

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

AUDIT REPORT

JUNE 30, 2017

GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2017

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GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2017

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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, 2017, 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, 2017, 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, 2017, 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 57, schedule of funding progress on page 58, schedules of the proportionate share of the net pension liability on pages 59 and 60, and schedules of contributions on page 61 and 62 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 December 8, 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

December 8, 2017

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(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, 2017. 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 overall financial status improved during the course of the year, as total net position increased 16.5%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$1,690,148.
- Net capital assets increased \$3,946,422 due to the current year addition of \$4,199,214 of new capital assets and improvements, and the current year recognition of \$252,792 of depreciation expense.
- Total long-term liabilities increased \$2,224,828, due primarily to current year increases in the District's net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.
- The District's P-2 average daily attendance (ADA) decreased from 702 ADA in fiscal year 2015-16, down to 690 ADA in fiscal year 2016-17, a decrease of 12 ADA or 1.7%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenses and other financing uses exceeded total current year revenues and other financing sources by \$2,045,352.
- During fiscal year 2016-17, the District's General Fund produced an operating deficit of \$649,626, and reported a \$1,463,408 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 2016-17, General Fund total outgo was \$9,463,548. At June 30, 2017, the District had available reserves of \$3,761,687 which represents a reserve of 39.7%.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(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, 2017**

(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, the Building Fund and Capital Projects - Special Reserve 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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net position increased from \$10,230,013 at June 30, 2016 up to \$11,920,161 at June 30, 2017, an increase of 16.5%.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2016	2017
<u>Assets</u>		
Deposits and Investments	\$ 15,006,659	\$ 12,423,557
Receivables	555,283	585,848
Prepaid Expenses	6,106	12,850
Capital Assets, net	7,949,214	11,895,636
Total Assets	<u>23,517,262</u>	<u>24,917,891</u>
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	<u>561,748</u>	<u>2,239,019</u>
<u>Liabilities</u>		
Current	1,405,645	917,383
Long-term	11,420,170	13,657,673
Total Liabilities	<u>12,825,815</u>	<u>14,575,056</u>
<u>Deferred Inflows of Resources</u>		
Pension Deferrals	<u>1,023,182</u>	<u>661,693</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,647,835	5,257,591
Restricted	812,312	860,508
Unrestricted	5,769,866	5,802,062
Total Net Position	<u>\$ 10,230,013</u>	<u>\$ 11,920,161</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, 2017**

(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 \$1,690,148.

<u>Comparative Statement of Changes in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2017</u>
<u>Program Revenues</u>		
Charges for Services	\$ 45,914	\$ 53,105
Operating Grants & Contributions	902,953	921,648
<u>General Revenues</u>		
Taxes Levied	3,027,184	3,191,571
Federal & State Aid	5,060,517	4,997,004
Interest & Investment Earnings	106,483	132,065
Other Revenues	249,155	220,169
Total Revenues	9,392,206	9,515,562
<u>Expenses</u>		
Instruction	5,049,082	5,368,173
Instruction-Related Services	466,178	491,827
Pupil Services	250,585	329,665
General Administration	459,534	737,677
Plant Services	427,941	417,886
Other Expenses	527,970	480,186
Total Expenses	7,181,290	7,825,414
Changes in Net Position	2,210,916	1,690,148
Net Position, Beginning	8,019,097	10,230,013
Net Position, Ending	\$ 10,230,013	\$ 11,920,161

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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

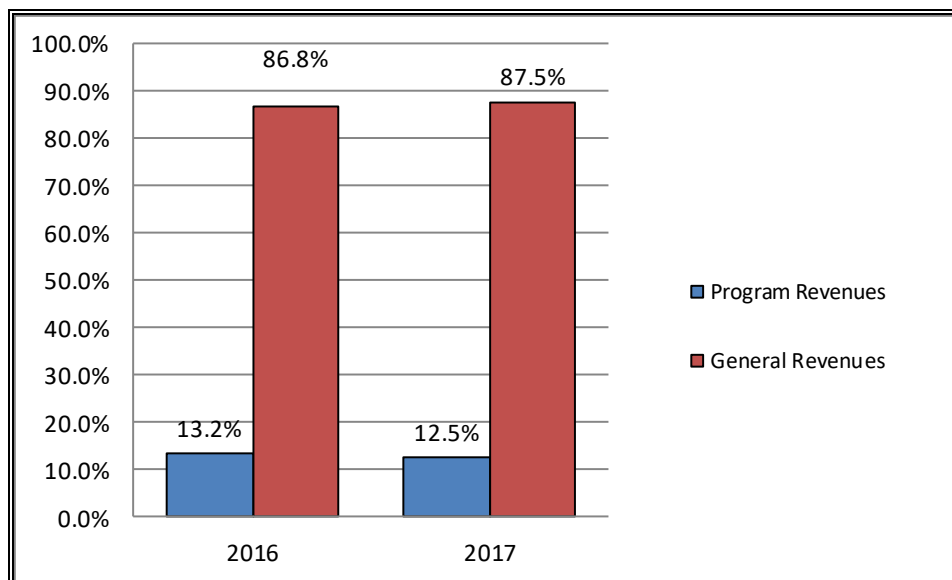
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Total Cost of Services		Net Cost of Services	
	2016	2017	2016	2017
	Instruction	\$ 5,049,082	\$ 5,368,173	\$ 4,286,392
Instruction-Related Services	466,178	491,827	411,406	474,506
Pupil Services	250,585	329,665	127,449	182,280
General Administration	459,534	737,677	453,324	730,069
Plant Services	427,941	417,886	427,790	417,883
Other Expenses	527,970	480,186	526,062	479,470
Totals	\$ 7,181,290	\$ 7,825,414	\$ 6,232,423	\$ 6,850,661

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 \$6,850,661 net cost represents the share of total cost that the District's general revenues provide for the services listed.



For fiscal year 2016-17, program revenues financed 12.5% of the total cost of providing the services listed above, while the remaining 87.5% 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, 2017**

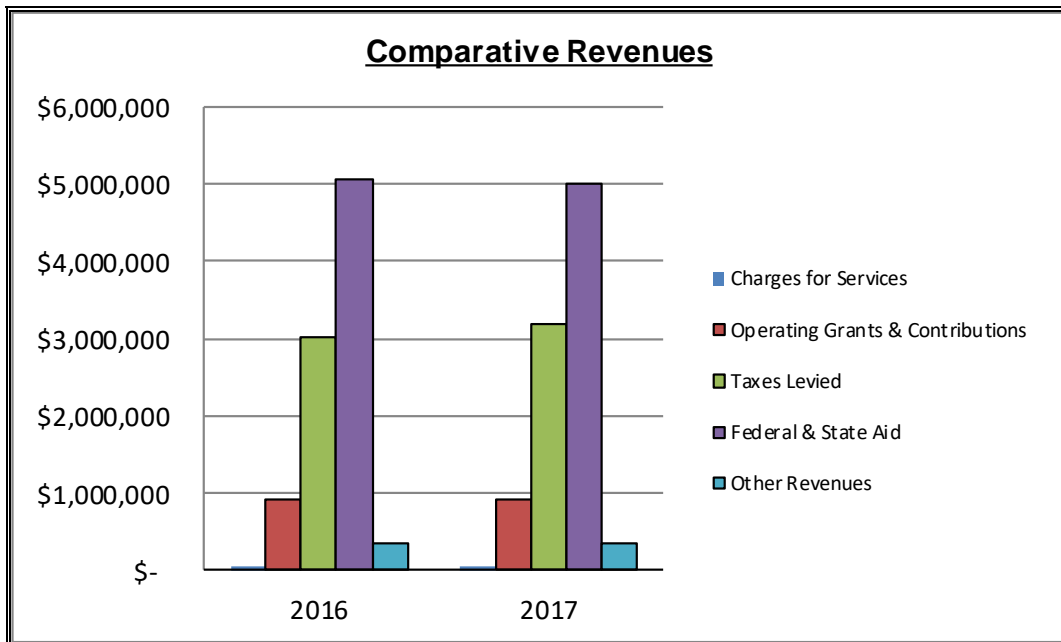
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 45,914	0.49%	\$ 53,105	0.56%
Operating Grants & Contributions	902,953	9.61%	921,648	9.69%
<u>General Revenues</u>				
Taxes Levied	3,027,184	32.23%	3,191,571	33.54%
Federal & State Aid	5,060,517	53.88%	4,997,004	52.51%
Other Revenues	355,638	3.79%	352,234	3.70%
Total Revenues	<u>\$ 9,392,206</u>	<u>100.00%</u>	<u>\$ 9,515,562</u>	<u>100.00%</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, 2017**

(PREPARED BY DISTRICT MANAGEMENT)

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

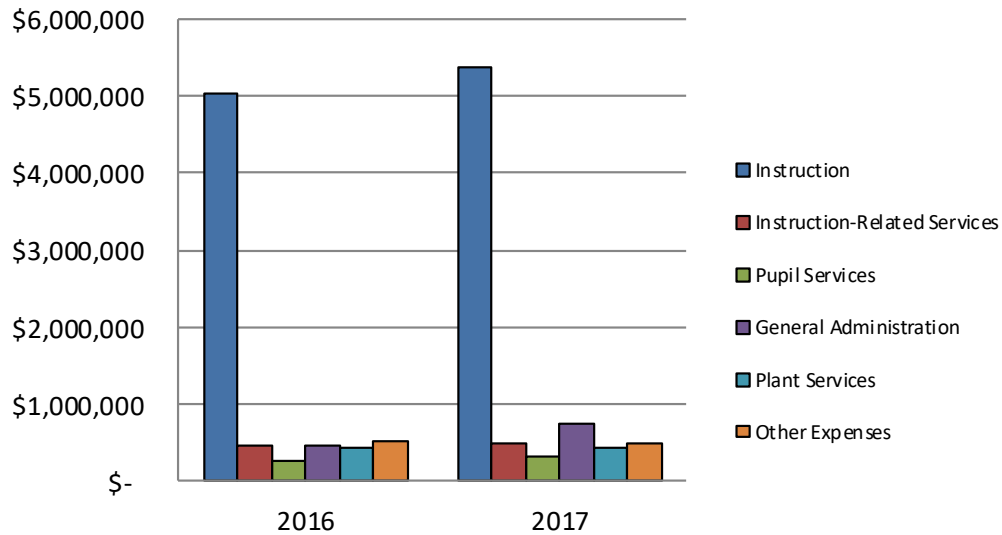
GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 5,049,082	70.31%	\$ 5,368,173	68.60%
Instruction-Related Services	466,178	6.49%	491,827	6.28%
Pupil Services	250,585	3.49%	329,665	4.21%
General Administration	459,534	6.40%	737,677	9.43%
Plant Services	427,941	5.96%	417,886	5.34%
Other Expenses	527,970	7.35%	480,186	6.14%
Total Expenses	<u>\$ 7,181,290</u>	<u>100.00%</u>	<u>\$ 7,825,414</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds

Comparative Expenses



**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(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	
	2016	2017
Land	\$ 149,717	\$ 149,717
Sites and Improvements	1,288,836	1,288,836
Buildings and Improvements	10,833,749	13,156,123
Furniture and Equipment	81,179	81,179
Work-in-Progress	898,852	2,775,692
Subtotals	13,252,333	17,451,547
Less: Accumulated Depreciation	(5,303,119)	(5,555,911)
Capital Assets, net	<u>\$ 7,949,214</u>	<u>\$ 11,895,636</u>

Net capital assets increased \$3,946,422 due to the current year addition of \$4,199,214 of new capital assets and improvements, and the current year recognition of \$252,792 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2016	2017
General Obligation Bonds	\$ 6,618,000	\$ 6,422,000
Bond Premium	262,129	252,080
Compensated Absences	0	13,325
Other Post Employment Benefits	484,690	715,306
Net Pension Liability - CalSTRS	3,469,120	5,505,293
Net Pension Liability - CalPERS	792,281	943,044
Totals	<u>\$ 11,626,220</u>	<u>\$ 13,851,048</u>

Total long-term liabilities increased \$2,224,828, 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, 2017**

(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, 2016	Fund Balances June 30, 2017	Increase (Decrease)
General	\$ 9,992,152	\$ 9,342,526	\$ (649,626)
Building	2,578,750	36,035	(2,542,715)
Capital Projects - Special Reserve	1,114,197	2,295,936	1,181,739
Deferred Maintenance	50,181	69,006	18,825
Cafeteria	7,347	14,466	7,119
Child Development	63,031	76,939	13,908
Bond Interest & Redemption	568,458	467,575	(100,883)
Capital Facilities	83,481	109,762	26,281
County School Facilities	6	6	0
Totals	\$ 14,457,603	\$ 12,412,251	\$ (2,045,352)

The fund balance of the General Fund decreased \$649,626, and the combined fund balances of all other District governmental funds decreased \$1,395,726.

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, 2017**

(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, 2017

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 12,423,557
Receivables (Note 3)	585,848
Prepaid Expenses (Note 1H)	12,850
Capital Assets (Note 5)	
Land	149,717
Sites and Improvements	1,288,836
Buildings and Improvements	13,156,123
Furniture and Equipment	81,179
Work-in-Progress	2,775,692
Less: Accumulated Depreciation	(5,555,911)
Total Assets	24,917,891
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 9)	2,239,019
Total Deferred Outflows of Resources	2,239,019
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	606,897
Accrued Interest Payable	114,004
Unearned Revenue (Note 1H)	3,107
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	13,325
General Obligation Bonds	
Current Interest	170,000
Bond Premium	10,050
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	
Current Interest	6,252,000
Bond Premium	242,030
Other Post Employment Benefits (Note 7)	715,306
Net Pension Liabilities (Note 9)	6,448,337
Total Liabilities	14,575,056
<u>Deferred Inflows of Resources</u>	
Pension Deferrals (Note 9)	661,693
Total Deferred Inflows of Resources	661,693
<u>Net Position</u>	
Net Investment in Capital Assets	5,257,591
Restricted:	
For Capital Projects	109,768
For Debt Service	353,571
For Educational Programs	368,853
For Other Purposes	28,316
Unrestricted	5,802,062
Total Net Position	\$ 11,920,161

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	\$ 5,368,173	\$ 4,383	\$ 797,337		\$ (4,566,453)
Instruction-Related Services:					
Supervision of Instruction	44,286	141	3,555		(40,590)
Instructional Library and Technology	33,038				(33,038)
School Site Administration	414,503		13,625		(400,878)
Pupil Services:					
Home-to-School Transportation	72,333	348	6,468		(65,517)
Food Services	124,820	46,916	60,876		(17,028)
Other Pupil Services	132,512	1,317	31,460		(99,735)
General Administration:					
Data Processing Services	7,206				(7,206)
Other General Administration	730,471		7,608		(722,863)
Plant Services	417,886		3		(417,883)
Ancillary Services	21,413		707		(20,706)
Community Services	156,732		9		(156,723)
Interest on Long-Term Debt	282,660				(282,660)
Other Outgo	19,381				(19,381)
Total Governmental Activities	\$ 7,825,414	\$ 53,105	\$ 921,648	\$ 0	(6,850,661)
<u>General Revenues</u>					
Taxes Levied for General Purposes					2,831,836
Taxes Levied for Debt Service					359,376
Taxes Levied for Specific Purposes					359
Federal and State Aid - Unrestricted					4,997,004
Interest and Investment Earnings					132,065
Miscellaneous					220,169
Total General Revenues					8,540,809
Change in Net Position					1,690,148
Net Position - July 1, 2016					10,230,013
Net Position - June 30, 2017					\$ 11,920,161

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General</u>	<u>Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 9,372,185	\$ 56,917	\$ 2,323,389	\$ 671,066	\$ 12,423,557
Receivables (Note 3)	563,180			22,668	585,848
Due from Other Funds (Note 4)				44,678	44,678
Prepaid Expenditures (Note 1H)	12,850				12,850
Total Assets	<u>\$ 9,948,215</u>	<u>\$ 56,917</u>	<u>\$ 2,323,389</u>	<u>\$ 738,412</u>	<u>\$ 13,066,933</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 557,904	\$ 20,882	\$ 27,453	\$ 658	\$ 606,897
Due to Other Funds (Note 4)	44,678				44,678
Unearned Revenue (Note 1H)	3,107				3,107
Total Liabilities	<u>605,689</u>	<u>20,882</u>	<u>27,453</u>	<u>658</u>	<u>654,682</u>
Fund Balances: (Note 11)					
Nonspendable	13,850				13,850
Restricted	368,853	36,035		591,809	996,697
Committed				69,006	69,006
Assigned	5,198,136		2,295,936	76,939	7,571,011
Unassigned	3,761,687				3,761,687
Total Fund Balances	<u>9,342,526</u>	<u>36,035</u>	<u>2,295,936</u>	<u>737,754</u>	<u>12,412,251</u>
Total Liabilities and Fund Balances	<u>\$ 9,948,215</u>	<u>\$ 56,917</u>	<u>\$ 2,323,389</u>	<u>\$ 738,412</u>	<u>\$ 13,066,933</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, 2017**

Total Fund Balances - Governmental Funds \$ 12,412,251

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	\$ 17,451,547	
Accumulated Depreciation	(5,555,911)	
Net		11,895,636

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.

1,577,326

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:

Compensated Absences	\$ 13,325	
General Obligation Bonds		
Current Interest	6,422,000	
Bond Premium	252,080	
Other Post Employment Benefits	715,306	
Net Pension Liability - CalSTRS	5,505,293	
Net Pension Liability - CalPERS	943,044	
Total		(13,851,048)

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 unmatrued interest owed at the end of the period was:

(114,004)

Total Net Position - Governmental Activities \$ 11,920,161

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
LCFF Sources:					
State Apportionment / Transfers	\$ 4,706,082			\$ 19,507	\$ 4,725,589
Local Taxes	2,831,836				2,831,836
Total LCFF Sources	7,537,918			19,507	7,557,425
Federal Revenue	177,605			58,982	236,587
State Revenue	561,107			5,549	566,656
Local Revenue	537,292	\$ 6,266	\$ 7,423	603,913	1,154,894
Total Revenues	8,813,922	6,266	7,423	687,951	9,515,562
<u>Expenditures</u>					
Current:					
Instruction	5,046,036				5,046,036
Supervision of Instruction	42,190				42,190
Instructional Library and Technology	31,878				31,878
School Site Administration	392,008				392,008
Home-To-School Transportation	69,794				69,794
Food Services				120,439	120,439
Other Pupil Services	124,989				124,989
Data Processing Services	6,953				6,953
Other General Administration	471,955			15	471,970
Plant Services	367,983			26,171	394,154
Facilities Acquisition and Construction	8,132	2,548,981	1,642,101		4,199,214
Ancillary Services	21,326				21,326
Community Services				156,727	156,727
Other Outgo	18,950			431	19,381
Debt Service:					
Principal Retirement				196,000	196,000
Interest and Issuance Costs				267,855	267,855
Total Expenditures	6,602,194	2,548,981	1,642,101	767,638	11,560,914
Excess of Revenues Over (Under) Expenditures	2,211,728	(2,542,715)	(1,634,678)	(79,687)	(2,045,352)
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In			2,816,417	44,937	2,861,354
Operating Transfers Out	(2,861,354)				(2,861,354)
Total Other Financing Sources (Uses)	(2,861,354)	0	2,816,417	44,937	0
Net Change in Fund Balances	(649,626)	(2,542,715)	1,181,739	(34,750)	(2,045,352)
Fund Balances - July 1, 2016	9,992,152	2,578,750	1,114,197	772,504	14,457,603
Fund Balances - June 30, 2017	\$ 9,342,526	\$ 36,035	\$ 2,295,936	\$ 737,754	\$ 12,412,251

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, 2017

Net Change in Fund Balances - Governmental Funds \$ (2,045,352)

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	\$ 4,199,214	
Depreciation Expense	(252,792)	
Net		3,946,422

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (13,325)

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: (230,616)

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: (148,176)

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	\$ 196,000	
Bond Premium	10,049	
		206,049

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: (24,854)

Change in Net Position of Governmental Activities \$ 1,690,148

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 7,034	\$ 7,034
Total Assets	7,034	7,034
<u>Liabilities</u>		
Due to Student Groups	7,034	7,034
Total Liabilities	7,034	7,034
<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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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.

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

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).

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, 2017

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 57.

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, 2017

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017

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 LCFF creates funding targets based on student characteristics and provides greater flexibility to use these funds to improve student outcomes. For school districts, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that are calculated based on student demographic factors. 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, 2017

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, 2017:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 46,256	\$ 7,034
Cash in Revolving Fund	1,000	
County Pool Investments	<u>12,376,301</u>	<u> </u>
Total Deposits and Investments	<u>\$ 12,423,557</u>	<u>\$ 7,034</u>

Cash on Hand and in Banks

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

Cash in Revolving Fund

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

County Pool Investments

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Sonoma County Investment Pool.

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

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Carrying Value	Fair Value	Weighted Average Days to Maturity
County Pool Investments	\$ 12,376,301	\$ 12,336,697	569

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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. Investments in the County Treasury are not required to be rated.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 12,376,301	\$ 12,336,697	Unrated

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 Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

Fair Value Measurements

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

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

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

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

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

The District's fair value measurements are as follows at June 30, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	<u>\$ 12,336,697</u>	<u>\$ 12,336,697</u>

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

NOTE 3 - RECEIVABLES

Accounts receivable at June 30, 2017, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 117,434	\$ 4,536	\$ 121,970
State Government	355,368	254	355,622
Miscellaneous	<u>90,378</u>	<u>17,878</u>	<u>108,256</u>
Totals	<u>\$ 563,180</u>	<u>\$ 22,668</u>	<u>\$ 585,848</u>

NOTE 4 - INTERFUND ACTIVITIES

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - INTERFUND ACTIVITIES (CONCLUDED)

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

All interfund receivables and payables are scheduled to be paid within one year. Balances due to/from other funds at June 30, 2017 consisted of the following:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General		\$ 44,678
Deferred Maintenance	\$ 44,678	
Totals	<u>\$ 44,678</u>	<u>\$ 44,678</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2016-17 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 2,861,354
Deferred Maintenance	\$ 25,171	
Cafeteria	19,766	
Capital Projects – Special Reserve	<u>2,816,417</u>	
Totals	<u>\$ 2,861,354</u>	<u>\$ 2,861,354</u>

Transfer of \$25,171 from the General Fund to the Deferred Maintenance Fund to provide funding for deferred maintenance projects.

Transfer of \$19,766 from the General Fund to the Cafeteria Fund to supplement the child nutrition program.

Transfer of \$2,816,417 from the General Fund to the Capital Projects - Special Reserve Fund to provide funding for capital projects.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 188,408
Instruction-Related Services	17,262
Pupil Services	11,571
General Administration	20,884
Plant Services	<u>14,667</u>
Total	<u>\$ 252,792</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Capital asset activity for the fiscal year ended June 30, 2017, is shown below:

	Balances July 1, 2016	Additions	Deletions	Balances June 30, 2017
Land	\$ 149,717			\$ 149,717
Sites and Improvements	1,288,836			1,288,836
Buildings and Improvements	10,833,749	\$ 2,322,374		13,156,123
Furniture and Equipment	81,179			81,179
Work-in-Progress	898,852	4,199,214	\$ 2,322,374	2,775,692
Totals at Historical Cost	<u>13,252,333</u>	<u>6,521,588</u>	<u>2,322,374</u>	<u>17,451,547</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,149,848	9,186		1,159,034
Buildings and Improvements	4,074,296	242,045		4,316,341
Furniture and Equipment	78,975	1,561		80,536
Total Accumulated Depreciation	<u>5,303,119</u>	<u>252,792</u>	<u>0</u>	<u>5,555,911</u>
Governmental Activities				
Capital Assets, net	<u>\$ 7,949,214</u>	<u>\$ 6,268,796</u>	<u>\$ 2,322,374</u>	<u>\$ 11,895,636</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, 2017 is as follows:

Date Of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2016	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2017
2012	3.20	2024	\$ 1,105,000	\$ 823,000		\$ 91,000	\$ 732,000
2013	2.00-4.00	2044	3,000,000	2,795,000		105,000	2,690,000
2016	2.00-5.00	2043	<u>3,000,000</u>	<u>3,000,000</u>	\$ _____	_____	<u>3,000,000</u>
Totals			<u>\$ 7,105,000</u>	<u>\$ 6,618,000</u>	<u>\$ 0</u>	<u>\$ 196,000</u>	<u>\$ 6,422,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2017, is as follows:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	143,000	245,196	388,196
2023-2027	599,000	1,159,975	1,758,975
2028-2032	790,000	1,058,563	1,848,563
2033-2037	1,400,000	842,412	2,242,412
2038-2042	2,285,000	427,875	2,712,875
2043-2047	685,000	24,850	709,850
Totals	<u>\$ 6,422,000</u>	<u>\$ 4,779,061</u>	<u>\$ 11,201,061</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 Description: The plan is a single employer defined benefit healthcare plan administered by the District. 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

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Plan Descriptions (Concluded):

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

The number of participants as of July 1, 2016, the effective date of the triennial OPEB valuation is as follows.

Active employees	41
Retired employees	<u>1</u>
Total	<u><u>42</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, 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$715,306 for the year ended June 30, 2017.

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

Annual required contribution (ARC)	\$	265,642
Interest on Net OPEB Obligation		0
Adjustment to ARC		<u>(0)</u>
Annual OPEB cost (expense)		265,642
Contributions for the fiscal year		<u>(35,026)</u>
Increase in Net OPEB Obligation		230,616
Net OPEB Obligation - June 30, 2016		<u>484,690</u>
Net OPEB Obligation - June 30, 2017	<u>\$</u>	<u><u>715,306</u></u>

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, 2017	\$ 265,642	13.2%	\$ 715,306
June 30, 2016	125,036	7.8%	484,690
June 30, 2015	126,924	16.6%	369,429

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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.

In the July 1, 2016, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability ((UAAL) 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 8% which grades down to an ultimate rate of 5% by 2025, 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.

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).

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

The District reported net pension liabilities, deferred outflows of resources, deferred inflows, and pension expenses of resources in the accompanying government-wide financial statements as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expenses</u>
CalSTRS	\$ 5,505,293	\$ 1,884,431	\$ 560,061	\$ 769,331
CalPERS	943,044	354,588	101,632	143,987
Totals	<u>\$ 6,448,337</u>	<u>\$ 2,239,019</u>	<u>\$ 661,693</u>	<u>\$ 913,318</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.

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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 multiplied by the number of years 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 a maximum of 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, up to the 2.4% maximum.

CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer 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 most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service a member could earn in a school year.

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 multiplied by the number of years 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 36 consecutive months of credited service a member could earn in a school year.

Contributions

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

Members: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, the member contribution rate was 9.205% of applicable member earnings for fiscal year 2016-17. The rate imposed on CalSTRS 2% at 62 members is based assuming no change in the normal cost of benefits.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Contributions (Concluded)

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 12.58% of applicable member earnings for fiscal year 2016-17. The District contributed \$427,862 to the plan for the fiscal year ended June 30, 2017.

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, 2017 was 4.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 8.828% for the fiscal year ended June 30, 2017.

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, 2017, 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	\$ 5,505,293
State's proportionate share of the net pension liability associated with the District	<u>3,134,065</u>
Total net pension liability attributed to District	<u><u>\$ 8,639,358</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015 and June 30, 2016 was as follows:

Proportion - June 30, 2015	0.0052%
Proportion - June 30, 2016	<u>0.0068%</u>
Change - Increase (Decrease)	<u><u>0.0016%</u></u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$769,331 and revenue and expense of \$254,052 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 427,862	
Differences between expected and actual experience		\$ 118,826
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	1,031,682	441,235
Net differences between projected and actual earnings on plan investments	<u>424,887</u>	
Totals	<u>\$ 1,884,431</u>	<u>\$ 560,061</u>

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

<u>Year Ended June 30</u>	
2018	\$ 76,403
2019	76,403
2020	294,776
2021	226,449
2022	62,286
2023	160,191

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, 2016. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
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 Increases	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 specific experience through June 30, 2015. RP2000 series tables are an industry standard set of mortality rates published in 2000 by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis and June 30, 2015 Actuarial Program Valuations 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 investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

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%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return / Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	<u>100%</u>	

* 20-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 current 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	\$ 7,923,358	\$ 5,505,293	\$ 3,496,988

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Pension Plan's Fiduciary Net Position

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

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

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

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

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, 2017 was 13.888% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2017 was \$83,228.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

As of June 30, 2017, the District reported a liability of \$943,044 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

Proportion - June 30, 2015	0.0054%
Proportion - June 30, 2016	<u>0.0048%</u>
Change - Increase (Decrease)	<u><u>-0.0006%</u></u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$143,987. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 83,228	
Differences between expected and actual experience	44,774	
Changes of assumptions		\$ 32,734
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	66,205	68,898
Net differences between projected and actual earnings on plan investments	<u>160,381</u>	
Totals	<u><u>\$ 354,588</u></u>	<u><u>\$ 101,632</u></u>

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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)

Year Ended June 30	
2018	\$ 43,554
2019	35,451
2020	52,532
2021	38,191

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, 2016. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial methods and assumptions

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies
Investment Rate of Return	7.65%
Post Retirement Benefit Increase (1)	

(1) 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 projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2015 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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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.

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	20.0%	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	1.0%	-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, 2017

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 7.65%, 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 (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	Discount Rate 1% Decrease 6.65%	Discount Rate Current Rate 7.65%	Discount Rate 1% Increase 8.65%
District's proportionate share of the net pension liability	\$ 1,407,027	\$ 943,044	\$ 556,687

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, 2017, is shown below:

	Balances <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2017</u>	Due within <u>One Year</u>
General Obligation Bonds	\$ 6,618,000		\$ 196,000	\$ 6,422,000	\$ 170,000
Bond Premium	262,129		10,049	252,080	10,050
Compensated Absences	0	\$ 13,325		13,325	13,325
Other Post Employment Benefits	484,690	265,642	35,026	715,306	
Net Pension Liability - CalSTRS	3,469,120	2,036,173		5,505,293	
Net Pension Liability - CalPERS	792,281	150,763		943,044	
Totals	\$ 11,626,220	\$ 2,465,903	\$ 241,075	\$ 13,851,048	\$ 193,375

The bond related liabilities are obligations of the Bond Interest & Redemption, and all other liabilities are obligations of the General Fund, Cafeteria Fund, and Child Development Fund, as appropriate, based upon where the related salaries are charged.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - FUND BALANCES

The District's fund balances at June 30, 2017 consisted of the following:

	General Fund	Building Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable:					
Revolving Cash	\$ 1,000				\$ 1,000
Prepaid Expenditures	12,850				12,850
Total Nonspendable	<u>13,850</u>				<u>13,850</u>
Restricted:					
Categorical Programs	351,789			\$ 14,466	366,255
Debt Service				467,575	467,575
Measure M		\$ 36,035			36,035
Developer Fees				109,762	109,762
Local Programs	17,064			6	17,070
Total Restricted	<u>368,853</u>	<u>36,035</u>		<u>591,809</u>	<u>996,697</u>
Committed					
Deferred Maintenance				69,006	69,006
Total Committed	<u>0</u>	<u>0</u>		<u>69,006</u>	<u>69,006</u>
Assigned:					
2015-16 Basic Aid Supplement	1,536,233				1,536,233
2016-17 Basic Aid Supplement	1,707,936				1,707,936
2015-16 One-Time Mandated Costs	362,851				362,851
2016-17 One-Time Mandated Costs	150,775				150,775
2015-16 Textbook Carryover	128,000				128,000
Special Reserve	508,549				508,549
OPEB Reserve	803,792				803,792
Child Development				76,939	76,939
Capital Projects			\$ 2,295,936		2,295,936
Total Assigned	<u>5,198,136</u>	<u>0</u>	<u>2,295,936</u>	<u>76,939</u>	<u>7,571,011</u>
Unassigned:					
Reserve for Economic Uncertainties	432,563				432,563
Remaining Unassigned Balance	3,329,124				3,329,124
Total Unassigned	<u>3,761,687</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,761,687</u>
Total Fund Balances	<u>\$ 9,342,526</u>	<u>\$ 36,035</u>	<u>\$ 2,295,936</u>	<u>\$ 737,754</u>	<u>\$ 12,412,251</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 \$254,042 (8.57825% of salaries subject to CalSTRS). 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 2016-17, 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, 2017

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 2016-17, the District received \$175,173 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 - FUTURE GASB IMPLEMENTATION

In June 2015, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District in fiscal year 2017-18. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and establishes new accounting and financial reporting requirements for OPEB plans.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 18 - 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 December 8, 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, 2017

	<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	\$ 3,457,589	\$ 3,086,637	\$ 4,706,082	\$ 1,619,445
Local Sources	2,568,718	2,753,482	2,831,836	78,354
Total LCFF Sources	<u>6,026,307</u>	<u>5,840,119</u>	<u>7,537,918</u>	<u>1,697,799</u>
Federal Revenue	144,505	180,825	177,605	(3,220)
Other State Revenue	464,888	558,135	561,107	2,972
Other Local Revenue	449,994	593,790	537,292	(56,498)
Total Revenues	<u>7,085,694</u>	<u>7,172,869</u>	<u>8,813,922</u>	<u>1,641,053</u>
<u>Expenditures</u>				
Current:				
Certificated Salaries	3,403,181	3,460,076	3,457,313	2,763
Classified Salaries	549,968	562,957	560,940	2,017
Employee Benefits	1,283,187	1,423,253	1,417,421	5,832
Books and Supplies	407,310	476,152	302,466	173,686
Services and Other				
Operating Expenditures	994,599	1,139,436	845,104	294,332
Capital Outlay	40,000	40,000		40,000
Other Expenditures	73,440	3,950	18,950	(15,000)
Total Expenditures	<u>6,751,685</u>	<u>7,105,824</u>	<u>6,602,194</u>	<u>503,630</u>
Excess of Revenues Over Expenditures	334,009	67,045	2,211,728	2,144,683
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(49,766)	(2,861,354)	(2,861,354)	0
Net Change in Fund Balances	284,243	(2,794,309)	(649,626)	<u>\$ 2,144,683</u>
Fund Balances - July 1, 2016	<u>9,992,152</u>	<u>9,992,152</u>	<u>9,992,152</u>	
Fund Balances - June 30, 2017	<u>\$ 10,276,395</u>	<u>\$ 7,197,843</u>	<u>\$ 9,342,526</u>	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<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>
7/1/16	\$ 0	\$ 1,397,328	\$ 1,397,328	0%	\$ 2,717,322	51.4%
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%

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT

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

JUNE 30, 2017

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2017	0.0068%	\$ 5,505,293	\$ 3,134,065	\$8,639,358	\$3,392,246	162.29%	70.04%
2016	0.0052%	3,469,120	1,834,782	5,303,902	2,391,689	145.05%	74.02%
2015	0.0061%	3,547,308	2,141,998	5,689,306	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, 2017

<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 Payroll</u>	<u>District's Proportionate Share of the NPL as a % of Covered Payroll</u>	<u>Plan Fiduciary Net Position As a % of Total Pension Liability</u>
2017	0.0048%	\$ 943,044	\$ 572,845	164.62%	73.90%
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, 2017

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions As a % of Covered Payroll</u>
2017	\$ 427,862	\$ 427,862	\$ -	\$ 3,401,129	12.580%
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, 2017

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions As a % of Covered Payroll</u>
2017	\$ 83,228	\$ 83,228	\$ -	\$ 599,280	13.888%
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, 2017

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, 2017, were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Other Expenditures	\$ 15,000

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 payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered 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 payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered payroll.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

A. Benefit Changes

There have been no changes to benefit terms since the previous valuation for either CalSTRS or CalPERS.

B. Changes of Assumptions

There have been no changes in assumptions since the previous valuation for either CalSTRS or CalPERS.

SUPPLEMENTARY INFORMATION SECTION

**GRAVENSTEIN UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 2020
Sandra Wickland	Member	December 2018
Steve Schwartz	Member	December 2020
Gregory Appling	Member	December 2018

ADMINISTRATION

Jennifer Schwinn
Superintendent

Wanda Holden
Business Manager

**GRAVENSTEIN UNION SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Child Development</u>
<u>Assets</u>			
Deposits and Investments	\$ 24,328	\$ 7,363	\$ 63,449
Receivables		7,667	13,584
Due from Other Funds	44,678		
Total Assets	<u>\$ 69,006</u>	<u>\$ 15,030</u>	<u>\$ 77,033</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable		\$ 564	\$ 94
Total Liabilities		<u>564</u>	<u>94</u>
Fund Balances:			
Restricted		14,466	
Committed	\$ 69,006		
Assigned			76,939
Total Fund Balances	<u>69,006</u>	<u>14,466</u>	<u>76,939</u>
Total Liabilities and Fund Balances	<u>\$ 69,006</u>	<u>\$ 15,030</u>	<u>\$ 77,033</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

Bond Interest and Redemption	Capital Facilities	County School Facilities	Total Non-Major Governmental Funds
\$ 467,575	\$ 108,345 1,417	\$ 6	\$ 671,066 22,668 44,678
<u>\$ 467,575</u>	<u>\$ 109,762</u>	<u>\$ 6</u>	<u>\$ 738,412</u>
			<u>\$ 658</u>
			<u>658</u>
\$ 467,575	\$ 109,762	\$ 6	591,809 69,006 76,939
<u>467,575</u>	<u>109,762</u>	<u>6</u>	<u>737,754</u>
<u>\$ 467,575</u>	<u>\$ 109,762</u>	<u>\$ 6</u>	<u>\$ 738,412</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, 2017**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Child Development</u>
<u>Revenues</u>			
LCFF Sources:			
State Apportionment / Transfers	\$ 19,507		
Federal Revenue		\$ 58,982	
State Revenue		2,041	\$ 9
Local Revenue	318	46,769	170,626
Total Revenues	<u>19,825</u>	<u>107,792</u>	<u>170,635</u>
<u>Expenditures</u>			
Current:			
Food Services		120,439	
Other General Administration			
Plant Services	26,171		
Community Services			156,727
Other Outgo			
Debt Service:			
Principal Retirement			
Interest and Issuance Costs			
Total Expenditures	<u>26,171</u>	<u>120,439</u>	<u>156,727</u>
Excess of Revenues Over (Under) Expenditures	(6,346)	(12,647)	13,908
<u>Other Financing Sources</u>			
Operating Transfers In	<u>25,171</u>	<u>19,766</u>	
Net Change in Fund Balances	18,825	7,119	13,908
Fund Balances - July 1, 2016	<u>50,181</u>	<u>7,347</u>	<u>63,031</u>
Fund Balances - June 30, 2017	<u>\$ 69,006</u>	<u>\$ 14,466</u>	<u>\$ 76,939</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 19,507
			58,982
\$ 3,499			5,549
359,473	\$ 26,727		603,913
<u>362,972</u>	<u>26,727</u>		<u>687,951</u>
			120,439
	15		15
			26,171
			156,727
	431		431
196,000			196,000
267,855			267,855
<u>463,855</u>	<u>446</u>		<u>767,638</u>
(100,883)	26,281		(79,687)
<u>(100,883)</u>	<u>26,281</u>		<u>44,937</u>
568,458	83,481	\$ 6	772,504
<u>\$ 467,575</u>	<u>\$ 109,762</u>	<u>\$ 6</u>	<u>\$ 737,754</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

P-2 Report			
	TK / K - 3	7 - 8	Totals
Regular	36.11		36.11
Community Day School		0.09	0.09
Totals	36.11	0.09	36.20
Annual Report			
	TK / K - 3	7 - 8	Totals
Regular	36.70		36.70
Community Day School		0.07	0.07
Totals	36.70	0.07	36.77

GRAVENSTEIN UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>P-2 Report</u>			<u>Annual Report</u>		
	<u>Classroom- Based</u>	<u>Non- Classroom- Based</u>	<u>Totals</u>	<u>Classroom- Based</u>	<u>Non- Classroom- Based</u>	<u>Totals</u>
<i>Gravenstein Elementary Charter School:</i>						
TK / K - 3	272.47	3.24	275.71	273.49	3.49	276.98
Grades 4 - 6	144.30	1.26	145.56	144.20	1.24	145.44
Special Education - NPS/LCI (Grades 4-6)	0.07		0.07	0.07		0.07
Totals	<u>416.84</u>	<u>4.50</u>	<u>421.34</u>	<u>417.76</u>	<u>4.73</u>	<u>422.49</u>
<i>Hillcrest Middle Charter School:</i>						
Grades 4 - 6	74.31	0.43	74.74	74.54	0.44	74.98
Grades 7 - 8	156.66	0.63	157.29	155.70	0.79	156.49
Totals	<u>230.97</u>	<u>1.06</u>	<u>232.03</u>	<u>230.24</u>	<u>1.23</u>	<u>231.47</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2016-17 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, 2017

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2016-17 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	56,198	180	N/A	In Compliance
Grade 7	54,000	56,198	180	N/A	In Compliance
Grade 8	54,000	56,198	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, 2017

	General Fund	Special Revenue - Special Reserve Fund	Special Reserve For Post Employment Benefits Fund
June 30, 2017 Annual Financial and Budget Report Fund Balances	\$ 8,030,185	\$ 508,549	\$ 803,792
Reclassifications Increasing (Decreasing) Fund Balances:			
Reclassifications of Fund Balances:	<u>1,312,341</u>	<u>(508,549)</u>	<u>(803,792)</u>
June 30, 2017 Audited Financial Statements Fund Balances	<u>\$ 9,342,526</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, 2017.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	GENERAL FUND			
	(Budget) * 2017-18	2016-17	2015-16	2014-15
Revenues and Other Financial Sources	\$ 6,891,254	\$ 8,813,922	\$ 8,681,584	\$ 7,616,122
Expenditures	7,026,409	6,602,194	6,268,465	5,639,169
Other Uses and Transfers Out	74,937	2,861,354	10,565	1,334,030
Total Outgo	7,101,346	9,463,548	6,279,030	6,973,199
Change in Fund Balance	(210,092)	(649,626)	2,402,554	642,923
Ending Fund Balance	\$ 9,132,434	\$ 9,342,526	\$ 9,992,152	\$ 7,589,598
Available Reserves	\$ 3,525,188	\$ 3,761,687	\$ 5,225,095	\$ 6,642,123
Reserve for Economic Uncertainties **	\$ 355,067	\$ 432,563	\$ 677,323	\$ 697,320
Available Reserves as a Percentage of Total Outgo	49.6%	39.7%	83.2%	95.3%
Total Long-Term Liabilities	\$ 13,657,673	\$ 13,851,048	\$ 11,626,220	\$ 11,523,624
Average Daily Attendance at P-2 (Inclusive of Charter Schools)	691	690	702	686

* Amounts reported for the 2017-18 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 \$1,752,928 (23.1%) over the past two years. The fiscal year 2017-18 budget projects a decrease in the fund balance of \$210,092. 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 incurred an operating deficit of \$649,626 during fiscal year 2016-17, and produced operating surpluses of \$2,402,554 and \$642,923 during fiscal years 2015-16 and 2014-15, respectively.

Total long-term liabilities increased \$2,327,424 over the past two years, due primarily to increases in the District's net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

Average daily attendance (ADA) increased 4 ADA over the past two years. The District projects a further increase of 1 ADA during fiscal year 2017-18.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<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, 2017

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 2016-17, the charter schools complied with the applicable instructional time requirements, but did not meet or exceed the LCFF funding targets.

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, 2017

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 *2016-17 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, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each 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 *2016-17 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
Mental Health Expenditures	No (see below)
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 or Nonclassroom-Based Instruction / Independent Study programs because the average daily attendance claimed by the District for these programs does not exceed the threshold that requires testing. We did not perform procedures for Mental Health Expenditures or California Clean Energy Jobs Act since there were no expenditures or reporting requirements for either program during fiscal year 2016-17.

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, 2017.

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 *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 8, 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 8, 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

December 8, 2017

FINDINGS AND QUESTIONED COSTS SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 *2016-17 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, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2017.

**GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2017.

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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