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December 8, 2016

Patricia Petzar
Liberty Elementary School District
170 Liberty School Road
Petaluma, CA 94952

Dear Patricia:

Enclosed is one (1) bound copy of the annual audit report of Liberty Elementary School District for the fiscal year ended June 30, 2016. Electronic copies of the report will be emailed to ppetzar@libertysd.org and slampenfeld@scoe.org.

Also enclosed is a letter to the Board summarizing the results of the audit. Please present this letter to the Board.

Copies of the report have been filed with the following agencies:

- Sonoma County Superintendent of Schools
- State Controller's Office
- State Department of Education

If you have any questions regarding these reports, please do not hesitate to contact us.

Very truly yours,

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

Michelle Hanson
Certified Public Accountants

MH:la

Enclosure

LIBERTY ELEMENTARY SCHOOL DISTRICT
COUNTY OF SONOMA
PETALUMA, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

LIBERTY ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2016

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LIBERTY ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2016

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LIBERTY ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2016

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Liberty Elementary School District
Petaluma, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Liberty Elementary School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Liberty Elementary School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Disclaimer of Opinion on Non-Governmental Component Unit

The Liberty Foundation for Education's financial activities are included in Liberty Elementary School District's basic financial statements as a discretely presented non-governmental component unit. The financial statements of the Liberty Foundation for Education have not been audited, and we were not engaged to audit the Liberty Foundation for Education financial statements as part of our audit of Liberty Elementary School District's basic financial statements. The total assets of the Liberty Foundation for Education were \$46,791 at June 30, 2016.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Non-Governmental Component Unit paragraph, we have not obtained sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of the non-governmental component unit.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Liberty Elementary School District, as of June 30, 2016, and the respective changes in financial position and cash flows 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 3 through 12 and budgetary comparison information and accounting by employer for pensions on pages 53 through 55 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.

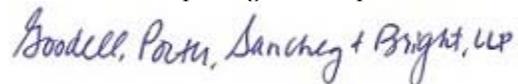
Other Information

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

The financial and statistical information listed as supplementary information 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 financial and statistical information listed as supplementary information 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 5, 2016, on our consideration of the Liberty Elementary School District's internal control over financial reporting and 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 Liberty Elementary School District's internal control over financial reporting and compliance.



GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 5, 2016

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The discussion and analysis of Liberty Elementary School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements, as listed in the table of contents.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

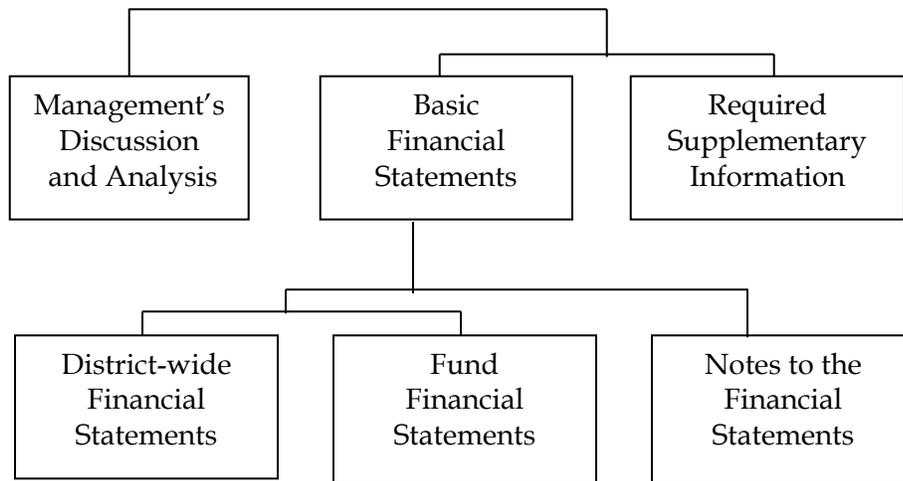
- Capital assets, net of depreciation, increased \$600 thousand primarily due to the Phase 2 modernization project and kindergarten playground being offset by disposal of building components demolished in the modernization and recognition of depreciation expense.
- The District's P-2 average daily attendance (ADA) increased by 4 ADA from fiscal year 2014-2015 to 2015-2016.
- On the Statement of Revenues, Expenditures and Changes in Fund Balances, total current year District revenues exceeded total current year expenditures by \$300 thousand.
- The State's recommended minimum reserve for economic uncertainty is 5% of General Fund expenditures, transfers out and other uses (total outgo.) During fiscal year 2015-2016, total General Fund expenditures and other financing uses totaled \$3.3 million. At June 30, 2016, the District had available reserves of \$165 thousand in the General Fund, which represents a reserve of 5%. Total outgo includes a transfer of \$975 thousand from the General Fund to the Special Reserve Fund for Capital Outlay Projects.
- In complying with GASB 68, the District recognized its portion of the unfunded STRS and PERS pension liabilities for the first time in 2014-2015. These liabilities are based on the most recent actuarial valuations. Recognizing the liabilities decreased the June 30, 2014 total net position on the Statement of Net Position by \$1.7 million. The District's portion of the unfunded STRS and PERS pension liability increased \$123 thousand in 2015-2016 and is reported in the Statement of Net Position.

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

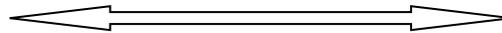
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the Liberty Elementary School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Components of the Financial Section



Summary Detail



The first two statements are *district-wide financial statements*, the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District’s finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District’s more significant funds with all other non-major funds presented in total in one column. A comparison of the District’s budget for the general fund is included.

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section (Concluded)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2015-2016?"

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

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

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ Governmental Funds

Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund and the Special Reserve Fund for Capital Outlay Projects. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ Proprietary Funds

Proprietary funds use the full accrual basis of accounting, the same as the district-wide statements. The Child Development Enterprise Fund is one type of proprietary fund.

◆ Fiduciary Funds

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

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net position was \$11.9 million at June 30, 2016. Of this amount \$206 thousand was unrestricted. Net investment in capital assets, account for \$11.5 million of the total net position. A comparative analysis of government and business-type data is presented in Table 1.

**Table 1
Comparative Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	(Restated) 2015	2016	2015	2016	(Restated) 2015
ASSETS						
Cash	\$ 2,962,270	\$ 2,523,054	\$ 74,232	\$ 64,034	\$ 3,036,502	\$ 2,587,088
Receivables	1,705,355	158,486	2,231	1,263	1,707,586	159,749
Capital assets	12,689,140	12,068,358			12,689,140	12,068,358
Total Assets	<u>17,356,765</u>	<u>14,749,898</u>	<u>76,463</u>	<u>65,297</u>	<u>17,433,228</u>	<u>14,815,195</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows on pensions	227,765	109,410	11,723	3,430	239,488	112,840
LIABILITIES						
Accounts payable and other current liabilities	2,144,153	455,249	8,499	6,432	2,152,652	461,681
Unearned revenue	26,291	26,803			26,291	26,803
Long-term liabilities	3,164,355	3,079,403	38,797	27,891	3,203,152	3,107,294
Total Liabilities	<u>5,334,799</u>	<u>3,561,455</u>	<u>47,296</u>	<u>34,323</u>	<u>5,382,095</u>	<u>3,595,778</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows on pensions	367,358	395,241	10,084	9,584	377,442	404,825
NET POSITION						
Net investment in capital assets	11,481,630	10,821,741			11,481,630	10,821,741
Restricted	194,463	225,347			194,463	225,347
Unrestricted (Deficit)	206,280	(144,476)	30,806	24,820	237,086	(119,656)
Total Net Position	<u>\$ 11,882,373</u>	<u>\$ 10,902,612</u>	<u>\$ 30,806</u>	<u>\$ 24,820</u>	<u>\$ 11,913,179</u>	<u>\$ 10,927,432</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net position increased \$1.2 million this fiscal year compared to an increase of \$416 thousand in 2014-2015 (See Table 2). The District's expenses for instructional and pupil services represented 70 percent of total expenses. The purely administrative activities of the District accounted for just 10 percent of total costs. The remaining 20 percent was spent in the areas of plant services and other expenses, community services, interest on long-term debt and other outgo. (See Figure 2).

**Table 2
Comparative Statement of Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues	\$ 217,327	\$ 200,527			\$ 217,327	\$ 200,527
General Revenues						
Taxes levied for general purposes	981,578	1,054,134			981,578	1,054,134
Taxes levied for debt service	93,852	84,070			93,852	84,070
Taxes levied for other specific purposes	58,124	15,463			58,124	15,463
Federal and State aid (unrestricted)	1,884,625	1,441,003			1,884,625	1,441,003
Interagency revenues	24,923				24,923	
Interest and investment earnings	21,260	11,628	\$ 505	\$ 323	21,765	11,951
Miscellaneous	565,246	514,144	100,665	96,025	665,911	610,169
Total Revenue	<u>3,846,935</u>	<u>3,320,969</u>	<u>101,170</u>	<u>96,348</u>	<u>3,948,105</u>	<u>3,417,317</u>
EXPENSES						
Instruction	1,557,568	1,672,892			1,557,568	1,672,892
Instruction related services	219,664	250,066			219,664	250,066
Pupil support services	60,281	116,550			60,281	116,550
General administration	268,183	491,291			268,183	491,291
Plant services	429,675	298,191			429,675	298,191
Enterprise activities			95,184	83,851	95,184	83,851
Interest and long-term debt	74,330	76,262			74,330	76,262
Total Expenses	<u>2,609,701</u>	<u>2,905,252</u>	<u>95,184</u>	<u>83,851</u>	<u>2,704,885</u>	<u>2,989,103</u>
Changes in Net Position	<u>\$ 1,237,234</u>	<u>\$ 415,717</u>	<u>\$ 5,986</u>	<u>\$ 12,497</u>	<u>\$ 1,243,220</u>	<u>\$ 428,214</u>

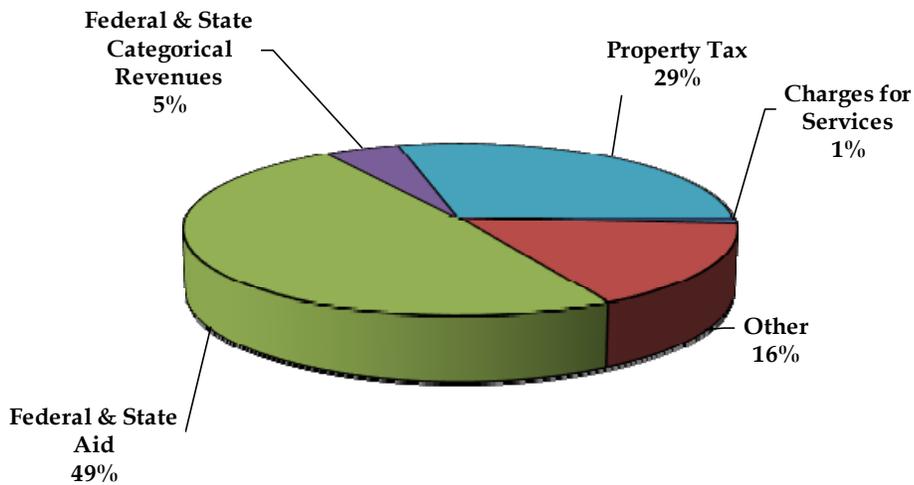
LIBERTY ELEMENTARY SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

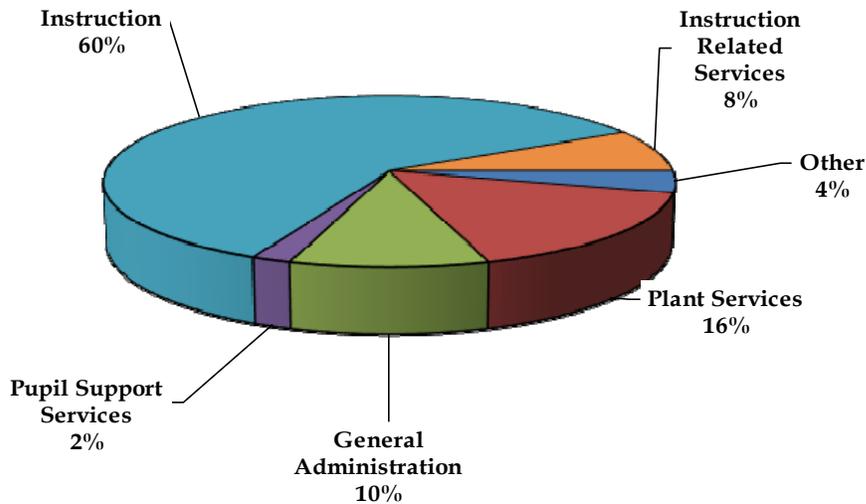
Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$2.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$1.1 million. Federal and State aid not restricted to specific purposes totaled \$1.9 million. State and Federal Categorical revenue totaled over \$210 thousand, or 5% of the revenue of the entire District (See Figure 1).

Sources of Revenue for the 2015-2016 Fiscal Year
Figure 1



Expenses for the 2015-2016 Fiscal Year
Figure 2



LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$2.5 million, an increase of \$300 thousand from the previous fiscal year's combined ending balance of \$2.2 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net decrease to the ending balance of \$348 thousand.

The District ended the year with \$1.3 million in the General Fund ending balance, of which \$165 thousand is available reserve. The State recommends an ending reserve for economic uncertainties of 5%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2015-2016 fiscal year, the District had invested \$14.3 million in a broad range of capital assets, including school buildings, administrative buildings and site improvements. The capital assets net of depreciation were \$12.7 million at June 30, 2016.

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Capital Assets (Concluded)

**Table 3
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2016 and 2015**

	2016	2015	Difference Increase (Decrease)
Land	\$ 1,601,303	\$ 1,601,303	
Site Improvements	334,124	177,302	\$ 156,822
Buildings	10,093,719	10,284,402	(190,683)
Machinery and Equipment	9,978	5,351	4,627
Work in Process	650,016	0	650,016
Totals	\$ 12,689,140	\$ 12,068,358	\$ 620,782

Increases in capital assets for 2015-2016 included Phase 2 modernization and playground project additions.

Long-Term Debt

At June 30, 2016, the District had \$3.2 million in long-term debt outstanding.

**Table 4
Comparative Schedule of Outstanding Debt
June 30, 2016 and 2015**

	2016	2015	Difference Increase (Decrease)
Governmental Activities:			
General Obligation Bonds	\$ 1,207,510	\$ 1,246,617	\$ (39,107)
Accreted Interest	334,393	318,956	15,437
Early Retirement Incentives	15,987	31,974	(15,987)
Compensated Absences	2,324	434	1,890
Net Pension Liability	1,604,141	1,453,531	150,610
Governmental Activities Total	\$ 3,164,355	\$ 3,051,512	\$ 112,843
Business-Type Activities:			
Net Pension Liability	\$ 38,797	\$ 27,891	\$ 10,906

The long-term debt paid by the District was \$60 thousand in 2015-2016. Early retirement incentives in 2014-2015 required a payment of \$16 thousand. Interest accrual on the District's capital appreciation bonds was \$36 thousand and the net pension liability increased \$134 thousand.

LIBERTY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Local Control Funding Formula (LCFF) is aimed at correcting historical inequities while decreasing previous constraints on restricted program expenses. The formula is intended to make funding more transparent and simple. With the new flexibility also comes new requirements for accountability. The Local Control Accountability Plan (LCAP) is mandated and must be aligned and adopted with the District's 2016-2017 budget. The LCAP is expected to describe how the District intends to meet annual goals for all pupils, with specific activities to address state and local priorities identified during the LCAP development process.

The LCFF is the largest unknown for the District. The new funding structure has no statutory cost of living allowance built into it and relies solely on the annual budget process at the legislative level. Planning for the "out years" will be much more difficult and volatile under the LCFF funding formula. The eight years necessary to bring the District to their target funding could be unpredictable and unstable, thereby creating a need for a larger reserve than past years. The ongoing unpredictability of the District's supplemental and concentration funding under the LCFF will also create unstable budgets even after the district's target has been met in 2020-2021.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 about this report or need additional financial information, please contact, Chris Rafanelli, Superintendent, Liberty Elementary School District, 170 Liberty School Road, Petaluma, California, 94952, (707) 795-4380.

LIBERTY ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total	(Unaudited) Non- Governmental Component Unit
ASSETS				
Cash (Note 2)	\$ 2,962,270	\$ 74,232	\$ 3,036,502	\$ 46,791
Accounts Receivable (Note 3)	1,705,355	2,231	1,707,586	
Capital Assets, Net of Depreciation (Note 5)	12,689,140		12,689,140	
Total Assets	17,356,765	76,463	17,433,228	46,791
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1H)				
Deferred Outflows on Pensions	227,765	11,723	239,488	
LIABILITIES				
Accounts Payable and Other Current Liabilities	2,144,153	8,499	2,152,652	
Unearned Revenue (Note 1H)	26,291		26,291	
Long-term Liabilities (Note 6)				
Due Within One Year	83,311		83,311	
Due After One Year	3,081,044	38,797	3,119,841	
Total Liabilities	5,334,799	47,296	5,382,095	
DEFERRED INFLOWS OF RESOURCES (NOTE 1H)				
Deferred Inflows on Pensions	367,358	10,084	377,442	
NET POSITION				
Net Investment in Capital Assets	11,481,630		11,481,630	
Restricted For:				
Capital Projects	28,900		28,900	
Debt Service	131,575		131,575	
Education Programs	33,728		33,728	46,791
Other Purposes (Expendable)	260		260	
Unrestricted	206,280	30,806	237,086	
Total Net Position	\$ 11,882,373	\$ 30,806	\$ 11,913,179	\$ 46,791

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			(Unaudited) Non-Governmental Component Unit Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	Total	
<u>Governmental Activities</u>							
Instruction	\$ 1,557,568		\$ 180,057	\$ (1,377,511)		\$ (1,377,511)	
Instruction-Related Services:							
Instructional Library, Media and Technology	33,639			(33,639)		(33,639)	
School Site Administration	186,025		8,197	(177,828)		(177,828)	
Pupil Services:							
Home-To-School Transportation	11,801		2,360	(9,441)		(9,441)	
Food Services	21,859	\$ 6,949	14,322	(588)		(588)	
All Other Pupil Services	26,621		324	(26,297)		(26,297)	
General Administration:							
Data Processing	1,200			(1,200)		(1,200)	
All Other General Administration	266,983		3,363	(263,620)		(263,620)	
Plant Services	429,675		1,755	(427,920)		(427,920)	
Interest on Long-Term Debt	74,330			(74,330)		(74,330)	
Depreciation (unallocated)	257,473			(257,473)		(257,473)	
Total Governmental Activities	2,867,174	6,949	210,378	(2,649,847)		(2,649,847)	
<u>Business-Type Activities</u>							
Enterprise Activities	95,184				\$ (95,184)	(95,184)	
Total Primary Government	\$ 2,962,358	\$ 6,949	\$ 210,378	(2,649,847)	(95,184)	(2,745,031)	
(Unaudited) Non-Governmental Component Unit Activities							
Other Operating Expenses	\$ 48,640						\$ (48,640)
Total Component Unit Activities	\$ 48,640	\$ 0	\$ 0				(48,640)
General Revenues:							
Property Taxes Levied For:							
General Purposes				981,578		981,578	
Debt Service				93,852		93,852	
Other Specific Purposes				58,124		58,124	
Federal and State Aid Not Restricted to Specific Purposes				1,884,625		1,884,625	
Interest and Investment Earnings				21,260	505	21,765	
Interagency Revenues				24,923		24,923	
Miscellaneous				565,246	100,665	665,911	79,405
Total General Revenues				3,629,608	101,170	3,730,778	79,405
Change in Net Position				979,761	5,986	985,747	30,765
Net Position Beginning (Restated - Note 14)				10,902,612	24,820	10,927,432	16,026
Net Position Ending				\$ 11,882,373	\$ 30,806	\$ 11,913,179	\$ 46,791

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash (Note 2)	\$ 2,322,833	\$ 479,409	\$ 160,028	\$ 2,962,270
Accounts Receivable (Note 3)	1,702,887	261	2,207	1,705,355
Due From Other Funds (Note 4)	1,500	974,584		976,084
Total Assets	\$ 4,027,220	\$ 1,454,254	\$ 162,235	\$ 5,643,709
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 1,738,331	\$ 390,614		\$ 2,128,945
Unearned Revenue (Note 1H)	343	25,948		26,291
Due to Other Funds (Note 4)	974,584		\$ 1,500	976,084
Total Liabilities	2,713,258	416,562	1,500	3,131,320
Fund Balances (Note 1H):				
Nonspendable	1,500			1,500
Restricted	33,728		160,735	194,463
Assigned	1,113,295	1,037,692		2,150,987
Unassigned	165,439			165,439
Total Fund Balances	1,313,962	1,037,692	160,735	2,512,389
Total Liabilities and Fund Balances	\$ 4,027,220	\$ 1,454,254	\$ 162,235	\$ 5,643,709

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balance - governmental funds	\$	2,512,389
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Amounts reported for governmental activities in the statement of net position are different because:

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, at historical cost	\$	14,326,542	
Accumulated depreciation		(1,637,402)	
Net		12,689,140	12,689,140

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 statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:

(15,208)

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 relating to governmental activities consist of:

General obligation bonds	\$	1,207,510	
Accreted interest		334,393	
Net pension liability		1,604,141	
Early retirement incentives		15,987	
Compensated absences		2,324	
Total		(3,164,355)	(3,164,355)

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.

Deferred outflows of resources relating to pensions	\$	227,765	
Deferred inflows of resources relating to pensions		(367,358)	
Net		(139,593)	(139,593)

Total net position - governmental activities	\$	11,882,373
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

	General Fund	Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula Sources				
State Apportionments	\$ 2,435,613			\$ 2,435,613
Local Sources	276,770			276,770
Total Local Control Funding Formula Sources	2,712,383			2,712,383
Federal Revenue	46,948		\$ 13,388	60,336
Other State Revenue	241,601		1,705	243,306
Other Local Revenue	285,684	\$ 415,303	107,125	808,112
Total Revenues	3,286,616	415,303	122,218	3,824,137
EXPENDITURES				
Certificated Salaries	977,692			977,692
Classified Salaries	420,669	52,923		473,592
Employee Benefits	392,823	7,858		400,681
Books and Supplies	79,453			79,453
Services and Other				
Operating Expenditures	369,336	141,017	21,859	532,212
Capital Outlay	23,574	941,240		964,814
Debt Service:				
Principal Retirement			39,107	39,107
Interest and Fiscal Charges			58,893	58,893
Total Expenditures	2,263,547	1,143,038	119,859	3,526,444
Excess of Revenues Over (Under) Expenditures	1,023,069	(727,735)	2,359	297,693
Other Financing Sources (Uses):				
Operating Transfers In (Note 4)		974,584		974,584
Operating Transfers Out (Note 4)	(974,584)			(974,584)
Total Other Financing Sources (Uses)	(974,584)	974,584	0	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	48,485	246,849	2,359	297,693
Fund Balances - July 1, 2015 (Restated - Note 14)	1,265,477	790,843	158,376	2,214,696
Fund Balances - June 30, 2016	\$ 1,313,962	\$ 1,037,692	\$ 160,735	\$ 2,512,389

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

Net change in fund balances - total governmental funds		\$ 297,693
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:</p>		
Expenditures for capital outlay:	\$ 903,927	
Depreciation expense:	<u>(257,473)</u>	
Net:		646,454
<p>Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:</p>		
		23,519
<p>Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In 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:</p>		
		39,107
<p>Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting loss was:</p>		
		(25,672)
<p>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, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:</p>		
		(15,437)
<p>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:</p>		
		(1,890)
<p>Other expenditures relating to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to early retirement incentives offered in a prior year were:</p>		
		<u>15,987</u>
Total change in net position - governmental activities		<u>\$ 979,761</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Activities:
	Child Development Enterprise Fund
ASSETS	
Current Assets	
Cash (Note 2)	\$ 74,232
Accounts Receivable (Note 3)	2,231
	76,463
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1H)	
Deferred Outflows on Pensions	11,723
	11,723
LIABILITIES	
Current Liabilities	
Accounts Payable	8,499
Net Pension Liability	38,797
	47,296
Total Liabilities	47,296
DEFERRED INFLOWS OF RESOURCES (NOTE 1H)	
Deferred Inflows on Pensions	10,084
	10,084
NET POSITION	
Unrestricted	30,806
	30,806
Total Net Position	\$ 30,806

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-Type Activities:
	Child Development Enterprise Fund
REVENUE	
Local Revenue	\$ 100,665
Total Operating Revenue	100,665
OPERATING EXPENSES	
Classified Salaries	67,870
Employee Benefits	14,463
Supplies and Equipment	5,808
Other Operating Expenses	7,043
Total Operating Expenses	95,184
Operating Income	5,481
NON-OPERATING SOURCE	
Interest and Investment Revenue	505
Total Non-Operating Sources	505
Net Income	5,986
Total Net Position - July 1, 2015	24,820
Total Net Position - June 30, 2016	\$ 30,806

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-Type Activities:
	Child Development Enterprise Fund
Cash flows from operating activities	
Cash received for services	\$ 99,697
Cash paid for salaries and benefits	(79,220)
Cash paid for supplies and services	(10,784)
	9,693
Net cash flows provided by operating activities	9,693
Cash flows from investing activities	
Interest income	505
	505
Net increase in cash	10,198
Cash, July 1, 2015	64,034
Cash, June 30, 2016	\$ 74,232

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating income	\$ 5,481
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in accounts receivable	(968)
(Increase) decrease in deferred outflows	(8,293)
Increase (decrease) in accounts payable	2,067
Increase (decrease) in net pension liability	10,906
Increase (decrease) in deferred inflows	500
	4,212
Total adjustments	4,212
Net cash provided by operating activities	\$ 9,693

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Agency Fund</u> <u>Student Body</u> <u>Account</u>
ASSETS	
Cash (Note 2)	\$ 5,872
Total Assets	<u>\$ 5,872</u>
LIABILITIES	
Due to Student Groups	\$ 5,872
Total Liabilities	<u>\$ 5,872</u>
Total Net Position	<u>\$ 0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For Liberty Elementary School District, this includes general operations, food service and student related activities of the District. The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under GASB Statement No. 14 (GASB 14), *The Financial Reporting Entity*. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that there were no entities, with financial activities that benefited the District, during the fiscal year 2015-2016 that should be included within its financial reporting entity under GASB 14.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of the component unit's relationship with the District. The District has determined that the Liberty Foundation for Education (the "Foundation") meets the criteria set forth under GASB 39. Accordingly, the financial activity of the Foundation has been included in the accompanying financial statements of the District.

The following are those aspects of the relationship between the District and the Foundation, which satisfy the inclusion criteria:

Accountability for Fiscal Matters

The economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the District; the District is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the Foundation; and the economic resources received or held by the Foundation are significant to the District.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Concluded)

Scope of Public Service

The Foundation is a non-profit, public benefit corporation, incorporated under the laws of the State of California. The Corporation was formed for the sole purpose of providing charitable and educational assistance to the District.

Financial Presentation

For financial presentation purposes, the financial activities of the Foundation are presented as the Non-Governmental Component Unit on the Statement of Net Position and Statement of Activities.

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 nonfiduciary activities of the District and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the 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.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

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. The Enterprise Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus and the modified accrual basis of accounting. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current asset 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.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position for proprietary funds presents increases (i.e., revenue) and decreases (i.e., expenditures) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund are parent fees received for before and after school child care services provided.

Fiduciary funds are reported using the economic resources measurement focus and the modified accrual basis of accounting.

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. Proprietary and fiduciary funds use the accrual basis of accounting.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Revenues - exchange and non-exchange transactions:

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Expenses/expenditures (Concluded):

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. Expenditures incurred in the unrestricted resources shall be reduced first from the committed resources, then from assigned resources and lastly, the unassigned resources.

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 positions of the State Teachers Retirement Plan (STRS) and the CalPERS Schools Pool Cost-Sharing Multiple Employer Plan (PERS) and additions to/deductions from STRS and PERS fiduciary net positions have been determined on the same basis as they are reported separately by STRS and PERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

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, 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. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District reports the following major funds:

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District accounts for the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects separately, but they have been included with the General Fund to comply with GASB 54.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Special Reserve Fund for Capital Outlay Projects is used to accumulate funds for Board designated repairs, capital outlay and replacement of District property.

Additionally, the District reports the following fund types:

Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting. The District maintains one major proprietary fund, the Child Development Enterprise Fund, which is used to account for revenue and expenses for a before and after school program supported by parent fees.

FIDUCIARY FUNDS:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains a student body fund, which is used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information in the financial statements.

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.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. Estimates

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

H. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in commercial bank accounts are insured to \$250,000 by the Federal Deposit Insurance Corporation.

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

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 either are secured by federal depository insurance or are collateralized.

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

2. Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the period when purchased.

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. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5-50 years depending on the asset class.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes 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(s) and, as such, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position includes 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(s) and, as such, will not be recognized as an inflow of resources (revenue) until that time.

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. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

6. Compensated Absences (Concluded)

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

8. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

9. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

10. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned, based primarily on the extent to which the District is bound to honor constraints on how specific amounts are to be spent:

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

10. Fund Equity (Continued)

Nonspendable Fund Balance - Includes the portions of fund balance not appropriable for expenditures.

Restricted Fund Balance - Includes amounts subject to externally imposed and legally enforceable constraints.

Committed Fund Balance - Includes amounts subject to District constraints self-imposed by formal action of the District Governing Board.

Assigned Fund Balance - Includes amounts the District intends to use for a specific purpose. Assignments may be established by the District Governing Board, or the Chief Business Official of the District.

Unassigned Fund Balance - Includes the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned to specific purposes.

Fund Balances

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Nonspendable:				
Revolving Fund	\$ 1,500			\$ 1,500
Total Nonspendable Fund Balance	<u>1,500</u>			<u>1,500</u>
Restricted For:				
Legally Restricted Categorical Funding Purposes Specified in Government Code Section 65970-65981 and/or 66006	33,728		\$ 28,868	33,728
Debt Service			131,575	131,575
Cafeteria Program Operations			260	260
Remaining Modernization Expenditures			32	32
Total Restricted Fund Balance	<u>33,728</u>		<u>160,735</u>	<u>194,463</u>
Assigned For:				
Capital Projects		\$ 1,037,692		1,037,692
Deferred Maintenance Projects	22,209			22,209
Special Education Reserve	436,086			436,086
Facility Needs	350,000			350,000
Common Core Adoption	30,000			30,000
Loss of CAVA Charter Oversight Fees	150,000			150,000
Cash Flow Timing Reserves	125,000			125,000
Total Assigned Fund Balance	<u>1,113,295</u>	<u>1,037,692</u>	<u>0</u>	<u>2,150,987</u>
Unassigned:				
Reserve for Economic Uncertainties	165,439			165,439
Total Unassigned Fund Balance	<u>165,439</u>	<u>0</u>	<u>0</u>	<u>165,439</u>
Total Fund Balances	<u>\$ 1,313,962</u>	<u>\$ 1,037,692</u>	<u>\$ 160,735</u>	<u>\$ 2,512,389</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

10. Fund Equity (Concluded)

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its General Fund sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 5% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California.

Additional detailed information, along with the complete *Fund Balance Policy* can be obtained from the District.

11. Local Control Funding Formula/Property Tax

The District's local control funding formula revenue is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding 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.

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

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Concluded)

11. Local Control Funding Formula/Property Tax (Concluded)

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 control funding formula sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

I. Impact of Recently Issued Accounting Principles

The GASB issued Statement 72, *Fair Value Measurement and Application* in February 2015 to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using consistent and accepted valuation techniques. The Statement is effective beginning in fiscal year 2015-2016.

The GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* in June 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The Statement is effective beginning in fiscal year 2015-2016.

The GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in June 2015. The Statement will require enhanced note disclosures and schedules of required supplementary information that will be presented for other post-employment benefit plans (OPEB) to enhance the decision-usefulness of the financial reports of those OPEB plans. The Statement is effective beginning in fiscal year 2016-2017.

The GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June 2015. The requirements of this Statement will improve the decision-usefulness of financial information and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. The Statement is effective beginning in fiscal year 2017-2018.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Impact of Recently Issued Accounting Principles (Concluded)

The GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* superseding Statement No. 55 in June 2015. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements in conformity with GAAP and the framework for selecting those principles. As a result of implementing this Standard, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The Statement is effective beginning in fiscal year 2015-2016.

The GASB issued Statement 77, *Tax Abatement Disclosures* in August 2015. The Statement requires disclosure of tax abatement information to make these transactions more transparent to financial statement users. Users will be better equipped to understand how tax abatements affect a government's future ability to raise resources and the impact those abatements have on a government's financial position and economic condition. The Statement is effective beginning in fiscal year 2016-2017.

The Office of Management and Budget issued the guidance *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance for Federal Awards) on December 29, 2013 which supersedes and streamlines requirements from eight different circulars into one document. The new administrative requirements and cost principles are required to be implemented for all federal awards made after December 26, 2014. The Uniform Guidance for Federal Awards applies to the District's federal awards received in fiscal year 2015-2016.

NOTE 2 - CASH

A. Summary of Cash

The following is a summary of cash at June 30, 2016:

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Non- Governmental Component Unit</u>	<u>Fiduciary Funds</u>	<u>Total</u>
<u>\$2,962,270</u>	<u>\$74,232</u>	<u>\$46,791</u>	<u>\$5,872</u>	<u>\$3,089,165</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - CASH (CONTINUED)

A. Summary of Cash (Concluded)

The District had the following cash at June 30, 2016:

	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Credit Quality Rating</u>
Cash in Commercial Banks	\$ 52,663	\$ 52,663	Not Rated
Cash in Revolving Fund	1,500	1,500	Not Rated
Cash in County Treasury	<u>3,037,157</u>	<u>3,035,002</u>	Not Rated
Total	<u>\$ 3,091,320</u>	<u>\$ 3,089,165</u>	

B. Policies and Practices

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

- Securities issued or guaranteed by the Federal Government or its agencies
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The District's investments comply with the established policy.

Cash in Commercial Banks

Cash balances held in commercial bank accounts are insured to \$250,000 by the Federal Deposit Insurance Corporation. These amounts are held within various financial institutions. As of June 30, 2016 the carrying amount of the District's accounts was \$54,163, all of which was insured.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as an involuntary participant of a common investment pool, which totaled \$1,866,347,966 as of June 30, 2016. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$1,867,673,381. Interest is deposited into participating funds. The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - CASH (CONTINUED)

C. Risk Disclosures

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures.

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

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

At June 30, 2016, the District had the following investment maturities:

<u>Investment Type</u>	<u>Investment Matures (In Years)</u>			
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 4</u>	<u>More than 4</u>
Sonoma County Treasury	<u>\$3,037,157</u>	<u>\$924,511</u>	<u>\$1,775,218</u>	<u>\$337,428</u>

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the District was not exposed to credit risk.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year-end, the District was not exposed to custodial credit risk.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - CASH (CONCLUDED)

C. Risk Disclosures (Concluded)

Concentration of Credit Risk - This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the District was not exposed to concentration of credit risk.

Foreign Currency Risk - This is the risk that exchange rate will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

NOTE 3 - ACCOUNTS RECEIVABLE

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Federal Government				
Categorical Aid Programs	\$ 9,873		\$ 1,567	\$ 11,440
State Government				
Local Control Funding Formula	1,620,809			1,620,809
Lottery	23,746			23,746
Other			107	107
Total State Government	1,644,555		107	1,644,662
Local Government	47,117			47,117
Miscellaneous	1,342	\$ 261	533	2,136
Total General Fund Receivable	<u>\$ 1,702,887</u>	<u>\$ 261</u>	<u>\$ 2,207</u>	1,705,355
Child Development Enterprise Fund				
Miscellaneous				<u>2,231</u>
Total All Funds				<u>\$ 1,707,586</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2016 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds:		
General Fund	\$ 1,500	\$ 974,584
Special Reserve Fund for Capital Outlay Projects	974,584	
Non-Major Governmental Funds:		
Cafeteria Fund		1,500
	<u>\$ 976,084</u>	<u>\$ 976,084</u>

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 the 2015-2016 fiscal year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund		\$ 974,584
Special Reserve Fund for Capital Outlay Projects	\$ 974,584	
	<u>\$ 974,584</u>	<u>\$ 974,584</u>

The District transferred \$974,584 from the General Fund to the Special Reserve Fund for Capital Outlay Projects for board directed use of basic aid supplemental funding for capital outlay projects.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

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

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 1,601,303			\$ 1,601,303
Work in progress		\$ 650,016		650,016
Total capital assets, not being depreciated	<u>1,601,303</u>	<u>650,016</u>		<u>2,251,319</u>
Capital assets being depreciated:				
Buildings	11,682,485	78,452	\$ 109,458	11,651,479
Improvements of sites	241,355	169,978		411,333
Equipment	6,930	5,481		12,411
Total capital assets, being depreciated	<u>11,930,770</u>	<u>253,911</u>	<u>109,458</u>	<u>12,075,223</u>
Less accumulated depreciation for:				
Buildings	1,398,083	243,463	83,786	1,557,760
Improvements of sites	64,053	13,156		77,209
Equipment	1,579	854		2,433
Total accumulated depreciation	<u>1,463,715</u>	<u>257,473</u>	<u>83,786</u>	<u>1,637,402</u>
Total capital assets, being depreciated, net	<u>10,467,055</u>	<u>(3,562)</u>	<u>25,672</u>	<u>10,437,821</u>
Governmental activities capital assets, net	<u>\$ 12,068,358</u>	<u>\$ 646,454</u>	<u>\$ (25,672)</u>	<u>\$ 12,689,140</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Depreciation (Unallocated)	<u>\$ 257,473</u>
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NOTE 6 - LONG-TERM DEBT

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 1,246,617		\$ 39,107	\$ 1,207,510	\$ 40,199
Accreted Interest	318,956	\$ 36,330	20,893	334,393	24,801
Early Retirement Incentives	31,974		15,987	15,987	15,987
Compensated Absences	434	1,890		2,324	2,324
Net Pension Liability	1,481,422	122,719		1,604,141	
Governmental Activities Total	<u>\$ 3,079,403</u>	<u>\$ 160,939</u>	<u>\$ 75,987</u>	<u>\$ 3,164,355</u>	<u>\$ 83,311</u>
Business-Type Activities:					
Net Pension Liability	<u>\$ 27,891</u>	<u>\$ 10,906</u>	<u>\$ 0</u>	<u>\$ 38,797</u>	<u>\$ 0</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - LONG-TERM DEBT (CONCLUDED)

Payments on the general obligation bonds will be made from the Bond Interest and Redemption Fund with local revenues. Payments for the remaining obligations will be primarily paid by the General Fund.

NOTE 7 - GENERAL OBLIGATION BONDS

On July 14, 2005, the District issued 2004 General Obligation Bonds, Series 2005, totaling \$1,499,299. The bonds were issued to provide funds to construct a multipurpose room and to upgrade technology and communications. Repayment of the bonds are made from the special parcel tax revenues levied. The bonds were comprised of Current Interest Bonds and Capital Appreciation Bonds. The bonds bear interest rates from 3.50% to 5.00% and are scheduled to mature through 2031.

Date of Issue	Interest Rate %	Maturity Date August 1	Amount of Original Issue	Outstanding July 01, 2015	Redeemed Current Year	Outstanding June 30, 2016
2005	3.25-5.00	2030	\$ 945,000	\$ 730,000		\$ 730,000
2005	4.25-5.00	2026	554,299	516,617	\$ 39,107	477,510
Totals			<u>\$ 1,499,299</u>	<u>\$ 1,246,617</u>	<u>\$ 39,107</u>	<u>\$ 1,207,510</u>

Accreted Interest

Series	Interest Rate	Maturity Date	Outstanding July 1, 2015	Accretion Current Year	Payments Current Year	Outstanding June 30, 2016
2005	4.25-5.00	2026	\$ 318,956	\$ 36,330	\$ 20,893	\$ 334,393
Totals			<u>\$ 318,956</u>	<u>\$ 36,330</u>	<u>\$ 20,893</u>	<u>\$ 334,393</u>

The following table summarizes the annual debt service requirements of the District for the bonds:

Year Ended June 30	Principal	Interest	Total
2017	\$ 40,199	\$ 61,301	\$ 101,500
2018	43,985	67,516	111,501
2019	44,421	72,079	116,500
2020	47,371	79,130	126,501
2021	49,689	86,811	136,500
2022-2026	251,845	535,655	787,500
2027-2031	730,000	80,000	810,000
Totals	<u>\$ 1,207,510</u>	<u>\$ 982,492</u>	<u>\$ 2,190,002</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - EARLY RETIREMENT INCENTIVES

In addition to the benefits described in Note 9, the Governing Board has offered early retirement incentive programs to certificated and classified employees meeting certain negotiated criteria. The early retirement incentives were implemented as a cost savings strategy and required no further services to be performed by the retiree.

One retiree is currently receiving benefits under this agreement. The projected cost for the current participant for future years accrued as long-term debt in the District's Government-wide financial statements is as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Earl Retirement</u> <u>Incentives</u>
2017	<u>\$ 15,987</u>

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

A. State Teachers' Retirement System (STRS)

Plan Description. The Liberty Elementary School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The State of California is a Nonemployer Contributing Entity to STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. Although CalSTRS is the administrator of the STRS, the state is the sponsor of the STRS and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRS. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95610.

Benefit. STRS provides defined benefit program benefits under two formulas: 2% at 60 for members hired on or before December 31, 2012 and 2% at 62 for members hired after that date. Both formulas define hire as the date at which the member was hired to perform service that could be creditable to CalSTRS. The benefit under each formula is calculated as 2% per year of creditable service. The 2% at 60 formula uses final compensation to calculate the benefit. The 2% at 62 formula uses an average of the highest compensation for three consecutive years to calculate the benefit.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS) (Continued)

Funding Policy. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. Active plan members are required to contribute 8.15% of their salary and the Liberty Elementary School District and the State are required to contribute actuarially determined rates.

The actuarial methods and assumptions used for determining the rates are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25%, for fiscal year 2014-2015 was 8.88%, and for fiscal year 2015-2016 was 10.73% of annual payroll. The required State contribution rate for fiscal year 2014-2015 was 5.95% and for fiscal year 2015-2016 the rate was 7.39%. The Liberty Elementary School District's contributions to STRS for the fiscal years ending June 30, 2016 and 2015 were \$94,182 and \$72,980, respectively, and equal 100% of the required contributions for each year.

Contribution by District	\$ 94,182
Contribution by State	<u>55,108</u>
Total Contribution in 2015-2016	<u>\$149,290</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a liability of \$1,192,080 for its proportionate share of the net pension liability for STRS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's and the State of California's (non-employer contributing entity) long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2015, the District's proportion of contributions was 0.0018 percent.

The District's proportionate share of the net pension liability for the plan on the measurement dates of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	\$1,168,740
Proportion - June 30, 2015	<u>1,192,080</u>
Change - Increase	<u>\$ 23,340</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded). For the year ended June 30, 2016, the District recognized pension expense of \$87,682 which included the State's required on-behalf contribution. At June 30, 2016, 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>
Deferred Outflows and Inflows of Resources:		
Difference between expected and actual experience		\$ 19,920
Changes in Assumptions		
Net difference between projected and actual earnings on pension plan investments		97,174
Changes in proportion and differences between District contributions and proportionate share of contributions	\$ 3,889	143,160
District contributions subsequent to measurement date of June 30, 2015	<u>94,182</u>	
Totals	<u>\$ 98,071</u>	<u>\$ 260,254</u>

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

	<u>Outflows</u>	<u>Inflows</u>
June 30, 2017	\$ 648	\$ 59,571
June 30, 2018	648	59,571
June 30, 2019	648	59,572
June 30, 2020	648	27,180
June 30, 2021	648	27,180
June 30, 2022	<u>649</u>	<u>27,180</u>
Total	<u>\$ 3,889</u>	<u>\$260,254</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS) (Continued)

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

Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment rate of return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB

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

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

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS) (Concluded)

Actuarial Assumptions (Concluded).

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

* 10-year geometric average

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

Presented below is the District's proportionate share of the net pension liability of employers and the state using the current discount rate of 7.60 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one to three percent lower or one to three percent higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability of Employers</u>
3% Decrease (4.60%)	\$ 3,496,824
2% Decrease (5.60%)	\$ 2,580,318
1% Decrease (6.60%)	\$ 1,829,772
Current Discount Rate (7.60%)	\$ 1,192,080
1% Increase (8.60%)	\$ 698,274
2% Increase (9.60%)	\$ 267,822
3% Increase (10.60%)	\$ (94,536)

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

B. California Public Employees Retirement System (CalPERS)

Plan Description. The Liberty Elementary School 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 CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, CA 95814.

Funding Policy. Active plan members were required to contribute 6.974% of their salary and the Liberty Elementary School District is required to contribute an actuarially annually determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates on annual payroll for the fiscal years listed were:

2013-2014	11.442%
2014-2015	11.771%
2015-2016	11.847%

The contribution requirements of the plan members are established by State statute. The Liberty Elementary School District's employer contributions to CalPERS for the fiscal year ending June 30, 2016 and 2015 were \$41,417 and \$39,860, respectively and equal 100% of the required contributions for each year.

Benefits. PERS provides defined benefit program benefits based on members' years of service, age, final compensation and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a liability of \$450,858 for its proportionate share of the net pension liability for PERS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2015, the District's proportion of contributions was 0.0028 percent.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded). The District's proportionate share of the net pension liability for the plan on the measurement dates of June 30, 2014 and 2015 was as follows:

Proportion – June 30, 2014	\$340,854
Proportion – June 30, 2015	<u>450,858</u>
Change – Increase	<u>\$110,004</u>

For the year ended June 30, 2016, the District recognized pension expense of \$50,309. At June 30, 2016, 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>
Deferred Outflows and Inflows of Resources:		
Difference between expected and actual experience	\$ 26,000	
Changes in Assumptions		\$ 27,702
Net difference between projected and actual earnings on pension plan investments	74,000	89,486
Changes in proportion and differences between District contributions and proportionate share of contributions		
District contributions subsequent to measurement date of June 30, 2015	<u>41,417</u>	
Totals	<u>\$ 141,417</u>	<u>\$ 117,188</u>

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

	<u>Outflows</u>	<u>Inflows</u>
June 30, 2017	\$ 27,167	\$ 39,063
June 30, 2018	27,167	39,063
June 30, 2019	27,166	39,062
June 30, 2020	<u>18,500</u>	<u>0</u>
Total	<u>\$100,000</u>	<u>\$117,188</u>

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

Actuarial Assumptions. For the year ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

PERS uses a mortality table based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Change in Assumptions. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. 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 following presents the net pension liability of the Plan as of June 30, 2015, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Discount Rate	Plan's Net Pension Liability
1% Decrease (6.65%)	\$ 671,741
Current Discount Rate (7.65%)	\$ 450,858
1% Increase (8.65%)	\$ 197,332

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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

Discount Rate (Concluded). 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 table below reflects 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.

<u>New Strategic Asset Class</u>	<u>Real Return Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Years 11+²</u>
Global Equity	51%	7.2%	5.71%
Global Fixed Income	20%	5.3%	2.43%
Inflation Sensitive	6%	0.0%	3.36%
Private Equity	10%	6.9%	6.95%
Real Estate	12%	8.7%	5.13%
Cash/Liquidity	1%	2.3%	(1.05)%

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position. The plan fiduciary net position disclosed in this report may differ from the plan assets reported in the Schools Pool funding actuarial valuation reported due to several reasons. First, for the accounting valuation, items such as deficiency reserves, fiduciary self-insurance and OPEB expense are included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early closing and final reconciled reserves.

C. Social Security

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

B. State and Federal Allowances, Awards and Grants

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

NOTE 11 - JOINT VENTURE (JOINT POWERS AGREEMENT)

The District is a member of the Redwood Empire Schools Insurance Group (RESIG) for Workers' Compensation and Property Liability coverage. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

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

NOTE 12 - STUDENT BODY FUNDS

The Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with Redwood Empire Schools Insurance Group (RESIG) Insurance Company for property and liability insurance coverage and RESIG Insurance Company for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

LIBERTY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - RISK MANAGEMENT (CONCLUDED)

B. Workers' Compensation

For fiscal year 2015-2016, the District participated in the Redwood Empire Schools Insurance Group (RESIG), an insurance purchasing pool. The intent of the RESIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage.

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

NOTE 14 - RESTATEMENT OF NET POSITION AND FUND BALANCE

The amounts previously reported as Net Position and Special Reserve Fund for Capital Outlay Fund Balance at June 30, 2015 on the Government-Wide Statement of Net Position and Balance Sheet-Governmental Funds have been restated to correct the accounting for security deposits received from tenants. The effect of this restatement is a decrease in the June 30, 2015 balances of \$25,948 as follows:

	Government- Wide Financial Statements	Fund Financial Statements
	Governmental Activities	Special Reserve Fund for Capital Outlay Projects
Net Position/Fund Balance, June 30, 2015 as originally reported	\$ 10,928,560	\$ 816,791
Under-accrual of unearned revenue	<u>(25,948)</u>	<u>(25,948)</u>
Net Position/Fund Balance, June 30, 2015 as restated	<u>\$ 10,902,612</u>	<u>\$ 790,843</u>

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2016, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

LIBERTY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local Control Funding Formula Sources:				
State Apportionments	\$ 2,376,435	\$ 2,870,394	\$ 2,435,613	\$ (434,781)
Local Sources	152,810	473,230	276,770	(196,460)
Total Local Control Funding Formula Sources	2,529,245	3,343,624	2,712,383	(631,241)
Federal Revenue	51,589	46,062	46,948	886
Other State Revenue	37,268	215,960	241,601	25,641
Other Local Revenue	195,276	241,117	285,684	44,567
Total Revenues	2,813,378	3,846,763	3,286,616	(560,147)
EXPENDITURES				
Certificated Salaries	856,046	977,695	977,692	3
Classified Salaries	371,370	420,670	420,669	1
Employee Benefits	269,098	392,824	392,823	1
Books and Supplies	55,302	87,374	79,453	7,921
Services and Other Operating Expenditures	326,166	688,559	369,336	319,223
Capital Outlay	27,130	17,130	23,574	(6,444)
Total Expenditures	1,905,112	2,584,252	2,263,547	320,705
Excess of Revenues Over Expenditures	908,266	1,262,511	1,023,069	(239,442)
Other Financing Sources (Uses): Operating Transfers Out	(804,600)	(1,610,982)	(974,584)	636,398
Excess of Revenues and Over (Under) Expenditures and Other Uses	103,666	(348,471)	48,485	396,956
Fund Balances - July 1, 2015	1,383,091	1,265,446	1,265,477	0
Fund Balances - June 30, 2016	\$ 1,486,757	\$ 916,975	\$ 1,313,962	\$ 396,956

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT

SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

California State Teachers' Retirement System (CalSTRS)

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0018%	0.0020%
District's proportionate share of the net pension liability	\$ 1,192,080	\$ 1,168,740
District's covered-employee payroll	\$ 821,847	\$ 773,320
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	145%	151%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%

Public Employee Retirement System (CalPERS)

District's proportion of the net pension liability	0.0028%	0.0030%
District's proportionate share of the net pension liability	\$ 412,061	\$ 340,573
District's covered-employee payroll	\$ 309,489	\$ 340,854
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	133%	100%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
SCHEDULES OF THE DISTRICT'S CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

California State Teachers' Retirement System (CalSTRS)

	2016	2015
Contractually required contribution	\$ 72,980	\$ 63,799
Contributions in relation to the contractually required contribution	68,443	63,799
Contribution deficiency (excess)	\$ 4,537	\$ 0
District's covered-employee payroll	\$ 821,847	\$ 773,320
Contributions as a percentage of covered-employee payroll	8.880%	8.250%

Public Employee Retirement System (CalPERS)

Contractually required contribution	\$ 36,430	\$ 39,001
Contributions in relation to the contractually required contribution	36,430	39,001
Contribution deficiency (excess)	\$ 0	\$ 0
District's covered-employee payroll	\$ 309,489	\$ 340,854
Contributions as a percentage of covered-employee payroll	11.771%	11.442%

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

NOTE 1 - PURPOSE OF SCHEDULES

A. Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

As of June 30, 2016, excess of expenditures over appropriations in individual governmental funds are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
Major Governmental Funds:	
General Fund	
Capital Outlay	\$ 6,444
Special Reserve Fund for Capital Outlay Projects	
Employee Benefits	736
Capital Outlay	941,240
Non-Major Governmental Funds:	
Cafeteria Fund	
Contract Services	633
Bond Interest and Redemption Fund	
Debt Service-Interest	1,500

The District incurred unanticipated expenditures for which the budgets were not revised.

B. Schedules of the District's Proportionate Share of the Net Pension Liability

These schedules present information on the District's portion of the Net Pension Liability of CalSTRS and the Net Pension Liability of CalPERS in compliance with GASB 68.

These will be 10-year schedules. Years will be added to these schedules in future fiscal years until 10 years of information is available.

LIBERTY ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONCLUDED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES (CONCLUDED)

C. Schedules of the District's Contributions

These schedules provide information about the District's required and actual contributions to CalSTRS and CalPERS during the year.

These will be 10-year schedules. Years will be added to these schedules in future fiscal years until 10 years of information is available.

SUPPLEMENTARY INFORMATION SECTION

LIBERTY ELEMENTARY SCHOOL DISTRICT

PETALUMA, CALIFORNIA

JUNE 30, 2016

ORGANIZATION

The Liberty Elementary School District was established in 1857. The District is located within the City of Petaluma, Sonoma County, California. There was no change in District boundaries during the year. The District currently operates two elementary schools, the Liberty Primary School for TK, kindergarten and grade one and the Liberty Elementary Charter School for grades first through sixth.

The Board of Education for the fiscal year ended June 30, 2016 was composed of the following members:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bob Koenitzer	President	December, 2018
Lisa Jack	Clerk	December, 2018
Eric Brooks	Member	December, 2016
Ronald Evenich	Member	December, 2016
Gary Feldman	Member	December, 2018

ADMINISTRATION

Chris Rafanelli
Superintendent/Principal

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

	Second Period Report	Annual Report
Regular ADA		
Transitional Kindergarten through Third	40	40
ADA Totals	40	40

LIBERTY ELEMENTARY CHARTER

	Second Period Report	Annual Report
Regular ADA		
Transitional Kindergarten through Third	84	84
Classroom-based ADA for TK through Third	84	84
Fourth through Sixth	86	86
Classroom-based ADA for Fourth through Sixth	85	85
ADA Totals	170	170
Classroom-based ADA Totals	169	169

Average daily attendance is a measurement of the numbers 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 the school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

LIBERTY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Liberty Primary School

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2015-2016 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
TK	36,000	43,040	180	In Compliance
Kindergarten	36,000	43,040	180	In Compliance

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its local control funding formula target.

Districts that participate in Longer Day Incentive Funding or that met or exceed their local control funding formula target, must provide at least the number of instructional minutes specified in *Education Code* Section 46201(b) or 46207(a), shown as the minutes requirement above.

Liberty Elementary Charter

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2015-2016 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 1	50,400	52,000	180	In Compliance
Grade 2	50,400	52,000	180	In Compliance
Grade 3	50,400	52,000	180	In Compliance
Grade 4	54,000	55,990	180	In Compliance
Grade 5	54,000	55,990	180	In Compliance
Grade 6	54,000	55,990	180	In Compliance

Charter Schools must maintain their instructional minutes at the levels required by *Education Code* Section 47612.5.

SEE NOTES TO SUPPLEMENTARY INFORMATION

LIBERTY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The District has granted a charter school pursuant to *California Education Code* Section 47605. The California Virtual Academy at Sonoma (Charter School), (49-70797-0107284), charter was granted and approved on June 23, 2004 to serve students in Kindergarten through eighth grade through June 30, 2016. The District received property taxes and other associated revenues on behalf of the Charter School that are passed through and accounted for by the Charter School. No other activity of the Charter School is presented in the District's financial statements.

The District operated a Charter School during 2015-2016, Liberty Elementary Charter (49-70797-6051833). The financial activities of the Liberty Elementary Charter School are included in the General Fund of the Liberty Elementary School District.

SEE NOTES TO SUPPLEMENTARY INFORMATION

LIBERTY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Special Reserve Fund for Other Than Capital Outlay Projects</u>
June 30, 2016, Annual Unaudited Actual Financial Report Fund Balance/Net Position	\$ 1,005,667	\$ 22,209	\$ 286,086
Adjustments and Reclassifications Increasing (Decreasing) the Fund Balance:			
To conform with GAAP, activity reported separately by the District in certain Special Revenue Funds is reported in the General Fund in these financial statements.	<u>308,295</u>	<u>(22,209)</u>	<u>(286,086)</u>
Net Adjustments and Reclassifications	<u>308,295</u>	<u>(22,209)</u>	<u>(286,086)</u>
June 30, 2016, Audited Financial Statement Fund Balance/Net Position	<u>\$ 1,313,962</u>	<u>\$ 0</u>	<u>\$ 0</u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Unaudited Actual Financial Report for the year ended June 30, 2016.

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

	Budget			
	2016-2017	2015-2016	2014-2015	2013-2014
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 3,596,674	\$ 3,286,616	\$ 2,795,051	\$ 2,310,386
Expenditures	2,151,469	2,263,547	2,155,655	1,885,967
Other Uses and Transfers Out	1,356,300	974,584	766,911	852,666
Total Outgo	3,507,769	3,238,131	2,922,566	2,738,633
Change in Fund Balance (Decrease)	88,905	48,485	(127,515)	(428,247)
Ending Fund Balance	\$ 1,448,149	\$ 1,313,962	\$ 1,265,477	\$ 1,389,420
Available Reserves	\$ 273,136	\$ 165,439	\$ 146,130	\$ 972,860
Reserve for Economic Uncertainties	\$ 175,388	\$ 165,439	\$ 146,130	\$ 104,000
Unassigned Fund Balance	\$ 97,748	\$ 0	\$ 0	\$ 868,860
Available Reserves as a Percentage of Total Outgo	7.8%	5.1%	5.0%	35.5%
Total Long-Term Debt	\$ 3,083,368	\$ 3,164,355	\$ 3,079,403	\$ 3,436,840
Average Daily Attendance at P-2	214	210	206	208

The General Fund balance has decreased \$507,277 during the past three years. For a District this size, the state recommends available reserves of at least 5% of total outgo. Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty contained within the General Fund.

Average daily attendance (ADA) has increased by 2 ADA during the past two years. Total long-term debt has decreased \$272,485 during the past two years. The amount reported as long-term debt above does not include the net pension liability allocated to the Child Care Development Enterprise Fund.

Amounts reported for the 2016-2017 budget are presented for analytical purposes only and have not been audited.

LIBERTY ELEMENTARY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2016

	Cafeteria Fund	Bond Interest and Redemption Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS					
Cash	\$ 86	\$ 131,575	\$ 28,335	\$ 32	\$ 160,028
Accounts Receivable	1,674		533		2,207
Total Assets	<u>\$ 1,760</u>	<u>\$ 131,575</u>	<u>\$ 28,868</u>	<u>\$ 32</u>	<u>\$ 162,235</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to Other Funds	\$ 1,500				\$ 1,500
Total Liabilities	<u>1,500</u>				<u>1,500</u>
Fund Balances:					
Restricted	<u>260</u>	<u>\$ 131,575</u>	<u>\$ 28,868</u>	<u>\$ 32</u>	<u>160,735</u>
Total Fund Balances	<u>260</u>	<u>131,575</u>	<u>28,868</u>	<u>32</u>	<u>160,735</u>
Total Liabilities and Fund Balances	<u>\$ 1,760</u>	<u>\$ 131,575</u>	<u>\$ 28,868</u>	<u>\$ 32</u>	<u>\$ 162,235</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

	Cafeteria Fund	Bond Interest and Redemption Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES					
Federal Revenue	\$ 13,388				\$ 13,388
Other State Revenue	924	\$ 781			1,705
Other Local Revenue	6,959	93,775	\$ 6,391		107,125
Total Revenues	<u>21,271</u>	<u>94,556</u>	<u>6,391</u>		<u>122,218</u>
EXPENDITURES					
Services and Other Operating Expenditures	21,859				21,859
Debt Service:					
Principal Retirement		39,107			39,107
Interest and Fiscal Charges		58,893			58,893
Total Expenditures	<u>21,859</u>	<u>98,000</u>	<u>0</u>		<u>119,859</u>
Excess of Revenues Over (Under) Expenditures	(588)	(3,444)	6,391		2,359
Fund Balances - July 1, 2015	848	135,019	22,477	\$ 32	158,376
Fund Balances - June 30,	<u>\$ 260</u>	<u>\$ 131,575</u>	<u>\$ 28,868</u>	<u>\$ 32</u>	<u>\$ 160,735</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS - STUDENT BODY ACCOUNT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
<u>Liberty School</u>				
ASSETS				
Cash	\$ 9,862	\$ 25,779	\$ 29,769	\$ 5,872
LIABILITIES				
Due to Student Groups	\$ 9,862	\$ 25,779	\$ 29,769	\$ 5,872

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LIBERTY ELEMENTARY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. 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.

B. Schedule of Instructional Time

This schedule presents information on the amount of instructional time and number of days offered by the District and each applicable charter school and whether the District complied with the provisions of Education Code Sections 46201 through 46208 and also whether the Charter School(s) complied with the provisions of Education Code Sections 47612 and 47612.5. The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day, and has met its local control funding formula target.

C. Schedule of Charter Schools

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

D. Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Unaudited Actual Financial Report to the audited financial statements.

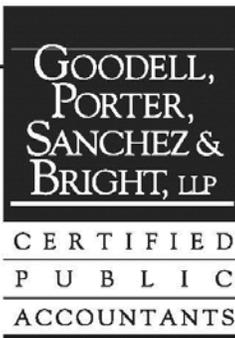
E. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

F. Combining Statements and Individual Fund Schedules

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION



JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD J. GOODELL, CPA
MICHELLE M. HANSON, CPA

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
Liberty Elementary School District
Petaluma, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Liberty Elementary School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Liberty Elementary School District's basic financial statements and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Liberty Elementary School 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 Liberty Elementary School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Liberty Elementary School 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 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 Liberty Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 5, 2016



JOHN L. GOODELL, CPA
 VIRGINIA K. PORTER, CPA
 BEVERLY A. SANCHEZ, CPA
 SUZY H. BRIGHT, CPA
 RICHARD J. GOODELL, CPA
 MICHELLE M. HANSON, CPA

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Trustees
 Liberty Elementary School District
 Petaluma, California

We have audited Liberty Elementary School District’s compliance with the types of compliance requirements described in the *2015-2016 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 Liberty Elementary School District’s State government programs as noted below for the year ended June 30, 2016.

Management’s Responsibility

Management is responsible for compliance with the requirements of State laws and regulations.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance with State laws and regulations of Liberty Elementary School District’s State government programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the applicable State laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Liberty Elementary 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. However, our audit does not provide a legal determination of Liberty Elementary School District’s compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Mis-assignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see next page)
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

<u>Description</u>	<u>Procedures Performed</u>
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort (MOE)	Not Applicable
School Districts, County Office 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	Yes
Charter Schools:	
Attendance (Charter Schools)	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

Procedures were not performed for Independent Study attendance because the average daily attendance generated by the program was below the level required for testing.

Partial procedures were performed for California Clean Energy Jobs Act because the District is in the preliminary phase and has only incurred planning expenditures.

Opinion on Each State Government Program

In our opinion, Liberty Elementary School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its State government programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the 2015-2016 *Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which are described in the accompanying schedule of findings and responses as item 2016-001. Our opinion on State government programs is not modified with respect to these matters.

Liberty Elementary School District’s Response to Findings

Liberty Elementary School District’s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Liberty Elementary School District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the 2015-2016 *Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
 Certified Public Accountants

FINDINGS AND RESPONSES SECTION

LIBERTY ELEMENTARY SCHOOL DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND RESPONSES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Governmental Activities, Business-Type Activities, each major fund, and the aggregate remaining fund information Non-Governmental Component Unit	Unmodified Disclaimer
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Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
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Significant deficiency(ies) identified that are not considered to be material weakness?	<u> </u> Yes	<u> X </u> None reported
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Noncompliance material to financial
statements noted?

<u> </u> Yes	<u> X </u> No
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State Awards

Internal control over state programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
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Significant deficiency(ies) identified that are not considered to be material weakness?	<u> X </u> Yes	<u> </u> None reported
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Type of auditor's report issued on compliance
for state programs:

Unmodified

LIBERTY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

JUNE 30, 2016

Section II - Financial Statements Findings

No matters are reported.

Section III - Federal Award Findings and Responses

No matters are reported.

Section IV - State Award Findings and Responses

2016 - 001 - SCHOOL ACCOUNTABILITY REPORT CARD - 72000

Criteria: *California Education Code* Section 33126(b)(8) provides that the school accountability report card shall include assessment of the safety, cleanliness and adequacy of school facilities, including any needed maintenance to ensure good repair. The Office of Public School Construction (OPSC) Facility Inspection Tool (FIT) or a locally developed instrument that meets the same legal requirements must be utilized during annual inspections to determine if a school facility is in "good repair" and to rate the facility accordingly.

Statement of Condition: The District was unable to provide any documentation that an annual facility inspection had been completed at any of its school sites and we were unable to corroborate the information reported in each School Accountability Report Card (SARC).

Cause: The District has not maintained adequate records to support the information reported in the SARC and is unable to substantiate that it was in compliance with the requirements of *California Education Code* Section 33126(b.)

Effect or Potential Effect: There is no direct financial impact with this finding, however the District is at risk of publishing inaccurate information in its SARC.

Questioned Costs: This is a finding of noncompliance without associated questioned costs.

Recommendation: We recommend the District assess the safety, cleanliness and adequacy of school facilities annually using the FIT designed by OPSC or a locally developed instrument that meets the same legal requirements.

View of Responsible Official: The District will use the Facility Inspection Tool designed by OPSC as recommended.

LIBERTY ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2016

2015 - 001: The District should develop procedures that require the financial consultant to submit a copy of each journal entry posted during the year. Each entry should be reviewed by a District employee and retained in a file with supporting documentation attached.

Current Status:

Accepted
Implemented

2015 - 002: Each receipt should be listed on a log listing date received, amount and source of receipt. The receipt log should be maintained by someone other than the employee responsible for preparing the deposit and reconciling the cash accounts. Intermittently throughout the year someone other than the custodian for the log should compare the items listed to the deposit.

Current Status:

Accepted
Partially Implemented

Explanation if Not Fully Implemented:

The District is continuing to work on improving the cash receipt log. Finding not repeated.

2015 - 003: The District should implement procedures to ensure compliance with State regulations of posting public notice at least ten (10) days prior to the meeting to adopt the resolution of sufficiency of instructional materials.

Current Status:

Accepted
Implemented