

**GRAVENSTEIN UNION SCHOOL DISTRICT
COUNTY OF SONOMA
SEBASTOPOL, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2016

GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2016

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GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2016

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gravenstein Union School District
Sebastopol, 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 the Gravenstein Union School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the discretely presented component unit are not reported. The amounts by which this departure would affect the assets, liabilities, net assets, revenues and expenses has not been determined in accordance with accounting principles generally accepted in the United States of America.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the District, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 the Gravenstein Union School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 55, schedule of funding progress on page 56, schedules of the proportionate share of the net pension liability on pages 57 and 58, and schedules of contributions on page 59 and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gravenstein Union School District basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information listed in the table of contents is 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 18, 2017 on our consideration of the Gravenstein Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gravenstein Union School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

January 18, 2017

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 16 and 17, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 18 through 21, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as an agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status improved during the course of the year, as total net position increased 27.6%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$2,210,916.
- Net capital assets increased \$1,428,587 due to the current year addition of \$1,634,930 of new capital assets and improvements, and the current year recognition of \$206,343 of depreciation expense.
- Total long-term liabilities increased \$102,596, due primarily to the current year increase in the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.
- The District's P-2 average daily attendance (ADA) increased from 686 ADA in fiscal year 2014-15, up to 702 ADA in fiscal year 2015-16, an increase of 18 ADA or 2.6%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year revenues and other financing sources exceeded total current year expenditures and other financing uses by \$791,456.
- During fiscal year 2015-16, the District's General Fund produced an operating surplus of \$2,402,554, but reported a \$1,417,028 decrease in its available reserves, due to larger portion of the ending fund balance being assigned for specific future uses.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 4% of total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2015-16, General Fund total outgo was \$6,279,030. At June 30, 2016, the District had available reserves of \$5,225,095 which represents a reserve of 83.2%.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

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

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

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

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

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

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore, no reconciling entries are required. Internal service funds are reported with the governmental funds. The District has no funds of this type.

Fiduciary Funds:

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

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net position increased from \$8,019,097 at June 30, 2015 up to \$10,230,013 at June 30, 2016, an increase of 27.6%.

| <u>Comparative Statement of Net Position</u> | | |
|---|----------------------------|----------------------|
| | Governmental Activities | |
| | 2015 | 2016 |
| <u>Assets</u> | | |
| Deposits and Investments | \$ 13,688,689 | \$ 15,006,659 |
| Receivables | 562,527 | 555,283 |
| Prepaid Expenses | 6,106 | 6,106 |
| Capital Assets, net | 6,520,627 | 7,949,214 |
| Total Assets | <u>20,777,949</u> | <u>23,517,262</u> |
| <u>Deferred Outflows of Resources</u> | | |
| Pension Deferrals | 478,281 | 561,748 |
| <u>Liabilities</u> | | |
| Current | 863,112 | 1,405,645 |
| Long-term | 11,320,575 | 11,420,170 |
| Total Liabilities | <u>12,183,687</u> | <u>12,825,815</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Pension Deferrals | 1,053,446 | 1,023,182 |
| <u>Net Position</u> | | |
| Net Investment in Capital Assets | 3,622,124 | 3,647,835 |
| Restricted | 801,361 | 812,312 |
| Unrestricted | 3,595,612 | 5,769,866 |
| Total Net Position | <u>\$ 8,019,097</u> | <u>\$ 10,230,013</u> |

Table includes financial data of the combined governmental funds

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$2,210,916.

| <u>Comparative Statement of Changes in Net Position</u> | | |
|--|--------------------------------|----------------------|
| | <u>Governmental Activities</u> | |
| | <u>2015</u> | <u>2016</u> |
| <u>Program Revenues</u> | | |
| Charges for Services | \$ 37,226 | \$ 45,914 |
| Operating Grants & Contributions | 741,685 | 902,953 |
| <u>General Revenues</u> | | |
| Taxes Levied | 2,773,365 | 3,027,184 |
| Federal & State Aid | 4,238,024 | 5,060,517 |
| Interest & Investment Earnings | 63,447 | 106,483 |
| Other Revenues | 193,440 | 249,155 |
| Total Revenues | <u>8,047,187</u> | <u>9,392,206</u> |
| <u>Expenses</u> | | |
| Instruction | 4,330,671 | 5,049,082 |
| Instruction-Related Services | 412,602 | 466,178 |
| Pupil Services | 202,377 | 250,585 |
| General Administration | 450,311 | 459,534 |
| Plant Services | 370,837 | 427,941 |
| Other Expenses | 473,557 | 527,970 |
| Total Expenses | <u>6,240,355</u> | <u>7,181,290</u> |
| Changes in Net Position | 1,806,832 | 2,210,916 |
| Net Position, Beginning | <u>6,212,265</u> | <u>8,019,097</u> |
| Net Position, Ending | <u>\$ 8,019,097</u> | <u>\$ 10,230,013</u> |

Table includes financial data of the combined governmental funds

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

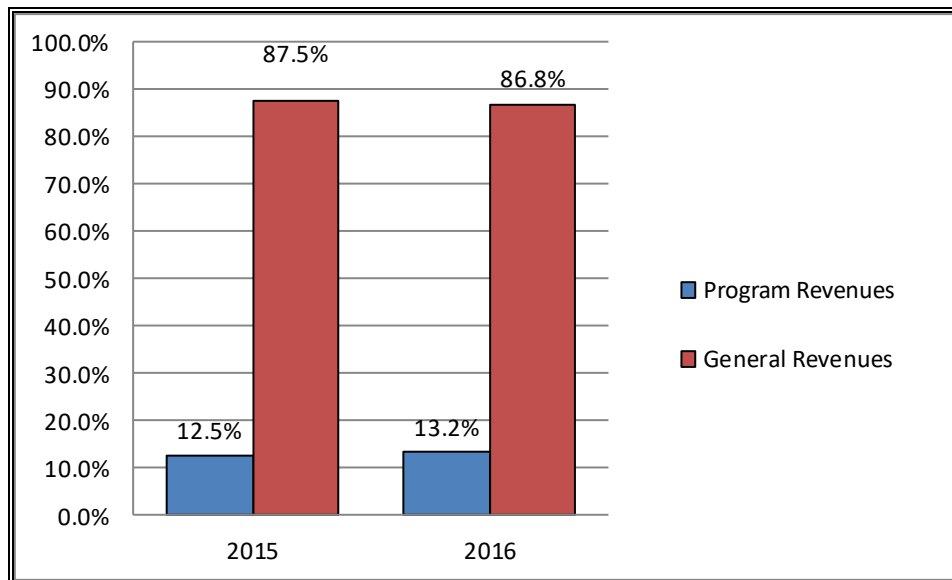
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

| | <u>Total Cost of Services</u> | | <u>Net Cost of Services</u> | |
|------------------------------|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2015 | 2016 | 2015 | 2016 |
| | Instruction | \$ 4,330,671 | \$ 5,049,082 | \$ 3,949,914 |
| Instruction-Related Services | 412,602 | 466,178 | 402,798 | 411,406 |
| Pupil Services | 202,377 | 250,585 | 100,235 | 127,449 |
| General Administration | 450,311 | 459,534 | 446,376 | 453,324 |
| Plant Services | 370,837 | 427,941 | 91,051 | 427,790 |
| Other Expenses | 473,557 | 527,970 | 471,070 | 526,062 |
| Totals | \$ 6,240,355 | \$ 7,181,290 | \$ 5,461,444 | \$ 6,232,423 |

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$6,232,423 net cost represents the share of total cost that the District's general revenues provide for the services listed.



For fiscal year 2015-16, program revenues financed 13.2% of the total cost of providing the services listed above, while the remaining 86.8% was financed by the general revenues of the District.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

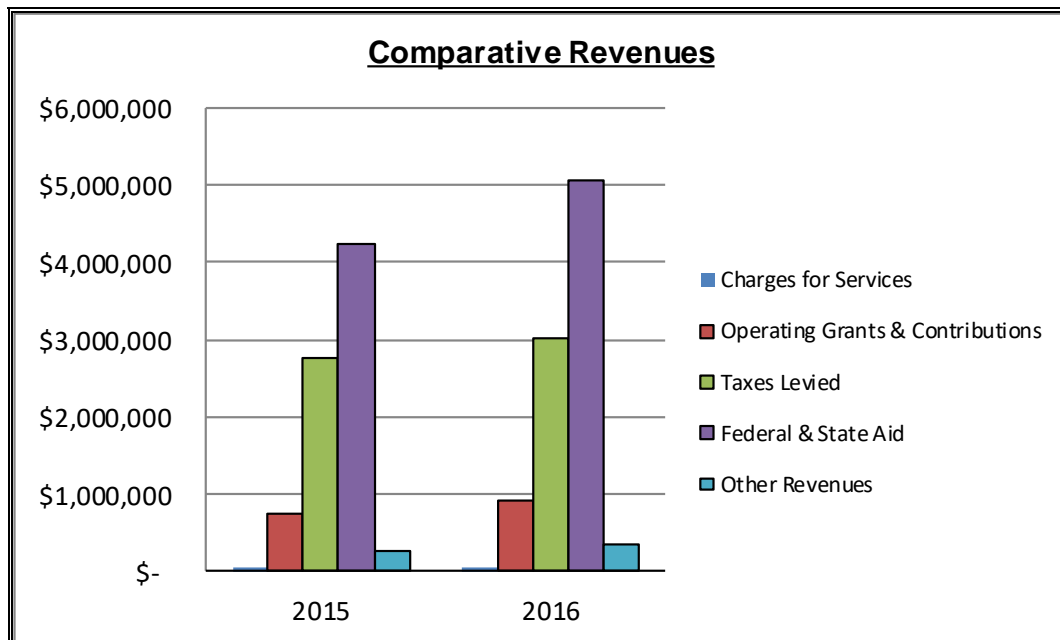
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

| <u>Summary of Revenues For Governmental Functions</u> | | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| | FYE 2015 Amount | Percent of Total | FYE 2016 Amount | Percent of Total |
| <u>Program Revenues</u> | | | | |
| Charges for Services | \$ 37,226 | 0.46% | \$ 45,914 | 0.49% |
| Operating Grants & Contributions | 741,685 | 9.22% | 902,953 | 9.61% |
| <u>General Revenues</u> | | | | |
| Taxes Levied | 2,773,365 | 34.46% | 3,027,184 | 32.23% |
| Federal & State Aid | 4,238,024 | 52.66% | 5,060,517 | 53.88% |
| Other Revenues | 256,887 | 3.19% | 355,638 | 3.79% |
| Total Revenues | \$ 8,047,187 | 100.00% | \$ 9,392,206 | 100.00% |

Table includes financial data of the combined governmental funds



**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

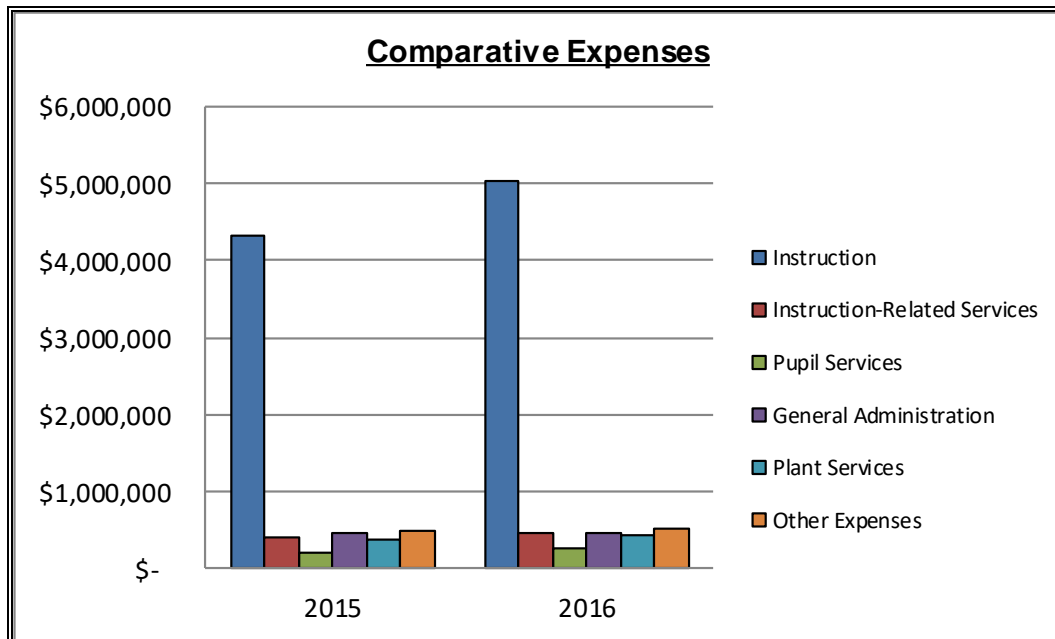
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

| <u>Summary of Expenses For Governmental Functions</u> | | | | |
|--|--------------------|---------------------|--------------------|---------------------|
| | FYE 2015 Amount | Percent of Total | FYE 2016 Amount | Percent of Total |
| <u>Expenses</u> | | | | |
| Instruction | \$ 4,330,671 | 69.40% | \$ 5,049,082 | 70.31% |
| Instruction-Related Services | 412,602 | 6.61% | 466,178 | 6.49% |
| Pupil Services | 202,377 | 3.24% | 250,585 | 3.49% |
| General Administration | 450,311 | 7.22% | 459,534 | 6.40% |
| Plant Services | 370,837 | 5.94% | 427,941 | 5.96% |
| Other Expenses | 473,557 | 7.59% | 527,970 | 7.35% |
| Total Expenses | \$ 6,240,355 | 100.00% | \$ 7,181,290 | 100.00% |

Table includes financial data of the combined governmental funds



**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

| <u>Comparative Schedule of Capital Assets</u> | | |
|--|----------------------------|---------------------|
| | Governmental Activities | |
| | 2015 | 2016 |
| Land | \$ 149,717 | \$ 149,717 |
| Sites and Improvements | 1,288,836 | 1,288,836 |
| Buildings and Improvements | 8,385,440 | 10,833,749 |
| Furniture and Equipment | 81,179 | 81,179 |
| Work-in-Progress | 1,712,231 | 898,852 |
| Subtotals | 11,617,403 | 13,252,333 |
| Less: Accumulated Depreciation | (5,096,776) | (5,303,119) |
| Capital Assets, net | <u>\$ 6,520,627</u> | <u>\$ 7,949,214</u> |

Net capital assets increased \$1,428,587 due to the current year addition of \$1,634,930 of new capital assets and improvements, and the current year recognition of \$206,343 of depreciation expense.

| <u>Comparative Schedule of Long-Term Liabilities</u> | | |
|---|----------------------------|----------------------|
| | Governmental Activities | |
| | 2015 | 2016 |
| General Obligation Bonds | \$ 6,811,000 | \$ 6,618,000 |
| Bond Premium | 272,179 | 262,129 |
| Other Post Employment Benefits | 369,429 | 484,690 |
| Net Pension Liability - CalSTRS | 3,547,308 | 3,469,120 |
| Net Pension Liability - CalPERS | 523,708 | 792,281 |
| Totals | <u>\$ 11,523,624</u> | <u>\$ 11,626,220</u> |

Total long-term liabilities increased \$102,596, due primarily to the current year increase in the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

| <u>Comparative Schedule of Fund Balances</u> | | | |
|---|--------------------------------|--------------------------------|------------------------|
| | Fund Balances June 30, 2015 | Fund Balances June 30, 2016 | Increase (Decrease) |
| General | \$ 7,589,598 | \$ 9,992,152 | \$ 2,402,554 |
| Building | 4,184,676 | 2,578,750 | (1,605,926) |
| Deferred Maintenance | 30,387 | 50,181 | 19,794 |
| Cafeteria | 7,505 | 7,347 | (158) |
| Child Development | 36,389 | 63,031 | 26,642 |
| Bond Interest & Redemption | 640,001 | 568,458 | (71,543) |
| Capital Facilities | 59,796 | 83,481 | 23,685 |
| County School Facilities | 5,086 | 6 | (5,080) |
| Capital Projects - Special Reserve | 1,112,709 | 1,114,197 | 1,488 |
| Totals | \$ 13,666,147 | \$ 14,457,603 | \$ 791,456 |

The fund balance of the General Fund increased \$2,402,554 during fiscal year 2015-16, due primarily to the receipt of Basic Aid Supplement funding generated by the charter schools within the District. The combined fund balances of all other District governmental funds decreased \$1,611,098.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Chief Business Officer, Gravenstein Union School District, 3840 Twig Avenue, Sebastopol, CA 95472.

BASIC FINANCIAL STATEMENTS

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Governmental Activities |
|--|------------------------------------|
| <u>Assets</u> | |
| Deposits and Investments (Note 2) | \$ 15,006,659 |
| Receivables (Note 3) | 555,283 |
| Prepaid Expenses (Note 1H) | 6,106 |
| Capital Assets (Note 5) | |
| Land | 149,717 |
| Sites and Improvements | 1,288,836 |
| Buildings and Improvements | 10,833,749 |
| Furniture and Equipment | 81,179 |
| Work-in-Progress | 898,852 |
| Less: Accumulated Depreciation | (5,303,119) |
| Total Assets | 23,517,262 |
| <u>Deferred Outflows of Resources</u> | |
| Pension Deferrals (Note 9) | 561,748 |
| Total Deferred Outflows of Resources | 561,748 |
| <u>Liabilities</u> | |
| Accounts Payable and Other Current Liabilities | 1,102,913 |
| Accrued Interest Payable | 89,150 |
| Unearned Revenue (Note 1H) | 7,532 |
| Long-Term Liabilities: | |
| <i>Portion Due or Payable Within One Year:</i> | |
| General Obligation Bonds | |
| Current Interest | 196,000 |
| Bond Premium | 10,050 |
| <i>Portion Due or Payable After One Year:</i> | |
| General Obligation Bonds (Note 6) | |
| Current Interest | 6,422,000 |
| Bond Premium | 252,079 |
| Other Post Employment Benefits (Note 7) | 484,690 |
| Net Pension Liabilities (Note 9) | 4,261,401 |
| Total Liabilities | 12,825,815 |
| <u>Deferred Inflows of Resources</u> | |
| Pension Deferrals (Note 9) | 1,023,182 |
| Total Deferred Inflows of Resources | 1,023,182 |
| <u>Net Position</u> | |
| Net Investment in Capital Assets | 3,647,835 |
| Restricted: | |
| For Capital Projects | 83,487 |
| For Debt Service | 479,308 |
| For Educational Programs | 235,064 |
| For Other Purposes | 14,453 |
| Unrestricted | 5,769,866 |
| Total Net Position | \$ 10,230,013 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| Functions | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------------|---------------------|---------------------------------|---|---|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| <u>Governmental Activities</u> | | | | | |
| Instruction | \$ 5,049,082 | \$ 3,824 | \$ 758,866 | | \$ (4,286,392) |
| Instruction-Related Services: | | | | | |
| Supervision of Instruction | 26,244 | 113 | 45,068 | | 18,937 |
| Instructional Library and Technology | 63,304 | | 9 | | (63,295) |
| School Site Administration | 376,630 | | 9,582 | | (367,048) |
| Pupil Services: | | | | | |
| Home-to-School Transportation | 14,678 | 218 | 5,359 | | (9,101) |
| Food Services | 93,711 | 40,710 | 35,163 | | (17,838) |
| Other Pupil Services | 142,196 | 1,049 | 40,637 | | (100,510) |
| General Administration: | | | | | |
| Data Processing Services | 3,192 | | | | (3,192) |
| Other General Administration | 456,342 | | 6,210 | | (450,132) |
| Plant Services | 427,941 | | 151 | | (427,790) |
| Ancillary Services | 38,377 | | 1,821 | | (36,556) |
| Community Services | 169,323 | | 87 | | (169,236) |
| Interest on Long-Term Debt | 239,243 | | | | (239,243) |
| Other Outgo | 81,027 | | | | (81,027) |
| Total Governmental Activities | \$ 7,181,290 | \$ 45,914 | \$ 902,953 | \$ 0 | (6,232,423) |
| <u>General Revenues</u> | | | | | |
| Taxes Levied for General Purposes | | | | | 2,679,891 |
| Taxes Levied for Debt Service | | | | | 347,037 |
| Taxes Levied for Specific Purposes | | | | | 256 |
| Federal and State Aid - Unrestricted | | | | | 5,060,517 |
| Interest and Investment Earnings | | | | | 106,483 |
| Miscellaneous | | | | | 249,155 |
| Total General Revenues | | | | | 8,443,339 |
| Change in Net Position | | | | | 2,210,916 |
| Net Position - July 1, 2015 | | | | | 8,019,097 |
| Net Position - June 30, 2016 | | | | | \$ 10,230,013 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

| | <u>General</u> | <u>Building</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|---------------------|---|---|
| <u>Assets</u> | | | | |
| Deposits and Investments (Note 2) | \$ 10,033,055 | \$ 3,085,798 | \$ 1,887,806 | \$ 15,006,659 |
| Receivables (Note 3) | 543,086 | | 12,197 | 555,283 |
| Prepaid Expenditures (Note 1H) | 6,106 | | | 6,106 |
| Total Assets | <u>\$ 10,582,247</u> | <u>\$ 3,085,798</u> | <u>\$ 1,900,003</u> | <u>\$ 15,568,048</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 587,114 | \$ 507,048 | \$ 8,751 | \$ 1,102,913 |
| Unearned Revenue (Note 1H) | 2,981 | | 4,551 | 7,532 |
| Total Liabilities | <u>590,095</u> | <u>507,048</u> | <u>13,302</u> | <u>1,110,445</u> |
| Fund Balances: (Note 11) | | | | |
| Nonspendable | 7,106 | | | 7,106 |
| Restricted | 235,064 | 2,578,750 | 659,292 | 3,473,106 |
| Assigned | 4,524,887 | | 1,227,409 | 5,752,296 |
| Unassigned | 5,225,095 | | | 5,225,095 |
| Total Fund Balances | <u>9,992,152</u> | <u>2,578,750</u> | <u>1,886,701</u> | <u>14,457,603</u> |
| Total Liabilities and Fund Balances | <u>\$ 10,582,247</u> | <u>\$ 3,085,798</u> | <u>\$ 1,900,003</u> | <u>\$ 15,568,048</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 14,457,603

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

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

| | | |
|--------------------------|---------------|-----------|
| Capital Assets | \$ 13,252,333 | |
| Accumulated Depreciation | (5,303,119) | |
| Net | | 7,949,214 |

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

(461,434)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

| | | |
|---------------------------------|--------------|--------------|
| General Obligation Bonds | | |
| Current Interest | \$ 6,618,000 | |
| Bond Premium | 262,129 | |
| Other Post Employment Benefits | 484,690 | |
| Net Pension Liability - CalSTRS | 3,469,120 | |
| Net Pension Liability - CalPERS | 792,281 | |
| Total | | (11,626,220) |

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

(89,150)

Total Net Position - Governmental Activities \$ 10,230,013

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | <u>General</u> | <u>Building</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------|-----------------|---|---|
| <u>Revenues</u> | | | | |
| LCFF Sources: | | | | |
| State Apportionment / Transfers | \$ 4,558,078 | | \$ 19,507 | \$ 4,577,585 |
| Local Taxes | 2,679,891 | | | 2,679,891 |
| Total LCFF Sources | 7,237,969 | | 19,507 | 7,257,476 |
| Federal Revenue | 122,567 | | \$ 32,149 | 154,716 |
| State Revenue | 778,636 | | 5,888 | 784,524 |
| Local Revenue | 542,412 | \$ 25,911 | 627,167 | 1,195,490 |
| Total Revenues | 8,681,584 | 25,911 | 684,711 | 9,392,206 |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Instruction | 4,766,998 | | | 4,766,998 |
| Supervision of Instruction | 25,152 | | | 25,152 |
| Instructional Library and Technology | 61,337 | | | 61,337 |
| School Site Administration | 361,136 | | | 361,136 |
| Home-To-School Transportation | 14,223 | | | 14,223 |
| Food Services | | | 90,805 | 90,805 |
| Other Pupil Services | 136,264 | | | 136,264 |
| Data Processing Services | 3,093 | | | 3,093 |
| Other General Administration | 381,560 | | 210 | 381,770 |
| Plant Services | 399,122 | | 12,484 | 411,606 |
| Facilities Acquisition and Construction | 1,790 | 1,631,062 | 5,114 | 1,637,966 |
| Ancillary Services | 38,053 | | | 38,053 |
| Community Services | | | 169,289 | 169,289 |
| Other Outgo | 79,737 | | 515 | 80,252 |
| Debt Service: | | | | |
| Principal Retirement | | | 193,000 | 193,000 |
| Interest and Issuance Costs | | 775 | 229,031 | 229,806 |
| Total Expenditures | 6,268,465 | 1,631,837 | 700,448 | 8,600,750 |
| Excess of Revenues Over (Under) Expenditures | 2,413,119 | (1,605,926) | (15,737) | 791,456 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Operating Transfers In | | | 10,565 | 10,565 |
| Operating Transfers Out | (10,565) | | | (10,565) |
| Total Other Financing Sources (Uses) | (10,565) | 0 | 10,565 | 0 |
| Net Change in Fund Balances | 2,402,554 | (1,605,926) | (5,172) | 791,456 |
| Fund Balances - July 1, 2015 | 7,589,598 | 4,184,676 | 1,891,873 | 13,666,147 |
| Fund Balances - June 30, 2016 | \$ 9,992,152 | \$ 2,578,750 | \$ 1,886,701 | \$ 14,457,603 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

Net Change in Fund Balances - Governmental Funds \$ 791,456

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

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

| | | |
|----------------------|--------------|-----------|
| Capital Outlays | \$ 1,634,930 | |
| Depreciation Expense | (206,343) | |
| Net | | 1,428,587 |

Other post employment benefits (OPEB) and early retirement incentives: In governmental funds, OPEB and early retirement incentives costs are recognized when employer contributions are made. In the statement of activities, OPEB and early retirement incentives costs are recognized on the accrual basis. This year, the difference between OPEB and early retirement incentives costs accrued and actual employer contributions was: (115,261)

Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual-basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (76,654)

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

| | | |
|--------------------------|------------|---------|
| General Obligation Bonds | \$ 193,000 | |
| Bond Premium | 10,050 | |
| | | 203,050 |

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (20,262)

Change in Net Position of Governmental Activities \$ 2,210,916

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

| | Agency Funds | Total Fiduciary Funds |
|-----------------------------------|-----------------|-----------------------------|
| <u>Assets</u> | | |
| Deposits and Investments (Note 2) | \$ 5,787 | \$ 5,787 |
| Total Assets | 5,787 | 5,787 |
| <u>Liabilities</u> | | |
| Due to Student Groups | 5,787 | 5,787 |
| Total Liabilities | 5,787 | 5,787 |
| <u>Net Position</u> | | |
| Restricted | 0 | 0 |
| Total Net Position | \$ 0 | \$ 0 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Gravenstein Union School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five-member Board of Trustees elected by registered voters of the District, which comprises an area in Sonoma County. The District was established in 1956 and serves students in kindergarten through eighth grade.

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

The financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the primary government may determine, through the exercise of management's professional judgment, that inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, the organization should be included as a component unit.

The nucleus of a financial reporting entity is usually a primary government. Governmental Accounting Standards Board (GASB) Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, defines a *primary government* as any state government, general-purpose local government, or special-purpose government that meets all of the following criteria:

- It has a separately elected governing body
- It is legally separate
- It is fiscally independent of other state and local governments

The primary government consists of all funds that make up the legal entity. The primary government also consists of funds for which it has a fiduciary responsibility, even though those funds may represent organizations that do not meet the definition for inclusion in the financial reporting entity.

Component units include legally separate organizations (whether governmental, not-for-profit, or for-profit organizations) for which elected officials of the primary government are financially accountable. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

The primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

In addition, GASB 61 also requires certain organizations to be included as component units if the nature and significance of their relationship with the primary government are such that excluding them would cause the financial reporting entity's financial statements to be misleading.

Based on the GASB 61 criteria and definitions, the District is the primary government and there are no material potential component units which should be included in the Financial Reporting Entity in these financial statements.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

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

The District has determined that the Magnet Program Foundation (the Foundation) meets the criteria set forth in GASB 39. However, since the Foundation does not issue audited financial statements, the financial statements of the District include only the financial data of the primary government, which consists of all funds that comprise the District's legal entity, and all funds for which it has a fiduciary responsibility. The financial statements do not include financial data of the Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, these financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Financial Reporting Entity, or the respective changes in its financial position.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

The District has determined that the cost of including audited financial data, of its legally separate component unit, in the financial statements of the District, far exceeds the benefits to be received by including such data. In addition, since the District's various oversight agencies do not require such data to be included, the District has elected to omit such data from its financial statements.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. The effect of interfund activity, within the governmental activities column, has been removed from these statements.

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

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

Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

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

Fiduciary funds are reported using the economic resources measurement focus.

C. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Unearned Revenue:

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

Expenses/Expenditures:

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

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

D. Fund Accounting

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

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

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

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

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.

The *Building Fund* is used to account for the proceeds generated from the sale of general obligation bonds. Expenditures are made from this fund for the purpose of financing the construction, renovation and repair of certain District facilities.

Non-major Governmental Funds:

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

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

The *Child Development Fund* is used to account for revenues received and expenditures made to operate the child development programs maintained by the District.

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

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

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

The *Capital Projects - Special Reserve Fund* is used to account for the financial resources used for the acquisition or construction of major capital projects.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

E. Budgets and Budgetary Accounting

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Concluded)

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund on page 55.

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

F. Use of Estimates

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

G. Encumbrances

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

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

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Concluded)

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

2. Prepaid Expenses / Expenditures

Payments made to vendors for goods or services that will benefit periods beyond the fiscal year ended, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed. Prepaid expenses/expenditures are equally offset by a reserve, which indicates that this amount is not available for appropriation.

3. Capital Assets

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

| <u>Asset Class</u> | <u>Years</u> |
|----------------------------|--------------|
| Sites and Improvements | 20 |
| Buildings and Improvements | 7-50 |
| Furniture and Equipment | 8-15 |

4. Deferred Outflows/Inflows of Resources

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Unearned Revenue

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

6. Pensions

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

7. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. 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 is reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8. Fund Balances

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

Nonspendable Fund Balance includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually (principal endowment) (e.g. pre-paid items, permanent scholarships).

Restricted Fund Balance includes funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation (e.g. debt service, capital projects, state and federal grant funds).

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balances (Concluded)

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

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the District's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance. The Governing Board delegated authority to the Superintendent to identify intended uses of assigned funds.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The District established fund balance policy requires an economic uncertainty reserve of at least 10% of total General Fund operating expenditures (including other financing).

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

9. Local Control Funding Formula (LCFF)/Property Tax

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

9. Local Control Funding Formula (LCFF)/Property Tax (Concluded)

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

| | <u>Governmental Activities</u> | <u>Fiduciary Activities</u> |
|--------------------------------|------------------------------------|---------------------------------|
| Cash on Hand and in Banks | \$ 45,586 | \$ 5,787 |
| Cash in Revolving Fund | 1,000 | |
| County Pool Investments | <u>14,960,073</u> | <u> </u> |
| Total Deposits and Investments | <u>\$ 15,006,659</u> | <u>\$ 5,787</u> |

Cash on Hand and in Banks

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

Cash in Revolving Fund

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates.

The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations

General Authorization

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

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

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Less Than 1 Year</u> | <u>More Than 1 Year</u> |
|-------------------------|-----------------------|-------------------|-------------------------|-------------------------|
| County Pool Investments | \$ 14,960,073 | \$ 14,972,041 | \$ 4,830,641 | \$ 10,129,432 |

Credit Risk

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

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Rating as of Year End</u> | | |
|-------------------------|-----------------------|-------------------|------------------------------|-----------|----------------|
| | | | <u>AAA</u> | <u>Aa</u> | <u>Unrated</u> |
| County Pool Investments | \$ 14,960,073 | \$ 14,972,041 | | | \$ 14,960,073 |

Concentration of Credit Risk

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

Custodial Credit Risk - Investments

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits (Concluded)

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.

Derivative Investments

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

NOTE 3 - RECEIVABLES

Accounts receivable at June 30, 2016, consist of the following:

| | General Fund | Non-Major Governmental Funds | Totals |
|--------------------|-----------------|------------------------------------|------------|
| Federal Government | \$ 33,097 | \$ 4,619 | \$ 37,716 |
| State Government | 427,156 | 311 | 427,467 |
| Local Governments | 5,203 | | 5,203 |
| Miscellaneous | 77,630 | 7,267 | 84,897 |
| Totals | \$ 543,086 | \$ 12,197 | \$ 555,283 |

NOTE 4 - INTERFUND ACTIVITIES

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

Interfund Transfers

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

| <u>Funds</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------|---------------------|----------------------|
| General | | \$ 10,565 |
| Cafeteria | \$ 10,565 | |
| Totals | \$ 10,565 | \$ 10,565 |

Transfer of \$10,565 from the General Fund to the Cafeteria Fund to supplement the child nutrition program.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2016, is shown below:

| | Balances July 1, 2015 | Additions | Deletions | Balances June 30, 2016 |
|---------------------------------------|--------------------------|---------------------|---------------------|---------------------------|
| Land | \$ 149,717 | | | \$ 149,717 |
| Sites and Improvements | 1,288,836 | | | 1,288,836 |
| Buildings and Improvements | 8,385,440 | \$ 2,448,309 | | 10,833,749 |
| Furniture and Equipment | 81,179 | | | 81,179 |
| Work-in-Progress | 1,712,231 | 1,634,930 | 2,448,309 | 898,852 |
| Totals at Historical Cost | <u>11,617,403</u> | <u>4,083,239</u> | <u>\$ 2,448,309</u> | <u>13,252,333</u> |
| Less Accumulated Depreciation for: | | | | |
| Sites and Improvements | 1,140,662 | 9,186 | | 1,149,848 |
| Buildings and Improvements | 3,878,700 | 195,596 | | 4,074,296 |
| Furniture and Equipment | 77,414 | 1,561 | | 78,975 |
| Total Accumulated Depreciation | <u>5,096,776</u> | <u>206,343</u> | <u>0</u> | <u>5,303,119</u> |
| Governmental Activities | | | | |
| Capital Assets, net | <u>\$ 6,520,627</u> | <u>\$ 3,876,896</u> | <u>\$ 2,448,309</u> | <u>\$ 7,949,214</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|------------------------------|-------------------|
| Instruction | \$ 156,590 |
| Instruction-Related Services | 14,458 |
| Pupil Services | 7,771 |
| General Administration | 14,252 |
| Plant Services | <u>13,272</u> |
| Total | <u>\$ 206,343</u> |

NOTE 6 - GENERAL OBLIGATION BONDS

On the November 6, 2012, general election, the registered voters of the District approved Measure M, which authorizes the District to issue up to \$6,000,000 in general obligation bonds to finance the renovation, construction, and improvement of school facilities.

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

| Date Of Issue | Interest Rate % | Maturity Date | Amount of Original Issue | Outstanding July 1, 2015 | Issued Current Year | Redeemed Current Year | Outstanding June 30, 2016 |
|---------------------|--------------------|------------------|--------------------------------|-----------------------------|---------------------------|-----------------------------|------------------------------|
| 2012 | 3.20 | 2024 | \$ 1,105,000 | \$ 916,000 | | \$ 93,000 | \$ 823,000 |
| 2013 | 2.00-4.00 | 2044 | 3,000,000 | 2,895,000 | | 100,000 | 2,795,000 |
| 2015 | 2.00-5.00 | 2043 | <u>3,000,000</u> | <u>3,000,000</u> | <u>\$</u> | | <u>3,000,000</u> |
| Totals | | | <u>\$ 7,105,000</u> | <u>\$ 6,811,000</u> | <u>\$ 0</u> | <u>\$ 193,000</u> | <u>\$ 6,618,000</u> |

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)

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

| Year Ended <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|------------------------------|---------------------|---------------------|----------------------|
| 2017 | \$ 196,000 | \$ 265,605 | \$ 461,605 |
| 2018 | 170,000 | 260,804 | 430,804 |
| 2019 | 108,000 | 256,791 | 364,791 |
| 2020 | 117,000 | 253,216 | 370,216 |
| 2021 | 125,000 | 249,379 | 374,379 |
| 2022-2026 | 637,000 | 1,180,171 | 1,817,171 |
| 2027-2031 | 695,000 | 1,083,763 | 1,778,763 |
| 2032-2036 | 1,260,000 | 900,387 | 2,160,387 |
| 2037-2031 | 2,080,000 | 527,875 | 2,607,875 |
| 2042-2046 | <u>1,230,000</u> | <u>66,675</u> | <u>1,296,675</u> |
| Totals | <u>\$ 6,618,000</u> | <u>\$ 5,044,666</u> | <u>\$ 11,662,666</u> |

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: The District provides medical coverage to employees who retire from active status with a specified minimum age and years of service, and who are also eligible for pension benefits from CalSTRS. The benefits provided to eligible retirees are as follows:

| | <u>Certificated</u> | <u>Retired Superintendent</u> |
|-------------------------|-----------------------------|-------------------------------|
| Benefit Types Provided | Medical, Dental, and Vision | Medical, Dental, and Vision |
| Duration of Benefits | To age 65 | Life |
| Required Service | 10 years | 10 years |
| Minimum age | 55 | 55 |
| Maximum age | 58 | N/A |
| Dependent Coverage | Yes* | Yes |
| District Contribution % | 100% | 100% |
| District Cap | Active Cap | None |

* Only up to the District cap

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Plan Descriptions (Concluded)

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of July 1, 2013, the effective date of the triennial OPEB valuation is as follows.

| | |
|-------------------|------------------|
| Active employees | 44 |
| Retired employees | <u>4</u> |
| Total | <u><u>48</u></u> |

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$484,690 for the year ended June 30, 2016.

The District has elected to calculate the annual required contribution (ARC) and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members.

Calculation of ARC under Projected Unit Credit Cost Method

| | |
|---|--------------------------|
| Normal cost with interest to end of year | \$ 86,185 |
| Amortization of UAAL with interest to end of year | <u>45,438</u> |
| Annual required contribution (ARC) | 131,623 |
| Interest on Net OPEB Obligation | 14,777 |
| Adjustment to ARC | <u>(21,364)</u> |
| Annual OPEB cost (expense) | 125,036 |
| Contributions for the fiscal year | <u>(9,775)</u> |
| Increase in Net OPEB Obligation | 115,261 |
| Net OPEB Obligation - June 30, 2015 | <u>369,429</u> |
| Net OPEB Obligation - June 30, 2016 | <u><u>\$ 484,690</u></u> |

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years are presented in the following table:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-----------------------------|-----------------------------------|--------------------------------|
| June 30, 2016 | \$ 125,036 | 7.8% | \$ 484,690 |
| June 30, 2015 | 126,924 | 16.6% | 369,429 |
| June 30, 2014 | 128,583 | 27.6% | 263,570 |

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions (Concluded): In the July 1, 2013, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability ((JAAL) is being amortized using the level dollar method over 30 years. The actuarial assumptions utilized a 4% discount rate, the expected long-term rate of return on District assets. The compensation increase rate of 5% was provided by the District and based on historical data. The valuation assumes an initial health care cost trend rate of 7% which grades down to an ultimate rate of 5% by 2022, and 4% for dental and vision.

NOTE 8 - OPERATING LEASES

The District has entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS

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

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

| <u>Pension Plan</u> | <u>Net Pension Liabilities</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---------------------|--|---|--|
| CalSTRS | \$ 3,469,120 | \$ 344,855 | \$ 969,241 |
| CalPERS | 792,281 | 216,893 | 53,941 |
| Totals | <u>\$ 4,261,401</u> | <u>\$ 561,748</u> | <u>\$ 1,023,182</u> |

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

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

The STRP Defined Benefit Program has two benefit formulas:

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Benefits Provided (Concluded)

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

CalSTRS 2% at 60

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

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

CalSTRS 2% at 62

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

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

Contributions

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Contributions (Concluded)

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

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 10.73% of applicable member earnings for fiscal year 2015-16. The District contributed \$344,855 to the plan for the fiscal year ended June 30, 2016.

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

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

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

| | |
|---|----------------------------|
| District's proportionate share of the net pension liability | \$ 3,469,120 |
| State's proportionate share of the net pension liability associated with the District | <u>73,469</u> |
| Total net pension liability attributed to District | <u><u>\$ 3,542,589</u></u> |

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

| | |
|------------------------------|------------------------|
| Proportion - June 30, 2014 | 0.0061% |
| Proportion - June 30, 2015 | <u>0.0052%</u> |
| Change - Increase (Decrease) | <u><u>-0.0009%</u></u> |

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$618,335, which includes \$192,539 of support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| District contributions subsequent to the measurement date | \$ 344,855 | |
| Differences between expected and actual experience | | \$ 57,948 |
| Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | | 529,482 |
| Net differences between projected and actual earnings on plan investments | | 381,811 |
| Totals | \$ 344,855 | \$ 969,241 |

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

| Year Ended June 30 | |
|-----------------------|--------------|
| 2017 | \$ (247,951) |
| 2018 | (247,951) |
| 2019 | (247,951) |
| 2020 | (29,578) |
| 2021 | (97,905) |
| 2022 | (97,905) |

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions

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

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

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

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

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

* 10-year geometric average

Discount Rate

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

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

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

| | <u>Discount Rate 1% Decrease 6.60%</u> | <u>Discount Rate Current Rate 7.60%</u> | <u>Discount Rate 1% Increase 8.60%</u> |
|---|--|---|--|
| District's proportionate share of the net pension liability | \$ 5,238,101 | \$ 3,469,120 | \$ 1,998,954 |

Pension Plan's Fiduciary Net Position

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 11.847% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2016 was \$67,865.

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

As of June 30, 2016, the District reported a liability of \$792,281 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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

| | |
|------------------------------|---------|
| Proportion - June 30, 2014 | 0.0046% |
| Proportion - June 30, 2015 | 0.0054% |
| Change - Increase (Decrease) | 0.0008% |

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$63,579. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| District contributions subsequent to the measurement date | \$ 67,865 | |
| Differences between expected and actual experience | 45,669 | |
| Changes of assumptions | | \$ 49,101 |
| Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 103,359 | |
| Net differences between projected and actual earnings on plan investments | | 4,840 |
| Totals | \$ 216,893 | \$ 53,941 |

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

| Year Ended June 30 | |
|-----------------------|-----------|
| 2017 | \$ 23,553 |
| 2018 | 23,553 |
| 2019 | 15,450 |
| 2020 | 32,531 |

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions

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

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

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

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

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

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

Discount Rate

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Discount Rate (Concluded)

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

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

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

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

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

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONCLUDED)

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

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

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

| | Discount Rate 1% Decrease <u>6.50%</u> | Discount Rate Current Rate <u>7.50%</u> | Discount Rate 1% Increase <u>8.50%</u> |
|---|--|---|--|
| District's proportionate share of the net pension liability | \$ 1,289,503 | \$ 792,281 | \$ 378,807 |

Pension Plan Fiduciary Net Position

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

C. Social Security

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

NOTE 10 - LONG-TERM LIABILITIES

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

| | Balances <u>July 1, 2015</u> | <u>Additions</u> | <u>Deductions</u> | Balances <u>June 30, 2016</u> | Due within <u>One Year</u> |
|---------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|-------------------------------|
| General Obligation Bonds | \$ 6,811,000 | | \$ 193,000 | \$ 6,618,000 | \$ 196,000 |
| Bond Premium | 272,179 | | 10,050 | 262,129 | 10,050 |
| Other Post Employment Benefits | 369,429 | \$ 125,036 | 9,775 | 484,690 | |
| Net Pension Liability - CalSTRS | 3,547,308 | (78,188) | | 3,469,120 | |
| Net Pension Liability - CalPERS | 523,708 | 268,573 | | 792,281 | |
| Totals | <u>\$ 11,523,624</u> | <u>\$ 315,421</u> | <u>\$ 212,825</u> | <u>\$ 11,626,220</u> | <u>\$ 206,050</u> |

Other post employment benefits are obligations of the General Fund; the net pension liabilities are obligations of the General Fund, Cafeteria Fund, and Child Development Fund, and the general obligation bonds are obligations of the Bond Interest and Redemption Fund.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - FUND BALANCES

The District's fund balances at June 30, 2016 consisted of the following:

| | <u>General Fund</u> | <u>Building Fund</u> | <u>Non-Major Governmental Funds</u> | <u>Totals</u> |
|------------------------------------|-------------------------|--------------------------|---|----------------------|
| Nonspendable: | | | | |
| Revolving Cash | \$ 1,000 | | | \$ 1,000 |
| Prepaid Expenditures | <u>6,106</u> | | | <u>6,106</u> |
| Total Nonspendable | <u>7,106</u> | | | <u>7,106</u> |
| Restricted: | | | | |
| Categorical Programs | 216,861 | | \$ 7,347 | 224,208 |
| Debt Service | | | 568,458 | 568,458 |
| Measure M | | \$ 2,578,750 | | 2,578,750 |
| Developer Fees | | | 83,481 | 83,481 |
| Local Restriction | <u>18,203</u> | | <u>6</u> | <u>18,209</u> |
| Total Restricted | <u>235,064</u> | <u>2,578,750</u> | <u>659,292</u> | <u>3,473,106</u> |
| Assigned: | | | | |
| 2015-16 Basic Aid Supplement | 1,536,233 | | | 1,536,233 |
| 2016-17 Basic Aid Supplement | 1,651,176 | | | 1,651,176 |
| 2015-16 One-Time Mandated Costs | 362,851 | | | 362,851 |
| 2015-16 Textbook Carryover | 179,000 | | | 179,000 |
| OPEB Reserve | 795,627 | | | 795,627 |
| Deferred Maintenance | | | 50,181 | 50,181 |
| Child Development | | | 63,031 | 63,031 |
| Capital Projects | | | 1,114,197 | 1,114,197 |
| Total Assigned | <u>4,524,887</u> | <u>0</u> | <u>1,227,409</u> | <u>5,752,296</u> |
| Unassigned: | | | | |
| Reserve for Economic Uncertainties | 677,323 | | | 677,323 |
| Remaining Unassigned Balance | <u>4,547,772</u> | | | <u>4,547,772</u> |
| Total Unassigned | <u>5,225,095</u> | <u>0</u> | <u>0</u> | <u>5,225,095</u> |
| Total Fund Balances | <u>\$ 9,992,152</u> | <u>\$ 2,578,750</u> | <u>\$ 1,886,701</u> | <u>\$ 14,457,603</u> |

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

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 Education. These payments consist of state general fund contributions to CalSTRS of \$192,539 (7.12589% of creditable compensation subject to CalSTRS for the 2012-13 fiscal year). These contributions are recorded in the General Fund as revenue and expenditures. The District is not legally responsible for these contributions.

NOTE 13 - RISK MANAGEMENT

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements (JPAs) with the Redwood Empire Schools' Insurance Group (RESIG) for property & liability, and workers' compensation insurance coverage, and the West County Transportation Agency for pupil transportation services. The relationship between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provides coverage for its members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

NOTE 15 - ECONOMIC DEPENDENCY

During fiscal year 2015-16, the District received \$226,930 from the Magnet Program Foundation, that is subject to voluntary public contributions.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

B. Litigation

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

NOTE 17 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through January 18, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| <u>Revenues</u> | | | | |
| LCFF Sources: | | | | |
| State Apportionment / Transfers | \$ 3,147,768 | \$ 4,722,180 | \$ 4,558,078 | \$ (164,102) |
| Local Sources | 2,383,589 | 2,568,718 | 2,679,891 | 111,173 |
| Total LCFF Sources | <u>5,531,357</u> | <u>7,290,898</u> | <u>7,237,969</u> | <u>(52,929)</u> |
| Federal Revenue | 125,264 | 140,151 | 122,567 | (17,584) |
| Other State Revenue | 484,620 | 699,323 | 778,636 | 79,313 |
| Other Local Revenue | 391,896 | 424,357 | 542,412 | 118,055 |
| Total Revenues | <u>6,533,137</u> | <u>8,554,729</u> | <u>8,681,584</u> | <u>126,855</u> |
| <u>Expenditures</u> | | | | |
| Certificated Salaries | 3,066,105 | 3,299,406 | 3,238,979 | 60,427 |
| Classified Salaries | 533,564 | 557,512 | 532,325 | 25,187 |
| Employee Benefits | 985,719 | 1,200,673 | 1,229,869 | (29,196) |
| Books and Supplies | 514,573 | 562,250 | 377,132 | 185,118 |
| Services and Other | | | | |
| Operating Expenditures | 903,674 | 1,061,137 | 808,633 | 252,504 |
| Capital Outlay | 25,000 | 14,540 | 1,790 | 12,750 |
| Other Expenditures | 38,440 | 88,440 | 79,737 | 8,703 |
| Total Expenditures | <u>6,067,075</u> | <u>6,783,958</u> | <u>6,268,465</u> | <u>515,493</u> |
| Excess of Revenues Over Expenditures | 466,062 | 1,770,771 | 2,413,119 | 642,348 |
| <u>Other Financing (Uses)</u> | | | | |
| Operating Transfers Out | (10,658) | (10,732) | (10,565) | 167 |
| Net Change in Fund Balances | 455,404 | 1,760,039 | 2,402,554 | <u>\$ 642,515</u> |
| Fund Balances - July 1, 2015 | <u>7,589,598</u> | <u>7,589,598</u> | <u>7,589,598</u> | |
| Fund Balances - June 30, 2016 | <u>\$ 8,045,002</u> | <u>\$ 9,349,637</u> | <u>\$ 9,992,152</u> | |

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| <u>Actuarial Valuation Date</u> | <u>Value of Assets</u> | <u>Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Percentage of Covered Payroll</u> |
|---|----------------------------|--|------------------------------------|-------------------------|----------------------------|--|
| 7/1/13 | \$ 0 | \$ 785,711 | \$ 785,711 | 0% | \$ 2,451,511 | 32.1% |
| 7/1/10 | 0 | 728,001 | 728,001 | 0% | 1,801,770 | 40.4% |
| 7/1/06 | 0 | 1,271,010 | 1,271,010 | 0% | 1,477,747 | 86.0% |

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT

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

JUNE 30, 2016

| <u>Year Ended June 30</u> | <u>District's Proportion of the NPL</u> | <u>District's Proportionate Share of the NPL</u> | <u>State's Proportionate Share of the NPL Associated to District</u> | <u>Total NPL Attributed to District</u> | <u>District's Covered Employee Payroll</u> | <u>District's Proportionate Share of the NPL as a % of Covered Employee Payroll</u> | <u>Plan Fiduciary Net Position As a % of Total Pension Liability</u> |
|---------------------------|---|--|--|---|--|---|--|
| 2016 | 0.0052% | \$ 3,469,120 | \$ 73,469 | \$ 3,542,589 | \$ 2,391,689 | 145.05% | 74.02% |
| 2015 | 0.0061% | 3,547,308 | 83,981 | 3,631,289 | 2,703,733 | 131.20% | 76.52% |

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT

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

JUNE 30, 2016

| <u>Year Ended June 30</u> | <u>District's Proportion of the NPL</u> | <u>District's Proportionate Share of the NPL</u> | <u>District's Covered Employee Payroll</u> | <u>District's Proportionate Share of the NPL as a % of Covered Employee Payroll</u> | <u>Plan Fiduciary Net Position As a % of Total Pension Liability</u> |
|---------------------------|---|--|--|---|--|
| 2016 | 0.0054% | \$ 792,281 | \$ 595,064 | 133.14% | 79.43% |
| 2015 | 0.0046% | 523,708 | 484,268 | 108.14% | 83.38% |

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| Year Ended June 30 | Actuarially Determined Contributions | Contributions In Relation to Contractually Required Contributions | Contribution Deficiency/ (Excess) | District's Covered Employee Payroll | Contributions As a % of Covered Employee Payroll |
|--------------------------|--|---|---|--|--|
| 2016 | \$ 344,855 | \$ 344,855 | \$ - | \$ 3,213,933 | 10.730% |
| 2015 | 263,616 | 263,616 | - | 2,968,648 | 8.880% |

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| Year Ended June 30 | Actuarially Determined Contributions | Contributions In Relation to Contractually Required Contributions | Contribution Deficiency/ (Excess) | District's Covered Employee Payroll | Contributions As a % of Covered Employee Payroll |
|--------------------------|--|---|---|--|--|
| 2016 | \$ 67,865 | \$ 67,865 | \$ - | \$ 572,845 | 11.847% |
| 2015 | 70,045 | 70,045 | - | 595,064 | 11.771% |

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

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

| <u>General Fund</u> | <u>Excess Expenditures</u> |
|---------------------|----------------------------|
| Employee Benefits | \$ 29,196 |

The District incurred unanticipated expenditures in the above expenditure classification for which the budget was not revised.

B. Schedule of Funding Progress

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

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

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

D. Schedule of Contributions

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

SUPPLEMENTARY INFORMATION SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ORGANIZATION

The Gravenstein Union School District was established in 1956 and comprises an area located in Sonoma County. There were no changes in the boundaries of the District during the current year. The District operates four schools: one elementary school, one charter elementary school, one charter middle school, and one community day school.

BOARD OF TRUSTEES

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|-----------------|---------------|---------------------|
| Jim Horn | President | December 2018 |
| Desiree Beck | Clerk | December 2016 |
| Sandra Wickland | Member | December 2018 |
| Jeff Weaver | Member | December 2018 |
| Gregory Appling | Member | December 2016 |

ADMINISTRATION

Linda J. LaMarre
Superintendent

Catrina L. Howatt
Business Manager

**GRAVENSTEIN UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

| | <u>Deferred Maintenance</u> | <u>Cafeteria</u> | <u>Child Development</u> |
|---|---------------------------------|------------------|------------------------------|
| <u>Assets</u> | | | |
| Deposits and Investments | \$ 50,181 | \$ 8,970 | \$ 57,904 |
| Receivables | | 4,930 | 5,567 |
| Total Assets | <u>\$ 50,181</u> | <u>\$ 13,900</u> | <u>\$ 63,471</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts Payable | | \$ 2,002 | \$ 440 |
| Unearned Revenue | | 4,551 | |
| Total Liabilities | | <u>6,553</u> | <u>440</u> |
| Fund Balances: | | | |
| Restricted | | 7,347 | |
| Assigned | \$ 50,181 | | 63,031 |
| Total Fund Balances | <u>50,181</u> | <u>7,347</u> | <u>63,031</u> |
| Total Liabilities and Fund Balances | <u>\$ 50,181</u> | <u>\$ 13,900</u> | <u>\$ 63,471</u> |

SEE NOTES TO SUPPLEMENTARY INFORMATION

| Bond Interest and Redemption | Capital Facilities | County School Facilities | Capital Projects - Special Reserve | Total Non-Major Governmental Funds |
|-------------------------------------|---------------------------|---------------------------------|---|---|
| \$ 568,458 | \$ 81,796 1,700 | \$ 6 | \$ 1,120,491 | \$ 1,887,806 12,197 |
| <u>\$ 568,458</u> | <u>\$ 83,496</u> | <u>\$ 6</u> | <u>\$ 1,120,491</u> | <u>\$ 1,900,003</u> |
| | \$ 15 | | \$ 6,294 | \$ 8,751 4,551 |
| | <u>15</u> | | <u>6,294</u> | <u>13,302</u> |
| \$ 568,458 | 83,481 | \$ 6 | 1,114,197 | 659,292 1,227,409 |
| <u>568,458</u> | <u>83,481</u> | <u>6</u> | <u>1,114,197</u> | <u>1,886,701</u> |
| <u>\$ 568,458</u> | <u>\$ 83,496</u> | <u>\$ 6</u> | <u>\$ 1,120,491</u> | <u>\$ 1,900,003</u> |

**GRAVENSTEIN UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | <u>Deferred Maintenance</u> | <u>Cafeteria</u> | <u>Child Development</u> |
|---|---------------------------------|------------------|------------------------------|
| <u>Revenues</u> | | | |
| LCFF Sources: | | | |
| State Apportionment / Transfers | \$ 19,507 | | |
| Federal Revenue | | \$ 32,149 | |
| State Revenue | | 2,177 | \$ 87 |
| Local Revenue | 287 | 45,756 | 201,344 |
| | <u>19,794</u> | <u>80,082</u> | <u>201,431</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| Food Services | | 90,805 | |
| Other General Administration | | | |
| Plant Services | | | 5,500 |
| Facilities Acquisition and Construction | | | |
| Community Services | | | 169,289 |
| Other Outgo | | | |
| Debt Service: | | | |
| Principal Retirement | | | |
| Interest and Issuance Costs | | | |
| | <u>0</u> | <u>90,805</u> | <u>174,789</u> |
| Excess of Revenues Over (Under) Expenditures | 19,794 | (10,723) | 26,642 |
| <u>Other Financing Sources</u> | | | |
| Operating Transfers In | | 10,565 | |
| Net Change in Fund Balances | 19,794 | (158) | 26,642 |
| Fund Balances - July 1, 2015 | <u>30,387</u> | <u>7,505</u> | <u>36,389</u> |
| Fund Balances - June 30, 2016 | <u>\$ 50,181</u> | <u>\$ 7,347</u> | <u>\$ 63,031</u> |

SEE NOTES TO SUPPLEMENTARY INFORMATION

| <u>Bond Interest and Redemption</u> | <u>Capital Facilities</u> | <u>County School Facilities</u> | <u>Capital Projects - Special Reserve</u> | <u>Total Non-Major Governmental Funds</u> |
|-------------------------------------|---------------------------|---------------------------------|---|---|
| | | | | \$ 19,507 |
| | | | | 32,149 |
| \$ 3,624 | | | | 5,888 |
| 346,864 | \$ 24,410 | \$ 34 | \$ 8,472 | 627,167 |
| <u>350,488</u> | <u>24,410</u> | <u>34</u> | <u>8,472</u> | <u>684,711</u> |
| | | | | 90,805 |
| | 210 | | | 210 |
| | | | 6,984 | 12,484 |
| | | 5,114 | | 5,114 |
| | 515 | | | 169,289 |
| | | | | 515 |
| 193,000 | | | | 193,000 |
| 229,031 | | | | 229,031 |
| <u>422,031</u> | <u>725</u> | <u>5,114</u> | <u>6,984</u> | <u>700,448</u> |
| (71,543) | 23,685 | (5,080) | 1,488 | (15,737) |
| | | | | 10,565 |
| <u>(71,543)</u> | <u>23,685</u> | <u>(5,080)</u> | <u>1,488</u> | <u>(5,172)</u> |
| 640,001 | 59,796 | 5,086 | 1,112,709 | 1,891,873 |
| <u>\$ 568,458</u> | <u>\$ 83,481</u> | <u>\$ 6</u> | <u>\$ 1,114,197</u> | <u>\$ 1,886,701</u> |

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | | P-2 Report | |
|---------|--|----------------------|---------------|
| | | TK / K - 3 | Totals |
| Regular | | 34.61 | 34.61 |
| Totals | | 34.61 | 34.61 |
| | | Annual Report | |
| | | TK / K - 3 | Totals |
| Regular | | 34.63 | 34.63 |
| Totals | | 34.63 | 34.63 |

SEE NOTES TO SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | P-2 Report | | Annual Report | |
|---|-----------------------------|---------------|-----------------------------|---------------|
| | Classroom- Based | Totals | Classroom- Based | Totals |
| <i>Gravenstein Elementary Charter School:</i> | | | | |
| TK / K - 3 | 271.47 | 275.57 | 273.95 | 277.76 |
| Grades 4 - 6 | 144.79 | 146.12 | 143.96 | 146.08 |
| Special Education - NPS/LCI (Grades 4-6) | 0.94 | 0.94 | 0.94 | 0.94 |
| Totals | <u>417.20</u> | <u>422.63</u> | <u>418.85</u> | <u>424.78</u> |
| <i>Hillcrest Middle Charter School:</i> | | | | |
| Grades 4 - 6 | 83.17 | 83.89 | 83.03 | 83.77 |
| Grades 7 - 8 | 159.04 | 160.27 | 159.16 | 160.17 |
| Special Education - NPS/LCI (Grades 7-8) | 0.13 | 0.13 | 0.10 | 0.10 |
| Totals | <u>242.34</u> | <u>244.29</u> | <u>242.29</u> | <u>244.04</u> |

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| <u>Grade Level</u> | <u>Minutes Required</u> | <u>2015-16 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Number of Days Multitrack Calendar</u> | <u>Status</u> |
|--------------------|-------------------------|-------------------------------|--|---|---------------|
| Grade 1 | 50,400 | 54,440 | 180 | N/A | In Compliance |

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| <u>Grade Level</u> | <u>Minutes Required</u> | <u>2015-16 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Number of Days Multitrack Calendar</u> | <u>Status</u> |
|--------------------------------------|-------------------------|-------------------------------|--|---|---------------|
| <u>Gravenstein Elementary</u> | | | | | |
| Kindergarten | 36,000 | 50,800 | 180 | N/A | In Compliance |
| Grade 1 | 50,400 | 54,440 | 180 | N/A | In Compliance |
| Grade 2 | 50,400 | 54,440 | 180 | N/A | In Compliance |
| Grade 3 | 50,400 | 54,440 | 180 | N/A | In Compliance |
| Grade 4 | 54,000 | 54,440 | 180 | N/A | In Compliance |
| Grade 5 | 54,000 | 54,440 | 180 | N/A | In Compliance |
| <u>Hillcrest Middle</u> | | | | | |
| Grade 6 | 54,000 | 58,354 | 180 | N/A | In Compliance |
| Grade 7 | 54,000 | 58,354 | 180 | N/A | In Compliance |
| Grade 8 | 54,000 | 58,354 | 180 | N/A | In Compliance |

**GRAVENSTEIN UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | General Fund | Special Revenue - Special Reserve Fund | Special Reserve For Post Employment Benefits Fund |
|---|---------------------|--|---|
| June 30, 2016 Annual Financial and Budget Report Fund Balances | \$ 8,693,143 | \$ 503,382 | \$ 795,627 |
| Reclassifications Increasing (Decreasing) Fund Balances: | | | |
| Reclassifications of Fund Balances: | <u>1,299,009</u> | <u>(503,382)</u> | <u>(795,627)</u> |
| June 30, 2016 Audited Financial Statements Fund Balances | <u>\$ 9,992,152</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Auditor's Comments

The fund balances of the General Fund, Special Revenue - Special Reserve Fund and Special Reserve for Post Employment Benefits Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

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

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | GENERAL FUND | | | |
|---|-----------------------|---------------|---------------|--------------|
| | (Budget) * 2016-17 | 2015-16 | 2014-15 | 2013-14 |
| Revenues and Other Financial Sources | \$ 7,085,694 | \$ 8,681,584 | \$ 7,616,122 | \$ 7,234,635 |
| Expenditures | 6,751,685 | 6,268,465 | 5,639,169 | 4,816,134 |
| Other Uses and Transfers Out | 49,766 | 10,565 | 1,334,030 | 437,178 |
| Total Outgo | 6,801,451 | 6,279,030 | 6,973,199 | 5,253,312 |
| Change in Fund Balance | 284,243 | 2,402,554 | 642,923 | 1,981,323 |
| Ending Fund Balance | \$ 10,276,395 | \$ 9,992,152 | \$ 7,589,598 | \$ 6,946,675 |
| Available Reserves | \$ 5,331,557 | \$ 5,225,095 | \$ 6,642,123 | \$ 6,193,260 |
| Reserve for Economic Uncertainties ** | \$ 680,145 | \$ 677,323 | \$ 697,320 | \$ 496,637 |
| Available Reserves as a Percentage of Total Outgo | 78.4% | 83.2% | 95.3% | 117.9% |
| Total Long-Term Liabilities | \$ 11,420,170 | \$ 11,626,220 | \$ 11,523,624 | \$ 9,381,858 |
| Average Daily Attendance at P-2 (Inclusive of Charter Schools) | 720 | 702 | 686 | 684 |

* Amounts reported for the 2016-17 budget are presented for analytical purposes only and have not been audited.

** Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$3,045,477 (43.8%) over the past two years. The fiscal year 2016-17 budget projects an increase in fund balance of \$284,443. For a district this size, the state recommends available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses during each of the past three fiscal years.

Total long-term liabilities increased \$2,244,362 over the past two years, due primarily to the issuance of \$3 million of general obligation bonds during fiscal year 2014-15.

Average daily attendance (ADA) increased 18 ADA over the past two years. The District projects a further increase of 18 ADA during fiscal year 2016-17.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| <u>Charter School</u> | <u>District Audit</u> |
|---------------------------------------|------------------------------|
| Gravenstein Elementary Charter School | Included |
| Hillcrest Middle Charter School | Included |

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Combining Statements

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

B. Schedule of Average Daily Attendance

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

C. Schedule of Average Daily Attendance - Charter Schools

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

D. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year and the District met its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

E. Schedule of Instructional Time - Charter Schools

Education Code Section 47612.5 requires classroom-based charter schools to offer a minimum number of minutes of instruction. This schedule presents information on the amount of instructional time offered by Gravenstein Elementary and Hillcrest Middle Charter Schools and whether the charter schools complied with the provisions of Education Code Section 47612.5(a)(1). During fiscal year 2015-16, the charter schools complied with the applicable instructional time requirements, but did not meet or exceed its LCFF funding target.

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

G. 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.

H. Schedule of Charter Schools

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Gravenstein Union School District
Sebastopol, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

We did not perform procedures for the independent study program and nonclassroom-based Instruction/Independent Study for charter schools because the average daily attendance claimed by the District does not exceed the threshold that requires testing. We did not perform procedures for the California Clean Energy Jobs Act because the District did not have any program expenditures or reporting requirements in fiscal year 2015-16.

Opinion on State Compliance

In our opinion, Gravenstein Union School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

January 18, 2017

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Trustees
Gravenstein Union School District
Sebastopol, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gravenstein Union School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 18, 2017 that included an unmodified opinion on the governmental activities, each major fund and the aggregate remaining fund information and an adverse opinion on the discretely presented component unit. The report on the financial statements included an adverse opinion on the discretely presented component unit because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

January 18, 2017

FINDINGS AND QUESTIONED COSTS SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified with Adverse Opinion on
Discretely Presented Component Unit

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered
to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

State Awards

Any audit findings required to be reported in accordance
with the *2015-16 Guide for Annual Audits of K-12 Local
Educational Agencies and State Compliance Reporting*? _____ Yes X No

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

**GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

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

**GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

There were no matters reported in the prior year audit report.