Confidential, Supervisory, and Designated Hourly employees follow retiree provisions that mirror the Certificated contract.

Retirees may elect to receive medical, dental, and vision coverage for retiree only or retiree and dependents until age 65, but the monthly District contribution for retirees is limited to the retiree-only premium for medical, dental, and vision coverage. The District contribution for medical coverage is frozen in the year of retirement. Benefits end at age 65, after which the retiree may continue coverage by self-paying the entire premium.

Effective for retirements on or after July 1, 2013, Certificated (SRTA) retirees are subject to a dollar cap for the medical portion of their contribution equal to the Kaiser High rate for each fiscal year.

The District contribution is prorated for Classified retirees who worked less than 8 hours per day while in active service.

There are three Board Members (two retired and one active) who are entitled to lifetime District-paid individual coverage under a Board Policy that has since been repealed.

Funding Policy

The required contribution to the PHP is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2017, the District contributed \$887,989 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 2,979,731
Interest on net OPEB obligation	(500,731)
Adjustment to annual required contribution	<u>346,346</u>
Annual OPEB cost (expense)	2,825,346
Contributions made	<u>(1,554,439)</u>
Increase in net OPEB obligation	1,270,907
Net OPEB obligation - beginning of year	<u>12,070,281</u>
Net OPEB obligation - end of year	<u><u>\$ 13,341,188</u></u>

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 was as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 2,825,075	51.60%	\$ 10,132,924
June 30, 2016	\$ 2,979,731	29.80%	\$ 12,070,281
June 30, 2017	\$ 2,979,731	52.17%	\$ 13,341,188

Funded Status and Funding Progress

The following summarizes the funded status of the plan as of June 30, 2017:

Actuarial accrued liability (AAL)	\$ 23,581,656
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 23,581,656</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 84,700,000
UAAL as a percentage of covered payroll	27.84%

Actuarial Methods and Assumptions

In the Entry Age Normal method, the cost of each individual's OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a "normal cost" is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability.

The actuarial assumptions included a discount rate of 4% per year and an annual healthcare cost trend rate of 5% to 8%. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflect the expected investment return on the District's investments.

NOTE 11 – SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure except for the following:

On September 14, 2017, the District closed on \$21,090,000 General Obligation Refunding Bonds for the High School District. This Refunding Bond refunded a portion of the District's outstanding 2011 and 2013 General Obligation Refunding Bonds on an advance basis.

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

The District's 2017-18 first interim budget was issued under a qualified status. The District's 2017-18 multi-year projection shows fund balances of \$10.7 million, \$7.5 million, and \$6.8 million for fiscal years 2017-18, 2018-19, and 2019-20, respectively. The budget includes unidentified future budget solutions of \$5 million (fiscal year 2018-19) and \$7 million (fiscal year 2019-20) in order to meet the required minimum reserve for economic uncertainty. The qualification of the budget doesn't rise to the level of a lack in going concern or have a material impact on the 2016-17 audited financial statements.

REQUIRED
SUPPLEMENTARY
INFORMATION

SANTA ROSA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF sources	\$ 136,568,890	\$ 137,107,784	\$ 135,753,325	\$ (1,354,459)
Federal revenues	9,329,313	10,732,840	8,953,738	(1,779,102)
Other state	12,123,537	13,480,883	16,352,214	2,871,331
Other local	8,951,562	9,286,069	10,724,391	1,438,322
Total revenues	166,973,302	170,607,576	171,783,668	1,176,092
Expenditures:				
Certificated salaries	76,622,339	77,464,020	76,464,536	999,484
Classified salaries	21,084,556	20,843,748	20,469,599	374,149
Employee benefits	28,696,856	27,906,921	30,709,121	(2,802,200)
Books and supplies	14,631,205	15,959,203	7,392,007	8,567,196
Services and other operating expenditures	36,053,859	40,576,233	40,168,969	407,264
Capital outlay	152,770	529,009	411,974	117,035
Other outgo	(182,030)	(565,437)	(478,120)	(87,317)
Total expenditures	177,059,555	182,713,697	175,138,086	7,575,611
Excess (deficiency) of revenues over (under) expenditures	(10,086,253)	(12,106,121)	(3,354,418)	8,751,703
Other financing sources (uses):				
Transfers in	-	733,000	733,000	-
Transfers out	(233,790)	(233,790)	(301,669)	(67,879)
Total other financing sources (uses)	(233,790)	499,210	431,331	(67,879)
Change in fund balance	\$ (10,320,043)	\$ (11,606,911)	(2,923,087)	\$ 8,683,824
Fund balances beginning			26,177,402	
Fund balances ending			\$ 23,254,315	

Note: The expenditures noted above in excess of appropriations were covered by fund balance or appropriations available in other categories.

SANTA ROSA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
CHARTER SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF sources	\$ 10,141,624	\$ 9,823,899	\$ 9,373,101	\$ (450,798)
Other state	668,727	662,079	869,797	207,718
Other local	21,201	80,965	97,048	16,083
Total revenues	10,831,552	10,566,943	10,339,946	(226,997)
Expenditures:				
Certificated salaries	4,867,652	5,028,713	5,045,607	(16,894)
Classified salaries	795,103	768,058	729,879	38,179
Employee benefits	1,475,797	1,490,282	1,683,679	(193,397)
Books and supplies	773,526	790,007	515,032	274,975
Services and other operating expenditures	1,104,361	1,199,032	937,580	261,452
Other outgo	-	446,375	370,137	76,238
Total expenditures	9,016,439	9,722,467	9,281,914	440,553
Excess (deficiency) of revenues over (under) expenditures	1,815,113	844,476	1,058,032	213,556
Other financing sources (uses):				
Transfers in	138,790	138,790	301,669	162,879
Transfers out	-	(733,000)	(733,000)	-
Total other financing sources (uses)	138,790	(594,210)	(431,331)	162,879
Change in fund balance	<u>\$ 1,953,903</u>	<u>\$ 250,266</u>	626,701	<u>\$ 376,435</u>
Fund balances beginning			<u>1,559,423</u>	
Fund balances ending			<u>\$ 2,186,124</u>	

Note: The expenditures noted above in excess of appropriations were covered by fund balance or appropriations available in other categories.

**SANTA ROSA CITY SCHOOLS
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

CalPERS	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)			
Contributions in Relation to Actuarially Determined Contributions	\$ 2,926,108	\$ 2,193,239	\$ 1,957,100
Contribution Deficiency (Excess)	<u>2,926,108</u>	<u>2,193,239</u>	<u>1,957,100</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll			
	\$ 21,079,931	\$ 18,513,033	\$ 16,626,455
Contributions as a Percentage of Covered Payroll	13.89%	11.85%	11.77%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.7 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

CalSTRS	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 10,046,129	\$ 8,502,761	\$ 6,233,054
Contributions in Relation to Actuarially Determined Contributions	<u>10,046,129</u>	<u>8,502,761</u>	<u>6,233,054</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	\$ 79,926,863	\$ 79,242,880	\$ 70,192,050
Contributions as a Percentage of Covered Payroll	12.58%	10.73%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
7 Year Amortization Period
Inflation Assumed at 3%
Investment Rate of Returns set at 7.6%
STRS mortality table using membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

SANTA ROSA CITY SCHOOLS
SCHEDULE OF PROPORTION SHARE OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CalPERS	2017	2016	2015
Proportion of Net Pension Liability	0.16557%	0.16437%	0.16320%
Proportionate Share of Net Pension Liability	\$ 32,700,460	\$ 24,228,612	\$ 18,527,174
Covered Employee Payroll	\$ 21,079,931	\$ 18,513,033	\$ 16,626,455
Proportionate Share of NPL as a % of Covered Employee Payroll	155.13%	130.87%	111.43%
Plan's Fiduciary Net Position as a % of the TPL	73.61%	79.31%	83.38%
CalSTRS	2017	2016	2015
Proportion of Net Pension Liability	0.15796%	0.15523%	0.16100%
Proportionate Share of Net Pension Liability	\$ 127,758,630	\$ 106,880,850	\$ 94,083,570
Covered Employee Payroll	\$ 79,926,863	\$ 79,242,880	\$ 70,192,050
Proportionate Share of NPL as a % of Covered Employee Payroll	159.84%	134.88%	134.04%
Plan's Fiduciary Net Position as a % of the TPL	70.44%	74.28%	76.52%

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

SANTA ROSA CITY SCHOOLS
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
		Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)			
7/1/2010	-	18,300,000	18,300,000	0.00%	83,200,000	22.00%
7/1/2012	-	21,028,660	21,028,660	0.00%	80,200,000	26.22%
7/1/2014	-	23,581,656	23,581,656	0.00%	84,700,000	27.84%

***Nonmajor Governmental Funds
Combining Schedules***

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**SUPPLEMENTARY
INFORMATION**

**SANTA ROSA CITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue Funds			Capital Projects Funds			
	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Assets							
Cash and investments	\$ 5,712	\$ 345,086	\$ 713,954	\$3,602,622	\$ 1,908	\$ 2,886,497	\$ 7,555,779
Accounts receivable	75,248	771,132	-	40,768	-	-	887,148
Due from other funds	-	57,974	-	1,200	1,491,334	802,934	2,353,442
Stores inventories and other	-	132,997	-	-	-	-	132,997
Total Assets	<u>\$ 80,960</u>	<u>\$1,307,189</u>	<u>\$ 713,954</u>	<u>\$3,644,590</u>	<u>\$ 1,493,242</u>	<u>\$ 3,689,431</u>	<u>\$ 10,929,366</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 47,579	\$ 117,854	\$ -	\$ 1,529	\$ 385,103	\$ 46,570	\$ 598,635
Due to other funds	32,282	434,833	-	-	1,108,139	248,583	1,823,837
Unearned revenue	-	-	-	-	-	543,468	543,468
Total Liabilities	<u>79,861</u>	<u>552,687</u>	<u>-</u>	<u>1,529</u>	<u>1,493,242</u>	<u>838,621</u>	<u>2,965,940</u>
Fund balances:							
Nonspendable:							
Revolving fund	-	200	-	-	-	-	200
Inventory	-	132,997	-	-	-	-	132,997
Restricted for:							
Cafeteria programs	-	621,305	-	-	-	-	621,305
Capital projects	-	-	-	3,643,061	-	165,638	3,808,699
Assigned for:							
Capital projects	-	-	-	-	-	2,685,172	2,685,172
Child care program	1,099	-	-	-	-	-	1,099
Deferred maintenance	-	-	713,954	-	-	-	713,954
Total Fund Balances	<u>1,099</u>	<u>754,502</u>	<u>713,954</u>	<u>3,643,061</u>	<u>-</u>	<u>2,850,810</u>	<u>7,963,426</u>
Total Liabilities and Fund Balances	<u>\$ 80,960</u>	<u>\$1,307,189</u>	<u>\$ 713,954</u>	<u>\$3,644,590</u>	<u>\$ 1,493,242</u>	<u>\$ 3,689,431</u>	<u>\$ 10,929,366</u>

SANTA ROSA CITY SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue Funds			Capital Projects Funds			
	Child		Deferred	Capital	County	Special Reserve	Total Nonmajor
	Development	Cafeteria	Maintenance	Facilities	School	Fund for	Governmental
	Fund	Fund	Fund	Fund	Facilities	Capital Outlay	Funds
	Fund	Fund	Fund	Fund	Fund	Projects	Funds
Revenues:							
Federal revenue	\$ -	\$ 4,077,990	\$ -	\$ -	\$ -	\$ -	\$ 4,077,990
Other state	452,663	296,606	-	-	-	291,343	1,040,612
Other local	573	2,315,473	7,453	905,967	1,231	370,517	3,601,214
Total revenues	453,236	6,690,069	7,453	905,967	1,231	661,860	8,719,816
Expenditures:							
Current							
Instruction	451,382	-	-	-	-	-	451,382
Pupil services:							
Food services	-	6,513,645	-	-	-	-	6,513,645
General administration:							
All other general administration	1,282	303,504	-	19,815	-	-	324,601
Plant services	-	111,514	-	560,207	60,739	263,670	996,130
Facilities acquisition and construction	-	-	101,516	-	173,585	118,275	393,376
Payments to other agencies	-	-	-	38,978	-	-	38,978
Debt service:							
Interest and Fees	-	-	-	-	-	248,254	248,254
Total expenditures	452,664	6,928,663	101,516	619,000	234,324	630,199	8,966,366
Excess (deficiency) of revenues over (under) expenditures	572	(238,594)	(94,063)	286,967	(233,093)	31,661	(246,550)
Other financing sources (uses):							
Transfers in	-	60,000	-	-	-	-	60,000
Transfers out	-	-	-	-	-	(60,000)	(60,000)
Total other financing sources (uses)	-	60,000	-	-	-	(60,000)	-
Change in fund balances	572	(178,594)	(94,063)	286,967	(233,093)	(28,339)	(246,550)
Fund balances beginning	527	933,096	808,017	3,356,094	233,093	2,879,149	8,209,976
Fund balances ending	\$ 1,099	\$ 754,502	\$ 713,954	\$ 3,643,061	\$ -	\$ 2,850,810	\$ 7,963,426

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STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

**SANTA ROSA CITY SCHOOLS
ORGANIZATION
JUNE 30, 2017**

Santa Rosa City Elementary School District and Santa Rosa City High School District were established in 1878. They are now comprised of two districts, elementary and high school, governed by a common seven-member Board of Education. Santa Rosa City Schools currently operates nine elementary schools, one satellite elementary, five middle schools, five comprehensive high schools, one opportunity schools, one continuation school, four necessary small continuation schools, and five charter schools. Santa Rosa City Schools covers an area of approximately 280 square miles. There were no changes in the District's boundaries in the current year.

The Board of Education and District Administrators for the fiscal year ended June 30, 2017, included the following members:

Governing Board

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Jenni Klose	President	2020
Bill Carle	Vice-President	2018
Laurie Fong	Clerk	2020
Frank Pugh	Director	2018
Ron Kristof	Director	2018
Evelyn Anderson	Director	2020
Ed Sheffield	Director	2020

District Administrators

<u>Name</u>	<u>Position</u>
Diann Kitamura	Superintendent
Andre R. Bell	Assistant Superintendent, Business Services
Jason Lea	Assistant Superintendent, Human Resources
Rick Edson	Chief Technology Officer
Anna-Maria Guzman, Ed.D.	Assistant Superintendent, Curriculum and Instruction
Joel Dontos	Executive Director, Fiscal Services

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

	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Santa Rosa Elementary				
Regular ADA:				
Grades TK/K through three	2,264.36	2,251.34	2,264.36	2,251.34
Grades four through six	1,559.40	1,563.55	1,559.40	1,563.55
Regular ADA Totals	3,823.76	3,814.89	3,823.76	3,814.89
Extended year special education:				
Grades TK/K through three	4.73	4.73	4.73	4.73
Grades four through six	4.79	4.79	4.79	4.79
Special education - nonpublic, nonsect schools:				
Grades TK/K through three	4.33	8.63	4.33	8.63
Grades four through six	9.19	10.52	9.19	10.52
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.66	0.66	0.66	0.66
Grades four through six	4.19	0.80	4.19	0.80
ADA Totals	3,851.65	3,845.02	3,851.65	3,845.02
	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Santa Rosa High				
Regular ADA:				
Grades seven and eight	2,903.00	2,909.30	2,903.00	2,909.30
Grades nine through twelve	7,313.21	7,230.50	7,313.21	7,230.50
Regular ADA Totals	10,216.21	10,139.80	10,216.21	10,139.80
Extended year Special educationL				
Grades seven and eight	3.18	3.18	3.18	3.18
Grades nine through twelve	6.98	6.98	6.98	6.98
Special education - nonpublic, nonsect schools:				
Grades seven and eight	31.70	33.43	31.70	33.43
Grades nine through twelve	85.99	89.80	85.99	89.80
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	1.47	1.65	1.47	1.65
Grades nine through twelve	7.24	7.47	7.24	7.47
ADA Totals	10,352.77	10,282.31	10,352.77	10,282.31

Continued

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

	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Santa Rosa Charter School for the Arts				
Regular ADA:				
Grades TK/K through three	164.39	163.78	164.23	156.73
Grades four through six	164.86	166.02	164.86	140.93
Grades seven and eight	33.44	32.91	33.44	32.91
ADA Totals	362.69	362.71	362.53	330.57
	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Santa Rosa French American Charter				
Regular ADA:				
Grades TK/K through three	332.18	331.52	331.10	330.21
Grades four through six	137.12	136.62	136.69	134.58
ADA Totals	469.30	468.14	467.79	464.79
	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Cesar Chavez Language Academy				
Regular ADA:				
Grades TK/K through three	239.80	240.22	238.63	237.93
ADA Totals	239.80	240.22	238.63	237.93
	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Santa Rosa Accelerated Charter				
Regular ADA:				
Grades four through six	124.63	124.76	124.63	124.76
ADA Totals	124.63	124.76	124.63	124.76
	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Hope Academy				
Regular ADA:				
Grades TK/K through three	9.40	10.77	9.40	10.77
ADA Totals	9.40	10.77	9.40	10.77

Concluded

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

Grade Level	Minutes Requirements	2017 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Santa Rosa Elementary					
Kindergarten	36,000	42,284	180	0	In compliance
Grade 1	50,400	53,980	180	0	In compliance
Grade 2	50,400	53,980	180	0	In compliance
Grade 3	50,400	54,004	180	0	In compliance
Grade 4	54,000	54,004	180	0	In compliance
Grade 5	54,000	54,004	180	0	In compliance
Grade 6	54,000	54,004	180	0	In compliance
Santa Rosa High					
Grade 7	54,000	64,820	180	0	In compliance
Grade 8	54,000	64,820	180	0	In compliance
Grade 9	64,800	64,871	180	0	In compliance
Grade 10	64,800	64,871	180	0	In compliance
Grade 11	64,800	64,871	180	0	In compliance
Grade 12	64,800	64,871	180	0	In compliance
Santa Rosa Charter for the Arts					
Kindergarten	36,000	46,240	180	0	In compliance
Grade 1	50,400	52,990	180	0	In compliance
Grade 2	50,400	52,990	180	0	In compliance
Grade 3	50,400	52,990	180	0	In compliance
Grade 4	54,000	54,340	180	0	In compliance
Grade 5	54,000	54,340	180	0	In compliance
Grade 6	54,000	58,390	180	0	In compliance
Grade 7	54,000	58,390	180	0	In compliance
Grade 8	54,000	58,390	180	0	In compliance
Santa Rosa Accelerated Charter					
Grade 5	54,000	54,410	180	0	In compliance
Grade 6	54,000	54,410	180	0	In compliance
Cesar Chavez Language Academy					
Kindergarten	36,000	43,220	180	0	In compliance
Grade 1	50,400	51,360	180	0	In compliance
Grade 2	50,400	51,360	180	0	In compliance
Santa Rosa French-American Charter School					
Kindergarten	36,000	51,424	180	0	In compliance
Grade 1	50,400	54,004	180	0	In compliance
Grade 2	50,400	54,004	180	0	In compliance
Grade 3	50,400	54,004	180	0	In compliance
Grade 4	54,000	54,004	180	0	In compliance
Grade 5	54,000	54,004	180	0	In compliance
Grade 6	54,000	54,004	180	0	In compliance
Hope Academy					
Kindergarten	36,000	42,360	180	0	In compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has not met or exceeded its target funding.

**SANTA ROSA CITY SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
JUNE 30, 2017**

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

<u>Charter School</u>	<u>Included in Financial Statements</u>
Cesar Chavez Language Academy	Included
Santa Rosa French-American Charter	Included
Santa Rosa Charter School for the Arts	Included
Santa Rosa Accelerated Charter	Included
Hope Academy	Included
Santa Rosa Charter	Not included
Kid Street Learning Center Charter	Not included
Abraxis Charter	Not included
Via Esperanza Charter	Not included

SANTA ROSA CITY SCHOOLS
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	(Budget ¹) 2018	2017	2016	2015
<u>General Fund</u>				
Revenues and other financial sources	\$ 167,454,355	\$ 172,516,668	\$ 173,435,217	\$ 149,266,972
Expenditures	172,524,780	175,138,086	162,542,659	147,688,913
Other uses and transfers (out)	208,790	301,669	73,185	160,396
Total outgo	172,733,570	175,439,755	162,615,844	147,849,309
Change in fund balance	(5,279,215)	(2,923,087)	10,819,373	1,417,663
Ending fund balance	\$ 17,513,118	\$ 23,254,315	\$ 26,177,402	\$ 15,358,029
Available reserves ⁽²⁾	\$ 15,416,449	\$ 14,836,861	\$ 4,881,223	\$ 9,794,058
Reserve for economic uncertainties	\$ 5,175,743	\$ 5,254,142	\$ 4,881,223	\$ 9,794,058
Unassigned fund balance	\$ 10,240,706	\$ 9,582,719	\$ -	\$ -
Available reserves as a percentage of total outgo	8.9%	8.5%	3.0%	6.6%
Total long-term debt	\$ 337,334,146	\$ 360,289,146	\$ 279,579,836	\$ 250,672,306
Average daily attendance at P-2	14,204	14,204	14,373	14,470

Average daily attendance has decreased by 266 over the last three years. The district anticipates no increase or decrease in ADA.

The general fund balance has increased by \$7,896,286 in the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, other uses (total outgo).

The district has operated at a deficit in one of the past three years. Total long-term debt has increased by \$109,616,840 over the past three years, due to new bond issuances and pension obligations.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2017/18.

² Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

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

Program Name	Federal Catalog Number	Pass Through Number	Major Program	Non-cash Expenditures	Program Expenditures
U. S. DEPARTMENT OF EDUCATION:					
Indian Education (from Federal Government)	84.060	10011		\$ -	\$ 24,668
School Climate Transformation Grant	84.184G	N/A		-	490,486
Passed through California Department of Education:					
Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Voc. Ed.)	84.048	14894		-	200,339
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	Yes	-	3,022,704
ESEA (ESSA): Title III, English Learner Student Program	84.365	14346		-	236,137
ESEA (ESSA): Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		-	441,043
NCLB: Title II, Part B, CA Mathematics and Science Partnerships (CaMSP)	84.366	14512		-	550,284
Passed through Sonoma County SELPA:					
Special Education Cluster					
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379		-	3,245,617
Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430		-	69,645
Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027	13682		-	145,352
Special Ed: IDEA Mental Health Average Daily Attendance (ADA) Allocation	84.027A	14468		-	58,116
Total Special Education Cluster				-	3,518,730
TOTAL U. S. DEPARTMENT OF EDUCATION:				-	8,484,391
U. S. DEPARTMENT OF AGRICULTURE:					
Passed through California Department of Education:					
Child Nutrition Cluster					
Child Nutrition: School Programs (NSL Sec 11)	10.555	13524	Yes	-	2,724,153
Child Nutrition: School Programs (NSL Sec 11) - Noncash Commodities	10.555	N/A	Yes	430,500	430,500
Child Nutrition: School Programs (School Breakfast Basic)	10.553	13525	Yes	-	923,337
Total Child Nutrition Cluster				430,500	4,077,990
TOTAL U.S. DEPARTMENT OF AGRICULTURE				430,500	4,077,990
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Passed through California Department of Health Services:					
Medicaid Cluster					
Unrestricted: Medi-Cal Administrative Activities (MAA)	93.778	10060		-	86,521
Dept of Health Care Services (DHCS): Medi-Cal Billing Option	93.778	10013		-	382,827
Total Medicaid Cluster				-	469,348
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				-	469,348
TOTAL EXPENDITURES				\$ 430,500	\$ 13,031,729

SANTA ROSA CITY SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2017 Annual Financial and Budget Report Fund Balances.	\$ 22,863,333	\$ 2,186,124	\$ 61,814,056	\$29,737,073	\$ 8,354,408
Adjustments to reconcile audited financials:					
Special Res Fund for Other Than Capital Outlay:					
Cash and investments and due from other funds	390,982	-	-	-	(390,982)
Accounts Payable	-	-	(1,960,674)	-	-
June 30, 2017 Audited Financial Statements Fund Balances	<u>\$ 23,254,315</u>	<u>\$ 2,186,124</u>	<u>\$ 59,853,382</u>	<u>\$29,737,073</u>	<u>\$ 7,963,426</u>

SANTA ROSA CITY SCHOOLS
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by 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 the provisions of Education Code Sections 46201 through 46206.

C. 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.

D. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements.

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

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

SANTA ROSA CITY SCHOOLS
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

3. BASIS OF PRESENTATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

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**OTHER INDEPENDENT
AUDITOR'S REPORTS**



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

Board of Trustees
Santa Rosa City Schools
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Rosa City Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Santa Rosa City Schools's basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2017-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as deficiencies 2017-002, 2017-003, and 2017-004 to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Rosa City Schools's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as findings 2017-005 and 2017-006.

Santa Rosa City Schools's Responses to Findings

Santa Rosa City Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Santa Rosa City Schools's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

C & A UP

January 31, 2018
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY TITLE 2 CFR PART 200 (UNIFORM GUIDANCE)**

Board of Education
Santa Rosa City Schools
Santa Rosa, California

Report on Compliance for Each Major Federal Program

We have audited Santa Rosa City Schools's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 the District's 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Rosa City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The District's internal control over compliance.

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

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

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

C & A UP

January 31, 2018
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Education
Santa Rosa City Schools
Santa Rosa, California

Compliance

We have audited the Santa Rosa City Schools's (the District) compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the compliance 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:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes



<u>Description</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	N/A
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	N/A
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	N/A

Opinion

In our opinion, Santa Rosa City Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2017.

Other Matter

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as findings 2017-005 and 2017-006.



District's Response to Finding

The District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

C & A LLP

January 31, 2018
San Jose, California

FINDINGS AND RECOMMENDATIONS

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

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses?	<u> x </u> Yes <u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> x </u> Yes <u> </u> No
Non-compliance material to financial statements noted?	<u> </u> Yes <u> x </u> No

Federal Awards

Internal control over major programs:	
Material weaknesses?	<u> </u> Yes <u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes <u> x </u> No
Type of auditor's report issued on compliance over major programs	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	<u> </u> Yes <u> x </u> No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected
10.553 & 10.555	Child Nutrition Cluster

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

State Awards

Internal control over state programs:	
Material weaknesses?	<u> </u> Yes <u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> x </u> Yes <u> </u> No
Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>

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

Section II - Financial Statement Findings

Finding 2017-001: Capital Assets (20000)

Criteria: Generally accepted accounting principles (GAAP) and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections.

Condition: During the audit of the District's capital assets we noted deficiencies in the District's performance of internal controls overseeing the tracking of capital assets as it relates to additions and deletions.

Effect: The District's capital asset balance could incorrectly include or exclude capital assets.

Cause: Due to the high degree of personnel turnover and the limited District staffing, the District has been unable to oversee the tracking of capital assets throughout the year.

Recommendation: We recommend the District ensure that internal control procedures are followed throughout the year to adequately track additions and deletions in the District's capital asset program. The District should investigate the need for additional staffing or training in the Business Office and ensure that an up-to-date capital asset listing of all assets of \$5,000 is maintained throughout each fiscal year.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

Finding 2017-002: Accounts Payable Accrual (30000)

Criteria: According to General Accepted Accounting Principles (GAAP) all expenses should be recognized when incurred.

Condition: During our testwork over the District's accounts payable, we noted that the District was incorrectly excluding some invoices for work prior to June 30, 2017.

Effect: The accounts payable was understated by \$1,960,674.

Cause: The District was not adequately overseeing the accrual process at year end.

Recommendation: We recommend the District review the process of accounts payable with staff.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

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

Finding 2017-003: OPEB Valuation (30000)

Criteria: According to GASB Statement No. 45, employers with 200 or more members in the OPEB plan are required to have an actuarial valuation done at least biennially.

Condition: The District's last OPEB plan actuarial valuation is more than two years old.

Effect: The District's OPEB liability and annual required contribution is based on assumptions that are not up to date which could lead to an OPEB liability and annual required contribution that is under or over stated.

Cause: The District was not properly monitoring the OPEB plan actuarial valuation requirements.

Recommendation: GASB Statement No. 75 replaced GASB Statement No. 45 effective for fiscal years beginning after June 15, 2017. We recommend the District obtain an OPEB plan actuarial valuation based on this new GASB Statement and ensure that procedures are in place to ensure deadlines noted in GASB Statement No. 75 are adhered to in the future.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

Finding 2017-004: Associated Student Body Accounts (30000)

Criteria: Sound accounting practices needed to reduce the risk of fraud and error include the timely and routine reconciliation of all bank accounts.

Condition: During our testing of the 2016-17 Associated Student Body (ASB) Accounts, we noted the following:

1. Bank statements were not reconciled within two weeks of the receipt of the bank statement.
2. Bank statements are not being reconciled correctly and deposits were made in incorrect accounts and/or missing from the general ledger.

Effect: The District's Fiduciary Associated Student Body cash balance may be misstated.

Cause: The District's Associated Student Body reconciliations were not being thoroughly reviewed.

Recommendation: We recommend the District continue to provide training at each site specifically related to the areas identified above. The District's Business Office should monitor the ASB accounts at each site to ensure that the custodians are following procedure and offer any training or assistance that may be necessary to ensure that controls are operating an acceptable level.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

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

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

Finding 2017-005: Unduplicated Pupil Counts (40000)

Criteria or Specific Requirements: Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

Condition: During our testing of the FRPM applications and the CALPADS reporting, we noted students who were reported as FRPM eligible who were either incorrectly classified in meal status or were missing an application in the program. This resulted in an overstatement of FRPM by eligible students. As well as students reported as English learners who no longer qualified according to the student's file.

Questioned Costs: The dollar impact of this finding is as follows:

<u>School</u>	<u>High</u>	<u>Elementary</u>	<u>Total</u>
Herbert Slater Middle	\$ 660	\$ -	\$ 660
Montgomery High	330	-	330
Graham Lincoln Elementary	-	343	343
Total	<u>\$ 990</u>	<u>\$ 343</u>	<u>\$ 1,333</u>

Context: Controls should be in place to ensure accurate classification of students in CALPADS as of Census Day.

Effect: The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted to decrease EL Eligibility at Herbert Slater Middle and Montgomery High by one student each and decrease FRM Eligibility at Herbert Slater Middle by one student.

No changes to enrollment were identified as a result of testing the unduplicated pupil counts.

Cause: The District did not review the CALPADS data for accuracy during the adjustment window annually and does not have a system of review that provides adequate oversight of this reporting process and ensures appropriate communication between the District Office and various sites.

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

Recommendation: The District should review all CALPADS data for accuracy during the adjustment window annually and establish a system of review that provide adequate oversight of this reporting process and ensures appropriate communication between the District Office and various sites.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

Finding 2017-006: After School Education and Safety Program (4000)

Criteria or Specific Requirements: Education Code Section 8484 requires submission of program attendance data. Proper controls should be designed and implemented to ensure that the attendance reported on the semi-annual attendance reports are accurate.

Condition: During our testing of attendance for the after school education and safety program, we noted that the District was unable to provide written documentation for 20 students listed in attendance for the entire first half of the semi-annual attendance.

Effect: The District's controls do not sufficiently limit risk of error related to attendance reporting for the after school education and safety program. There is no financial impact from the conditions noted since the program is not directly funded based upon attendance, however, a reduction in attendance may result in a future grant reduction. The effect on the attendance reported is as follow:

141,912	Total annual attendance reported Elementary
<u>(1,120)</u>	Less overstatement of attendance for missing written support
<u>140,792</u>	Adjusted annual attendance Elementary

Cause: The District does not have proper policies and procedures in place in order to ensure written documentation is kept for reported attendance of the after school education and safety program.

Recommendation: We recommend that the District establish policies and procedures to ensure that all sites have written support for student attendance.

District Response: The District agrees with the auditor's recommendation and will implement policies and procedures during fiscal year 2017-18 to address the causes of the condition(s) noted.

SANTA ROSA CITY SCHOOLS
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Section II - Financial Statement Findings

Finding 2016-001: Capital Assets (20000)

Finding: Due to the high degree of personnel turnover and limited District staffing, the District was unable to provide adequate supporting documentation for capital assets balances by classification, deletions, depreciation expense by asset class and beginning balances of capital assets. Therefore, we were unable to substantiate the balance of the capital asset classes. Generally accepted accounting principles (GAAP) and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections.

We were unable to perform audit procedures that would allow us to obtain sufficient audit evidence to determine that the account balances were not materially misstated. In addition, this is a repeat finding from prior year. Therefore, we were unable to place reliance on the beginning balances of capital assets as well. As a result, we have modified our opinion in relation the capital asset balances.

Recommendation: We recommend the District prepare and maintain adequate supporting documentation for all capital asset transactions and account balances. The District should investigate the need for additional staffing or training in the Business Office and ensure that an up-to-date capital asset listing of all assets of \$5,000 is maintained throughout each fiscal year.

Status:

Not implemented. Repeat finding: see finding 2017-001.

Finding 2016-002: Associated Student Body Accounts (30000)

Finding: During our testing of the 2015-16 Associated Student Body (ASB) Accounts, we noted the following:

1. Bank statements were not reconciled within two weeks of the receipt of the bank statement.
2. Cash was not deposited into the bank timely. This leads to the possibility of cash being left on-site over the weekend and increases the risk of fraud and error.
3. Clubs are not completing their meeting minutes.
4. ASB inventory is not counted in a routine and timely manner.
5. There are not any written rules or procedures in place for uncleared checks/deposits at MCHS.
6. MCHS un-cleared items are not written off until the end of the school year when more appropriate timing would be at least 6 months.

Recommendation: We recommend the District provide training at each site specifically related to the areas identified above. The District's Business Office should monitor the ASB accounts at each site to ensure that the custodians are following procedure and offer any training or assistance that may be necessary to ensure that controls are operating an acceptable level.

Status:

Not implemented. Repeat finding: see finding 2017-004.

**SANTA ROSA CITY SCHOOLS
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

Finding 2016-003: Unduplicated Pupil Counts (40000)

Criteria or Specific Requirements: Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

Condition: During our testing of the FRPM applications and the CALPADS reporting, we noted students who were reported as FRPM eligible who did not have an application on file for the 2015-16 fiscal year, or the student's designation was not supported. This resulted in an overstatement of FRPM by eligible students.

Status:

Not implemented. Repeat finding: see finding 2017-005.