

**PETALUMA CITY SCHOOLS
COUNTY OF SONOMA
PETALUMA, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2000

PETALUMA CITY SCHOOLS

JUNE 30, 2000

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report on Financial Statements	1
<u>General-Purpose Financial Statements</u>	
Combined Statements:	
Combined Balance Sheet - All Fund Types and Account Group	2
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types	6
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type	8
Statement of Cash Flows – Proprietary Fund Type	9
Notes to Financial Statements	10
Combining Financial Statements:	
<u>Special Revenue Funds</u>	
Combining Balance Sheet	30
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	31
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	32
<u>Capital Projects Funds</u>	
Combining Balance Sheet	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	38
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	40
<u>Trust and Agency Funds</u>	
Combining Balance Sheet	46
Combining Statement of Changes in Assets and Liabilities – Agency Funds	47

PETALUMA CITY SCHOOLS

JUNE 30, 2000

TABLE OF CONTENTS – (CONCLUDED)

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Independent Auditor's Report on Supplementary Information	49
Organization/Board of Education/Administration	50
Schedule of Average Daily Attendance	51
Schedule of Instructional Time	52
Schedule of Expenditures of Federal Awards	53
Reconciliation of Annual Financial and Budget Report (J-200) with Audited Financial Statements	54
Schedule of Financial Trends and Analysis	55
Notes to Supplementary Information	56
<u>OTHER INDEPENDENT AUDITOR REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	57
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	61
<u>FINDINGS AND RECOMMENDATIONS SECTION</u>	
Summary of Audit Results	63
Internal Control	64
Federal Compliance	72
State Compliance	76
Status of Prior Year Recommendations	84

FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the year ended June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District does not maintain complete historical cost records for its fixed assets. Accordingly, a Statement of General Fixed Assets, which is required under generally accepted accounting principles, is not included in this report.

Complete accounting records were not available for the student body accounts maintained at Grant Elementary and Valley Vista Elementary. Accordingly, the financial statements do not include the complete activities of the District's agency funds. Our audit procedures were only applied to those accounts where the records were available. The scope of our audit does not extend to the fiduciary accounts where records were not available, which should be included to conform with generally accepted accounting principles.

Lack of certain internal control procedures and supporting records limits us to expressing an independent auditor's opinion on recorded transactions of the Student Body Fund. (Note 13)

In our opinion, except for the omission of a Statement of General Fixed Assets and a portion of the Agency Funds, and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the Student Body revenues, the combined general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Petaluma City Schools at June 30, 2000 and the results of its operations and the cash flows of its proprietary fund for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining general-purpose financial statements referred to above present fairly in all material respects the financial position of each individual fund of Petaluma City Schools at June 30, 2000, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 12, 2000 on our consideration of Petaluma City Schools' internal controls over financial reporting and our tests of compliance with certain provisions of laws, regulation, contracts and grants.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 12, 2000

PETALUMA CITY SCHOOLS
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUP
 JUNE 30, 2000

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>ASSETS</u>			
Cash in County Treasury (Note 2)	\$ 5,123,813	\$ 541,018	\$ 5,785,064
Cash on Hand and in Bank	19,581	5,785	
Cash in Revolving Fund	15,000	300	
Investments (Note 2)			
Accounts Receivable (Note 4)			
Federal Government	191,999	114,035	
State Government	822,098	203,682	
Local Government	55,377	37,745	
Interest		1,262	
Miscellaneous	237,349	24,082	
Due from Other Funds (Note 5)	213,906	53,846	
Stores Inventory (Note 1I)	90,488	28,910	
Prepaid Expenses (Note 1J)	67,240		
Amount Available in Debt Service Fund			
Amount to be Provided for Retirement of General Long-Term Debt			
 Total Assets	 <u>\$ 6,836,851</u>	 <u>\$ 1,010,665</u>	 <u>\$ 5,785,064</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts Payable	\$ 2,169,391	\$ 119,617	
Due to Other Funds (Note 5)	35,434	225,439	
Due to Student Groups			
Deferred Revenue (Note 1L)	463,451	111,496	
Compensated Absences (Note 1K)			
General Obligation Bonds (Note 6)			
Capital Leases (Note 7)			
Retiree Benefits (Note 9)			
 Total Liabilities	 <u>2,668,276</u>	 <u>456,552</u>	
Fund Equity:			
Retained Earnings			
Fund Balances (Note 11)			
Reserved	1,435,940	29,210	\$ 5,785,064
Unreserved:			
Designated	1,630,050		
Undesignated	1,102,585	524,903	
 Total Fund Equity	 <u>4,168,575</u>	 <u>554,113</u>	 <u>5,785,064</u>
 Total Liabilities and Fund Equity	 <u>\$ 6,836,851</u>	 <u>\$ 1,010,665</u>	 <u>\$ 5,785,064</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

	Proprietary Fund Type	Fiduciary Fund Types	Account Group	Totals (Memorandum Only)
Capital Projects	Self- Insurance	Trust and Agency	General Long-term Debt	
\$ 18,578,439	\$ 6,347	\$ 2,433 562,834 101,212		\$ 30,037,114 588,200 15,300 101,212 306,034 1,025,780 93,122 1,262 447,176 826,310 119,398 83,171 5,785,064
143,832	41,913			306,034
534,055	24,503			1,025,780
15,931				93,122
				1,262
				447,176
				826,310
				119,398
				83,171
			\$ 5,785,064	5,785,064
			60,765,631	60,765,631
<u>\$ 19,272,257</u>	<u>\$ 72,763</u>	<u>\$ 666,479</u>	<u>\$ 66,550,695</u>	<u>\$ 100,194,774</u>
\$ 1,525,199 546,827	\$ 40,467 18,610	\$ 549,960	\$ 470,076 62,217,155 3,071,307 792,157	\$ 3,854,674 826,310 549,960 574,947 470,076 62,217,155 3,071,307 792,157
2,072,026	59,077	549,960	66,550,695	72,356,586
15,931	13,686	116,519		13,686
17,184,300				7,382,664
17,200,231	13,686	116,519	0	1,630,050 18,811,788
<u>\$ 19,272,257</u>	<u>\$ 72,763</u>	<u>\$ 666,479</u>	<u>\$ 66,550,695</u>	<u>\$ 100,194,774</u>

PETALUMA CITY SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	Governmental Fund Types	
	General	Special Revenue
REVENUES		
Revenue Limit Sources:		
State Apportionment	\$ 15,029,290	\$ 994,608
Local Sources	17,403,638	35,434
Total Revenue Limit Sources	32,432,928	1,030,042
Federal Revenue	1,068,505	419,602
Other State Revenue	6,875,765	288,547
Other Local Revenue	4,594,922	1,329,096
Total Revenues	44,972,120	3,067,287
EXPENDITURES		
Certificated Salaries	22,386,424	659,600
Classified Salaries	7,213,132	826,192
Employee Benefits	7,730,091	399,244
Books and Supplies	1,946,404	778,481
Services and Other		
Operating Expenditures	3,249,404	509,048
Capital Outlay	945,151	134,465
Debt Service:		
Principal Retirement	164,272	9,506
Interest and Fiscal Charges	10,082	2,570
Other Expenditures	419,706	
Total Expenditures	44,064,666	3,319,106
Excess of Revenues Over (Under) Expenditures	907,454	(251,819)
Other Financing Sources (Uses):		
Operating Transfers In	72,642	225,000
Operating Transfers Out	(199,256)	(68,921)
Other Sources	397,462	35,087
Other Uses		
Total Other Financing Sources (Uses)	270,848	191,166
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	1,178,302	(60,653)
Fund Balances - July 1, 1999 (As restated - Note 18)	2,990,273	614,766
Fund Balances - June 30, 2000	\$ 4,168,575	\$ 554,113

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service	Capital Projects	Expendable Trusts Trust Funds	Totals (Memorandum Only)
			\$ 16,023,898
			17,439,072
			33,462,970
			1,488,107
			7,231,338
\$ 67,026			11,869,548
3,835,764	\$ 2,103,586	\$ 6,180	54,051,963
3,902,790	2,103,586	6,180	
			23,046,024
	133,840		8,173,164
	44,806		8,174,141
	2,093		2,726,978
	524,656		4,283,108
	8,254,202		9,333,818
1,721,203	313,764		2,208,745
1,826,303	168,807		2,007,762
			419,706
3,547,506	9,442,168	0	60,373,446
355,284	(7,338,582)	6,180	(6,321,483)
	1,723,753		2,021,395
	(1,753,218)		(2,021,395)
	11,593,375	107,847	12,133,771
		(7,284)	(7,284)
0	11,563,910	100,563	12,126,487
355,284	4,225,328	106,743	5,805,004
5,429,780	12,974,903	9,776	22,019,498
\$ 5,785,064	\$ 17,200,231	\$ 116,519	\$ 27,824,502

PETALUMA CITY SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue Limit Sources:						
State Apportionment	\$15,004,906	\$15,029,290	\$ 24,384	\$ 995,250	\$ 994,608	\$ (642)
Local Sources	17,403,638	17,403,638		35,434	35,434	
Total Revenue Limit	32,408,544	32,432,928	24,384	1,030,684	1,030,042	(642)
Federal Revenue	1,195,195	1,068,505	(126,690)	429,350	419,602	(9,748)
Other State Revenue	7,150,353	6,875,765	(274,588)	400,044	288,547	(111,497)
Other Local Revenue	4,620,227	4,594,922	(25,305)	1,334,194	1,329,096	(5,098)
Total Revenues	45,374,319	44,972,120	(402,199)	3,194,272	3,067,287	(126,985)
EXPENDITURES						
Certificated Salaries	22,594,345	22,386,424	207,921	673,077	659,600	13,477
Classified Salaries	7,303,779	7,213,132	90,647	862,306	826,192	36,114
Employee Benefits	7,765,031	7,730,091	34,940	404,152	399,244	4,908
Books and Supplies	2,962,376	1,946,404	1,015,972	802,048	778,481	23,567
Services and Other						
Operating Expenditures	3,706,071	3,249,404	456,667	748,400	509,048	239,352
Capital Outlay	1,133,252	945,151	188,101	144,963	134,465	10,498
Debt Service:						
Principal Retirement	164,272	164,272		9,506	9,506	
Interest and Fiscal Charges	10,085	10,082	3	2,570	2,570	
Other Expenditures	422,668	419,706	2,962			
Total Expenditures	46,061,879	44,064,666	1,997,213	3,647,022	3,319,106	327,916
Excess of Revenues Over (Under) Expenditures	(687,560)	907,454	1,595,014	(452,750)	(251,819)	200,931
Other Financing Sources (Uses):						
Operating Transfers In	69,350	72,642	3,292	225,000	225,000	
Operating Transfers Out	(209,000)	(199,256)	9,744	(69,350)	(68,921)	429
Other Sources	397,462	397,462		35,087	35,087	
Total Other Financing Sources (Uses)	257,812	270,848	13,036	190,737	191,166	429
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	\$ (429,748)	1,178,302	\$ 1,608,050	\$ (262,013)	(60,653)	\$ 201,360
Fund Balances - July 1, 1999 (As restated - Note 18)		2,990,273			614,766	
Fund Balances - June 30, 2000		\$ 4,168,575			\$ 554,113	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service Fund			Capital Projects Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
						\$ 16,000,156	\$ 16,023,898	\$ 23,742
						17,439,072	17,439,072	
						33,439,228	33,462,970	23,742
						1,624,545	1,488,107	(136,438)
\$ 67,026	\$ 67,026					7,550,397	7,231,338	(319,059)
3,835,764	3,835,764		\$ 2,103,588	\$ 2,103,586	\$ (2)	8,058,009	11,863,368	3,805,359
3,902,790	3,902,790		2,103,588	2,103,586	(2)	50,672,179	54,045,783	3,373,604
						23,267,422	23,046,024	221,398
			163,534	133,840	29,694	8,329,619	8,173,164	156,455
			56,395	44,806	11,589	8,225,578	8,174,141	51,437
			3,313	2,093	1,220	3,767,737	2,726,978	1,040,759
			531,202	524,656	6,546	4,985,673	4,283,108	702,565
			10,289,170	8,254,202	2,034,968	11,567,385	9,333,818	2,233,567
1,721,203	(1,721,203)		313,764	313,764		487,542	2,208,745	(1,721,203)
1,826,303	(1,826,303)		185,047	168,807	16,240	197,702	2,007,762	(1,810,060)
						422,668	419,706	2,962
3,547,506	(3,547,506)		11,542,425	9,442,168	2,100,257	61,251,326	60,373,446	877,880
355,284	355,284		(9,438,837)	(7,338,582)	2,100,255	(10,579,147)	(6,327,663)	4,251,484
			1,733,497	1,723,753	(9,744)	2,027,847	2,021,395	(6,452)
			(1,753,218)	(1,753,218)		(2,031,568)	(2,021,395)	10,173
			13,808,018	11,593,375	(2,214,643)	14,240,567	12,025,924	(2,214,643)
0	0		13,788,297	11,563,910	(2,224,387)	14,236,846	12,025,924	(2,210,922)
\$ 0	355,284	\$ 355,284	\$ 4,349,460	4,225,328	\$ (124,132)	\$ 3,657,699	5,698,261	\$ 2,040,562
	5,429,780			12,974,903			22,009,722	
	\$5,785,064			\$17,200,231			\$ 27,707,983	

PETALUMA CITY SCHOOLS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN RETAINED EARNINGS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

<u>Expenses:</u>	<u>Self-Insurance</u>
Contract Services	\$ <u>73,758</u>
Operating Loss	<u>(73,758)</u>
Non-Operating Revenues:	
Interest Income	877
Insurance Reimbursement	<u>66,416</u>
Total Non-Operating Revenues	<u>67,293</u>
Net Loss	(6,465)
Retained Earnings - July 1, 1999	<u>20,151</u>
Retained Earnings - June 30, 2000	<u>\$ 13,686</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>Self-Insurance</u>
Cash Flows From Operating Activities:	
Contract Services	\$ (89,133)
Net Cash Used for Operating Activities	<u>(89,133)</u>
Cash Flows From Investing Activities:	
Interest Income	877
Insurance Reimbursement	<u>66,416</u>
Net Cash Provided By Investing Activities	<u>67,293</u>
Net Decrease in Cash	(21,840)
Cash Balance - July 1, 1999	<u>28,187</u>
Cash Balance - June 30, 2000	<u>\$ 6,347</u>
Reconciliation of Operating Income to Net <u>Cash Used from Operating Activities</u>	
Operating Loss	\$ (73,758)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Increase in Accounts Receivable	(41,913)
Increase in Due from Other Funds	(24,503)
Increase in Accounts Payable	32,431
Increase in Due to Other Funds	<u>18,610</u>
Total Net Adjustments	<u>(15,375)</u>
Net Cash Used for Operating Activities	<u>\$ (89,133)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

B. Reporting Entity

These financial statements report the combined financial position of the various funds and accounts groups of the Petaluma City Elementary School District and Petaluma Joint Union High School District. These Districts share a common board of education and administration. These two entities are referred to collectively as Petaluma City Schools, and for purpose of these financial statement notes, will be referred to collectively as 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. 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 no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

In determining its reporting entity, the District considered all governmental units that were members of the District since inception. The criteria did not require the inclusion of these entities in the District's financial statements principally because the District does not exercise oversight responsibility over any members.

C. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, 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. The District's accounts are organized in four broad categories, which in aggregate include seven fund types and one account group as follows:

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

GOVERNMENTAL FUNDS:

General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three special revenue funds:

1. Deferred Maintenance Fund is used for the purpose of major repairs or replacement of District property.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs. The District maintains one debt service fund:

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

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains five capital projects funds:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
2. State School Building Fund is used to account for the building of new schools and related equipment from state apportionments (Education Code Section 17708).
3. Building Fund is used to account for acquisition of major governmental facilities financed from the sale of bonds.
4. Special Reserve Fund is used to account for special building projects as determined by the District.
5. County School Facilities Fund is used primarily to account separately for state apportionments as provided in Education Code Sections 17009.5 and 17070.10-17076.10.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Concluded)

PROPRIETARY FUND

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used to provide a reserve for future claims. As of July 1, 1996, the District is no longer self-insured. The remaining retained earnings will be used to cover deductibles until funds are exhausted.

FIDUCIARY FUNDS:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains two expendable trust funds, the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, which are used to provide financial assistance to students of the District. The Schwobeda Memorial Trust Fund includes \$99,781 as a nonexpendable component that is permanently restricted for generating trust income.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains fourteen student body accounts.

ACCOUNT GROUP:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources". Thus, the long-term liabilities associated with Governmental Funds are accounted for in the Account Group of the District.

General Long -Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on long-term debt, which is recognized when due.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expense are recorded at the time liabilities are incurred. The district applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for the operations of its proprietary funds.

Trust and Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

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 budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District superintendent, during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented 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 (see Note 3).

F. Use of Estimates

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

G. Encumbrances

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

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows of the District's proprietary fund, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents. As of June 30, 2000, there were no cash equivalents other than amounts on deposit with the County Treasurer.

I. Inventories

Inventories are recorded using the purchase method in that the cost (handling charge for state surplus food) is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve that indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

J. Prepaid Expenses

Prepaid expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2000.

K. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. This liability is recognized in the general long-term debt account group. The value of accumulated vacation at June 30, 2000 was \$470,076.

Accumulated employee sick leave benefits are not recognized as liabilities of the District as the rights to these benefits do not vest with the employee. Therefore, sick leave benefits are recorded as expenditures in the period that sick leaves are taken. Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

L. Deferred Revenue

The District received funds for certain programs for which qualifying expenditures have not been made, resulting in revenue that cannot be recognized until such expenditures are incurred.

M. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

N. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if not paid by December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Sonoma bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

O. Total Columns on Combined Statements

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - CASH AND INVESTMENTS

Authorized Deposits/Investments

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasurer. The County pools these funds and invests the cash. These pooled funds are carried at cost, which approximates fair value. Any investment losses are proportionately shared by all funds in the pool.

Based on the fundamental assumption that Governmental Accounting Standards Board (GASB) standards need not be applied to immaterial items, the District has elected to continue reporting pooled investments at cost in these financial statements.

The County may invest in accordance with section 53601 and 53635 of the California Government Code:

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper
- Certificates of deposit placed with commercial banks or savings and loan companies
- Repurchase or reverse repurchase agreements
- Medium term corporate notes
- Shares of beneficial interest issued by diversified management companies
- Certificates of participation
- Obligations with first priority security
- Collateralized mortgage obligations

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Credit Risk

Investments in pools managed by other governments or in mutual funds are not required to be categorized.

Deposits held in banks are fully insured by the Federal Depository Insurance Corporation or collateralized with securities held by the bank, except for the Casa Grande student body account, which had \$50,577 of uninsured deposits at June 30, 2000.

Derivative Investments

The District did not directly enter into any derivative investments.

Information relating to the use of derivative investments by the County was not available.

Cash Balances

Cash at June 30, 2000 consisted of the following:

Pooled Funds:		
Cash in County Treasury		\$ 30,037,114
Deposits:		
Cash on Hand and in Bank		588,200
Cash in Revolving Fund		15,300

Investment Balances

Investments at June 30, 2000 are presented below, categorized separately to give an indication of the level of risk associated with each investment:

	<u>Category*</u>		<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>		
Certificates of Deposit	<u>\$ 101,212</u>	<u>\$ 0</u>	<u>\$ 101,212</u>	<u>\$ 101,212</u>

* Category 1 includes investments that are insured or collateralized.
 Category 2 includes investments that are not insured or collateralized.

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess expenditures over appropriations for fiscal year 1999-00 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
<u>Debt Service Fund:</u>	
Bond Interest and Redemption Fund:	
Principal Payment	\$ 1,721,203
Interest and Fiscal Charges	1,826,303
<u>Capital Projects Funds:</u>	
Building Fund:	
Services and Other Operating Expenditures	15,749

The District incurred unanticipated expenditures in each of the above expenditure classifications for which the budget was not revised. The District does not adopt a budget for the Bond Interest and Redemption Fund, which is under the control of the Sonoma County Auditor.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2000 consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Fund</u>	<u>Totals</u>
Federal Government					
Categorical Programs	<u>\$ 191,999</u>	<u>\$ 114,035</u>			<u>\$ 306,034</u>
State Government					
Categorical Programs	\$ 84,828	\$ 3,469			\$ 88,297
Lottery	471,905				471,905
Other Allowances	<u>265,365</u>	<u>200,213</u>			<u>465,578</u>
Total State	<u>\$ 822,098</u>	<u>\$ 203,682</u>			<u>\$1,025,780</u>
Local Governments	<u>\$ 55,377</u>	<u>\$ 37,745</u>			<u>\$ 93,122</u>
Interest		<u>\$ 1,262</u>			<u>\$ 1,262</u>
Miscellaneous	<u>\$ 237,349</u>	<u>\$ 24,082</u>	<u>\$ 143,832</u>	<u>\$ 41,913</u>	<u>\$ 447,176</u>

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 5 - INTERFUND TRANSACTIONS

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2000 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 213,906	\$ 35,434
Special Revenue Funds:		
Deferred Maintenance		9,052
Cafeteria	18,412	101,404
Adult Education	35,434	114,983
Capital Projects Funds:		
Capital Facilities	130,001	16,088
State School Building		403,995
Building	404,054	21,223
Special Reserve		105,521
Self-Insurance Fund	<u>24,503</u>	<u>18,610</u>
Totals	<u>\$ 826,310</u>	<u>\$ 826,310</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 1999-00 fiscal year were as follows:

Transfer from Building Fund to Deferred Maintenance Fund to match State allocation	\$	225,000
Transfer from General Fund to Capital Projects - Special Reserve Fund to transfer redevelopment shift monies		199,256
Transfer from Building Fund to County School Facilities Fund for the match requirement		1,163,563
Transfer from Building Fund to General Fund for playground equipment		3,721
Transfer from Building Fund to State School Building Fund for project expenses		934
Transfer from County School Facilities Fund to State School Building Fund to clear temporary loan		360,000
Transfer from Adult Education Fund to General Fund for indirect support costs		<u>68,921</u>
Total	\$	<u>2,021,395</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 6 - GENERAL OBLIGATION BONDS

The outstanding general obligation bonded debt of Petaluma City Schools at June 30, 2000, is as follows:

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 1999	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2000
Elementary						
1991 Series						
1992 A	5.00-8.00	\$ 2,100,000	\$ 55,000		\$ 55,000	\$ 0
1993 B	5.00-8.00	5,600,000	5,160,000		130,000	5,030,000
1994 C	5.70-8.70	4,100,000	335,000		105,000	230,000
1995 D	4.80-7.50	2,000,000	1,915,000		50,000	1,865,000
1997 E	5.10-7.00	2,000,000	230,000		40,000	190,000
1997 F	5.15-6.15	4,500,000	4,475,000		110,000	4,365,000
1998 Series						
(Refunding)	4.00-4.60	7,530,000	7,530,000		60,000	7,470,000
1999 G	4.20-7.20	1,500,000	1,500,000			1,500,000
2000 H	5.00-8.00	<u>2,000,000</u>		\$ 2,000,000		<u>2,000,000</u>
Total Elementary		<u>31,330,000</u>	<u>21,200,000</u>	<u>2,000,000</u>	<u>550,000</u>	<u>22,650,000</u>
High School						
1992 Series						
1993 A	5.50-8.50	6,000,000	5,340,000		160,000	5,180,000
1994 B	4.10-7.00	10,057,932	566,334		157,044	409,290
1995 Series						
(Refunding)	4.65-5.80	8,972,019	8,972,019			8,972,019
1997 C	4.50-6.20	10,623,276	9,960,005		764,159	9,195,846
1999 D	4.25-7.25	3,900,000	3,900,000		90,000	3,810,000
1999 E	4.50-7.00	2,600,000	2,600,000			2,600,000
2000 F	5.00-8.00	<u>9,400,000</u>		<u>9,400,000</u>		<u>9,400,000</u>
Total High School		<u>51,553,227</u>	<u>31,338,358</u>	<u>9,400,000</u>	<u>1,171,203</u>	<u>39,567,155</u>
Total Bonds		<u>\$ 82,883,227</u>	<u>\$ 52,538,358</u>	<u>\$11,400,000</u>	<u>\$ 1,721,203</u>	<u>\$ 62,217,155</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)

Annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2000, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 1,866,720	\$ 2,648,475	\$ 4,515,195
2002	1,984,871	2,817,013	4,801,884
2003	2,156,811	2,540,163	4,696,974
2004	2,259,596	2,532,996	4,792,592
2005	2,252,714	2,387,797	4,640,511
Thereafter	<u>51,696,443</u>	<u>45,784,444</u>	<u>97,480,887</u>
Totals	<u>\$ 62,217,155</u>	<u>\$ 58,710,888</u>	<u>\$ 120,928,043</u>

NOTE 7 - CAPITAL LEASES

The District leases portables, furniture, equipment and vehicles under lease agreements, which provide for title to pass to the District upon expiration of the lease periods. Future minimum lease payments under these agreements are as follows:

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2001	\$ 696,389
2002	647,831
2003	370,173
2004	313,244
2005	252,766
Thereafter	<u>1,812,369</u>
Total Payments	4,092,772
Less Amounts Representing Interest	<u>(1,021,465)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 3,071,307</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for any items currently being purchased under capital lease agreements.

NOTE 8 - OPERATING LEASES

The District has entered into various operating leases related to capital improvement projects with lease terms in excess of one year. The monthly payments are made from the Capital Projects Funds. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 9 - RETIREE BENEFITS

In addition to the benefits described in Note 12, the District provides health, dental, vision, and life insurance benefits for eligible employees. Eligible employees must be at least 55 years of age and have provided 10 years of service to the District at the time of retirement. Benefits are paid by the District until the retiree reaches age 65. For the year ended June 30, 2000, sixty-four (64) employees were eligible to receive retiree medical benefits and the District paid \$80,918 in benefits.

Future estimated payments required under the plan are as follows:

<u>Year Ended June 30</u>	<u>Retiree Benefits</u>
2001	\$ 155,881
2002	143,681
2003	121,249
2004	97,085
2005	74,798
Thereafter	<u>199,463</u>
Total	<u>\$ 792,157</u>

NOTE 10 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2000, is shown below:

	<u>Balance July 1, 1999</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2000</u>
Compensated Absences	\$ 423,792	\$ 46,284		\$ 470,076
General Obligation Bonds	52,538,358	11,400,000	\$ 1,721,203	62,217,155
Capital Leases	2,954,333	604,516	487,542	3,071,307
Retiree Benefits	413,883	459,192	80,918	792,157
Supplemental Employee Retirement Plan	<u>266,734</u>		<u>266,734</u>	<u>0</u>
Totals	<u>\$ 56,597,100</u>	<u>\$ 12,509,992</u>	<u>\$ 2,556,397</u>	<u>\$ 66,550,695</u>

NOTE 11 - FUND BALANCES

Reservations of fund balances as of June 30, 2000 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Funds</u>	<u>Totals</u>
Revolving Cash	\$ 15,000	\$ 300				\$ 15,300
Stores Inventory	90,488	28,910				119,398
Prepaid Expenses	67,240			\$ 15,931		83,171
Expendable Trusts					\$ 116,519	116,519
Restricted Programs	1,263,212					1,263,212
Debt Service			<u>\$ 5,785,064</u>			<u>5,785,064</u>
	<u>\$ 1,435,940</u>	<u>\$ 29,210</u>	<u>\$ 5,785,064</u>	<u>\$ 15,931</u>	<u>\$ 116,519</u>	<u>\$ 7,382,664</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 11 - FUND BALANCES (CONCLUDED)

Reserved for Revolving Fund represents the portion of the ending fund balance represented by the revolving fund cash.

Reserved for Stores Inventory represents the portion of the ending fund balance represented by stores inventory.

Reserved for Prepaid Expenses represents the portion of the ending fund balance represented by current year payments, which will benefit future periods beyond June 30, 2000.

Reserved for Expendable Trusts represents the portion of the ending fund balance represented by expendable and nonexpendable cash and investments.

Reserved for Restricted Programs represents unspent program revenues that are legally restricted for future use.

Restricted program balances at June 30, 2000 are as follows:

Gifted and Talented Education	\$ 32,646
School Safety	71,019
Education Technology	1,597
California Public Library Materials	117,710
Classroom Library Materials	19,577
Mathematics Instructional Materials	392,834
Instructional Materials	220,603
Instructional Materials – Staff Development	223,387
Instructional Materials – Lottery	47,994
Peer Assistance and Review	53,282
Professional Development	30,475
10 th Grade Counseling	8,001
Water Lead Testing	2,431
ROP	150
Science Instructional Materials	<u>41,506</u>
Total	<u>\$ 1,263,212</u>

Reserved for Debt Service represents the fund balance of the Bond Interest and Redemption Fund reserved for future payment of interest and redemption of bond principal.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. Designations of the fund balance as of June 30, 2000 are as follows:

	<u>General Fund</u>
Economic Uncertainties	\$ 1,357,366
School Site Block Grants	79,990
Grants and Donations	<u>192,694</u>
Total	<u>\$ 1,630,050</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under 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 District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 1999-00 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2000, 1999, and 1998, were \$1,854,539, \$1,650,201 and \$1,577,555, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by 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 P Street, Sacramento, CA 95814.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over 133.33 if the member participates in Social Security) and the District is required to contribute an actuarially 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 rate for fiscal year 1999-00 was 0% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2000, 1999, and 1998, were \$0, \$0, and \$396,736, respectively, and equal 100% of the required contributions for each year.

NOTE 13 - STUDENT BODY FUNDS

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, for some fundraisers, does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999-00, the District participated in two joint powers authorities (JPAs) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years. (See Note 15 for the nature of District participation in the JPAs)

NOTE 15 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools Insurance Group (RESIG) and Schools Excess Liability Fund (SELF) for common risk management of property & liability and workers' compensation coverage. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

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

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 15 - JOINT VENTURES (CONTINUED)

Nature of Participation

Property

District Deductible:	\$	3,000	
JPA's SIR:		150,000	
Excess Insurance:		1,000,000	
		14,000,000	(SELF)

Liability

District Deductible:	\$	1,000	
JPA's SIR:		150,000	
Excess Insurance:		1,000,000	
		14,000,000	(SELF)

Workers' Compensation

District Deductible:	\$	0
JPA's SIR:	\$	250,000
Excess Insurance:	\$	1,000,000 / 10,000,000

Condensed audited financial information of RESIG for the year ended June 30, 1999, the most recent available, and condensed audited financial information of SELF for the year ended June 30, 2000, are as follows:

	<u>RESIG</u>		<u>SELF</u>
	<u>Property and Liability</u>	<u>Workers' Compensation</u>	<u>Excess Liability</u>
Total Assets	<u>\$ 1,786,465</u>	<u>\$ 15,688,605</u>	<u>\$ 109,411,523</u>
Total Liabilities	<u>\$ 1,559,080</u>	<u>\$ 12,249,053</u>	<u>\$ 49,889,135</u>
Total Fund Equity	<u>227,385</u>	<u>3,439,552</u>	<u>59,522,388</u>
Total Liabilities and Fund Equity	<u>\$ 1,786,465</u>	<u>\$ 15,688,605</u>	<u>\$ 109,411,523</u>
Total Revenues	<u>\$ 1,623,286</u>	<u>\$ 6,603,751</u>	<u>\$ 24,146,323</u>
Total Expenditures	<u>2,059,939</u>	<u>6,572,494</u>	<u>10,066,057</u>
Net Increase (Decrease) in Fund Equity	<u>\$ (436,653)</u>	<u>\$ 31,257</u>	<u>\$ 14,080,266</u>

RESIG did not have long-term debt outstanding at June 30, 1999, and SELF did not have long-term debt outstanding at June 30, 2000. The District's share of year-end assets, liabilities and fund equity has not been calculated.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 15 - JOINT VENTURES (CONCLUDED)

School Project for Utility Rate Reduction

The District is also a member of a Joint Powers Authority, School Project for Utility Rate Reduction (SPURR), for the direct purchase of gas, electricity, and other utility services. SPURR also provides advisory services relative to utilities.

Condensed audited financial information of SPURR for the year ended June 30, 1999, the most recent available, is as follows:

Total Assets	<u>\$ 3,977,326</u>
Total Liabilities	\$ 3,299,238
Total Fund Balance	<u>678,088</u>
Total Liabilities and Fund Equity	<u>\$ 3,977,326</u>
Total Revenues	\$ 25,161,022
Total Expenditures	<u>25,470,444</u>
Net (Decrease) in Fund Equity	<u>\$ (309,422)</u>

The District's share of year-end assets, liabilities and fund equity has not been calculated.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

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

C. Reimbursements

During the year ended June 30, 1990, the District entered into an informal agreement with both the Casa Grande High School Booster Club and the Petaluma High School Booster Club to reimburse the District for the costs of improving the two high schools' athletic facilities.

The Casa Grande High School Booster Club and the Petaluma High School Booster Club have agreed to reimburse the District a total of \$140,722 and \$251,095, respectively, the cost of improvements made through June 30, 1991, in annual installments of \$15,000 and \$10,000. During the year ended June 30, 2000, the District received \$20,000 from the Petaluma High School Booster Club. The District renegotiated the agreements during the year ended June 30, 1998, allowing the Casa Grande High School Booster Club to defer payments for five years. In addition, the District relieved the Petaluma High School Booster Club of \$92,177 of the obligation. The remaining balance owed to the District at June 30, 2000 from the Casa Grande High School Booster Club and the Petaluma High School Booster Club is \$32,219 and \$49,272, respectively.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 17 - DEFICIT FUND BALANCE

The Capital Projects - Special Reserve Fund had a deficit fund balance of \$97,789 at June 30, 2000. The District anticipates the deficit will be eliminated by proceeds from the sale of property.

NOTE 18 - RESTATEMENT OF FUND BALANCES

The July 1, 1999 fund balance of the Building Fund has been restated to correct a prior year understatement of an interfund receivable due from the State School Building Fund.

The July 1, 1999 fund balance of the State School Building Fund has been restated to correct a prior year understatement of an interfund payable due to the Building Fund, and a prior year overstatement of accounts receivable, relating to school facilities apportionments that were improperly recorded in the State School Building Fund, instead of the County School Facilities Fund.

The July 1, 1999 fund balance of the County School Facilities Fund has been restated to correct a prior year understatement of accounts receivable, relating to school facilities apportionments, which were improperly recorded in the State School Building Fund, instead of the County School Facilities Fund.

The effects of the restatements on these financial statements are as follows:

	<u>Building Fund</u>	<u>State School Building Fund</u>	<u>County School Facilities Fund</u>
Fund Balances – July 1, 1999 (as originally stated)	\$ 8,692,793	\$ 2,771,325	\$ 0
Understatement of Due from Other Funds	288,232		
Understatement of Due to Other Funds		(288,232)	
Overstatement of Accounts Receivable		(1,653,908)	
Understatement of Accounts Receivable			<u>1,653,908</u>
Total Restatements	<u>288,232</u>	<u>(1,942,140)</u>	<u>1,653,908</u>
Fund Balances – July 1, 1999 (as restated)	<u>\$ 8,981,025</u>	<u>\$ 829,185</u>	<u>\$ 1,653,908</u>

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 19 - SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes (TRANS)

On July 6, 2000 the District issued tax and revenue anticipation notes (TRANS) for \$2,750,000. The notes mature on July 5, 2001 and bear interest at 4.3%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

B. Supplemental Employee Retirement Plan (SERP)

The District granted a one-time payment to eligible employees who retired effective July 1, 2000. Eligible employees must be at least 55 years of age and have provided 10 years of service to the District at the time of retirement. At July 1, 2000, twenty-four (24) employees qualified for a one-time SERP payment of \$22,000, for a total expense of \$528,000.

C. Capital Leases

Subsequent to June 30, 2000, the District entered into five new capital lease agreements for the purchase of three school buses, one truck, and one van. The agreements provides for title to pass upon expiration of the lease periods. Future minimum lease payments under these agreements are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Lease</u> <u>Payments</u>
2001	\$ 80,309
2002	80,309
2003	66,698
2004	38,432
2005	<u>24,671</u>
Total Payments	290,419
Less Amounts Representing Interest	<u>(25,307)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 265,112</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for any items purchased under these agreements.

COMBINING STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 SPECIAL REVENUE FUNDS
 JUNE 30, 2000

	Deferred Maintenance	Cafeteria	Adult Education	Totals
ASSETS				
Cash in County Treasury	\$ 138,305		\$ 402,713	\$ 541,018
Cash in Banks		\$ 5,785		5,785
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		51,943	62,092	114,035
State Government	197,054	3,469	3,159	203,682
Local Government			37,745	37,745
Interest		1,262		1,262
Miscellaneous		22,610	1,472	24,082
Due from Other Funds		18,412	35,434	53,846
Stores Inventory		28,910		28,910
Total Assets	\$ 335,359	\$ 132,391	\$ 542,915	\$1,010,665
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 5,270	\$ 11,450	\$ 102,897	\$ 119,617
Due to Other Funds	9,052	101,404	114,983	225,439
Deferred Revenue			111,496	111,496
Total Liabilities	14,322	112,854	329,376	456,552
Fund Balances:				
Reserved		28,910	300	29,210
Unreserved				
Undesignated (Deficit)	321,037	(9,373)	213,239	524,903
Total Fund Balances	321,037	19,537	213,539	554,113
Total Liabilities and Fund Balances	\$ 335,359	\$ 132,391	\$ 542,915	\$1,010,665

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	Deferred Maintenance	Cafeteria	Adult Education	Totals
REVENUES				
Revenue Limit Sources:				
State Apportionment			\$ 994,608	\$ 994,608
Local Sources			35,434	35,434
Federal Sources:				
Child Nutrition Program		\$ 330,724		330,724
Other			88,878	88,878
Other State Sources:				
State Nutrition Program		36,284		36,284
Other	\$ 222,961		29,302	252,263
Local Sources:				
Food Service Sales		1,241,180		1,241,180
Interest	9,615	3,539	24,503	37,657
Other			50,259	50,259
Total Revenues	232,576	1,611,727	1,222,984	3,067,287
EXPENDITURES				
Certificated Salaries			659,600	659,600
Classified Salaries	66,024	619,892	140,276	826,192
Employee Benefits	25,216	189,597	184,431	399,244
Books and Supplies		728,431	50,050	778,481
Services and Other				
Operating Expenditures	304,813	17,320	186,915	509,048
Capital Outlay		58,478	75,987	134,465
Debt Service:				
Principal Retirement		5,969	3,537	9,506
Interest and Fiscal Charges		1,182	1,388	2,570
Total Expenditures	396,053	1,620,869	1,302,184	3,319,106
Excess of Revenues (Under) Expenditures	(163,477)	(9,142)	(79,200)	(251,819)
Other Financing Sources (Uses):				
Operating Transfers In	225,000			225,000
Operating Transfers Out			(68,921)	(68,921)
Other Sources		35,087		35,087
Total Other Financing Sources (Uses)	225,000	35,087	(68,921)	191,166
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	61,523	25,945	(148,121)	(60,653)
Fund Balances (Deficit) - June 30, 1999	259,514	(6,408)	361,660	614,766
Fund Balances - June 30, 2000	\$ 321,037	\$ 19,537	\$ 213,539	\$ 554,113

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>DEFERRED MAINTENANCE</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 222,961	\$ 222,961	
Local Sources:			
Interest	9,615	9,615	
Total Revenues	<u>232,576</u>	<u>232,576</u>	
<u>EXPENDITURES</u>			
Classified Salaries	66,024	66,024	
Employee Benefits	25,218	25,216	\$ 2
Services and Other Operating Expenditures	504,205	304,813	199,392
Total Expenditures	<u>595,447</u>	<u>396,053</u>	<u>199,394</u>
Excess of Revenues (Under) Expenditures	(362,871)	(163,477)	199,394
Other Financing Sources:			
Operating Transfers In	225,000	225,000	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	<u>\$ (137,871)</u>	61,523	<u>\$ 199,394</u>
Fund Balance - July 1, 1999		<u>259,514</u>	
Fund Balance - June 30, 2000		<u>\$ 321,037</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>CAFETERIA</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>REVENUES</u>			
Federal Sources:			
Child Nutrition Program	\$ 330,725	\$ 330,724	\$ (1)
Other State Sources:			
State Nutrition Program	36,285	36,284	(1)
Local Sources:			
Food Service Sales	1,246,276	1,241,180	(5,096)
Interest	3,540	3,539	(1)
Total Revenues	<u>1,616,826</u>	<u>1,611,727</u>	<u>(5,099)</u>
<u>EXPENDITURES</u>			
Classified Salaries	619,892	619,892	
Employee Benefits	189,599	189,597	2
Food and Supplies	731,687	728,431	3,256
Services and Other			
Operating Expenditures	17,322	17,320	2
Capital Outlay	58,979	58,478	501
Debt Service:			
Principal Retirement	5,969	5,969	
Interest and Fiscal Charges	1,182	1,182	
Total Expenditures	<u>1,624,630</u>	<u>1,620,869</u>	<u>3,761</u>
Excess of Revenues (Under) Expenditures	(7,804)	(9,142)	(1,338)
Other Financing Sources:			
Other Sources	<u>35,087</u>	<u>35,087</u>	
Excess of Revenues and Other Financing Sources Over Expenditures	<u>\$ 27,283</u>	25,945	<u>\$ (1,338)</u>
Fund (Deficit) - July 1, 1999		<u>(6,408)</u>	
Fund Balance - June 30, 2000		<u>\$ 19,537</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionment	\$ 995,250	\$ 994,608	\$ (642)
Local Sources	35,434	35,434	
Federal Sources:			
Other	98,625	88,878	(9,747)
Other State Sources:			
Other	140,798	29,302	(111,496)
Local Sources:			
Interest	24,503	24,503	
Other	50,260	50,259	(1)
Total Revenues	<u>1,344,870</u>	<u>1,222,984</u>	<u>(121,886)</u>
EXPENDITURES			
Certificated Salaries	673,077	659,600	13,477
Classified Salaries	176,390	140,276	36,114
Employee Benefits	189,335	184,431	4,904
Books and Supplies	70,361	50,050	20,311
Services and Other			
Operating Expenditures	226,873	186,915	39,958
Capital Outlay	85,984	75,987	9,997
Debt Service:			
Principal Retirement	3,537	3,537	
Interest and Fiscal Charges	1,388	1,388	
Total Expenditures	<u>1,426,945</u>	<u>1,302,184</u>	<u>124,761</u>
Excess of Revenues (Under) Expenditures	(82,075)	(79,200)	2,875
Other Financing (Uses):			
Operating Transfers Out	(69,350)	(68,921)	429
Excess of Revenues (Under) Expenditures and Other Uses	<u>\$ (151,425)</u>	(148,121)	<u>\$ 3,304</u>
Fund Balance - July 1, 1999		<u>361,660</u>	
Fund Balance - June 30, 2000		<u>\$ 213,539</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionment	\$ 995,250	\$ 994,608	\$ (642)
Local Sources	35,434	35,434	
Federal Sources:			
Child Nutrition Program	330,725	330,724	(1)
Other	98,625	88,878	(9,747)
Other State Sources:			
State Nutrition Program	36,285	36,284	(1)
Other	363,759	252,263	(111,496)
Local Sources:			
Food Service Sales	1,246,276	1,241,180	(5,096)
Interest	37,658	37,657	(1)
Other	50,260	50,259	(1)
Total Revenues	<u>3,194,272</u>	<u>3,067,287</u>	<u>(126,985)</u>
EXPENDITURES			
Certificated Salaries	673,077	659,600	13,477
Classified Salaries	862,306	826,192	36,114
Employee Benefits	404,152	399,244	4,908
Books and Supplies	802,048	778,481	23,567
Services and Other			
Operating Expenditures	748,400	509,048	239,352
Capital Outlay	144,963	134,465	10,498
Debt Service:			
Principal Retirement	9,506	9,506	
Interest and Fiscal Charges	2,570	2,570	
Total Expenditures	<u>3,647,022</u>	<u>3,319,106</u>	<u>327,916</u>
Excess of Revenues (Under) Expenditures	<u>(452,750)</u>	<u>(251,819)</u>	<u>200,931</u>
Other Financing Sources (Uses):			
Operating Transfers In	225,000	225,000	
Operating Transfers Out	(69,350)	(68,921)	429
Other Sources	35,087	35,087	
Total Other Financing Sources (Uses)	<u>190,737</u>	<u>191,166</u>	<u>429</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Uses	<u>\$ (262,013)</u>	<u>(60,653)</u>	<u>\$ 201,360</u>
Fund Balances - July 1, 1999		<u>614,766</u>	
Fund Balances - June 30, 2000		<u>\$ 554,113</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2000

	Capital Facilities	State School Building
<u>ASSETS</u>		
Cash in County Treasury	\$ 2,499,841	\$ 736,961
Accounts Receivable		
Miscellaneous	141,463	
Due from Other Funds	130,001	
Prepaid Expenses		
	<u>2,771,305</u>	<u>736,961</u>
Total Assets	<u>\$ 2,771,305</u>	<u>\$ 736,961</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts Payable	\$ 362,205	\$ 68,597
Due to Other Funds	16,088	403,995
	<u>378,293</u>	<u>472,592</u>
Total Liabilities	<u>378,293</u>	<u>472,592</u>
Fund Balances:		
Reserved		
Unreserved		
Undesignated (Deficit)	<u>2,393,012</u>	<u>264,369</u>
Total Fund Balances (Deficit - Note 17)	<u>2,393,012</u>	<u>264,369</u>
Total Liabilities and Fund Balances	<u>\$ 2,771,305</u>	<u>\$ 736,961</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>Special Reserve</u>	<u>County School Facilities</u>	<u>Totals</u>
\$ 14,272,145	\$ 8,465	\$ 1,061,027	\$ 18,578,439
1,569	800		143,832
404,054			534,055
15,931			15,931
<u>\$ 14,693,699</u>	<u>\$ 9,265</u>	<u>\$ 1,061,027</u>	<u>\$ 19,272,257</u>
\$ 352,869	\$ 1,533	\$ 739,995	\$ 1,525,199
21,223	105,521		546,827
<u>374,092</u>	<u>107,054</u>	<u>739,995</u>	<u>2,072,026</u>
15,931			15,931
<u>14,303,676</u>	<u>(97,789)</u>	<u>321,032</u>	<u>17,184,300</u>
<u>14,319,607</u>	<u>(97,789)</u>	<u>321,032</u>	<u>17,200,231</u>
<u>\$ 14,693,699</u>	<u>\$ 9,265</u>	<u>\$ 1,061,027</u>	<u>\$ 19,272,257</u>

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>Capital Facilities</u>	<u>State School Building</u>
REVENUES		
Local Sources:		
Developer Fees	\$ 1,561,672	
Interest	111,961	\$ 55,875
Other		
Total Revenues	<u>1,673,633</u>	<u>55,875</u>
EXPENDITURES		
Classified Salaries	9,409	
Employee Benefits	3,065	
Books and Supplies		
Services and Other		
Operating Expenditures	51,901	124
Capital Outlay	423,363	984,001
Debt Service:		
Principal Retirement	215,473	
Interest and Fiscal Charges	42,823	
Total Expenditures	<u>746,034</u>	<u>984,125</u>
Excess of Revenues Over (Under) Expenditures	<u>927,599</u>	<u>(928,250)</u>
Other Financing Sources (Uses):		
Operating Transfers In		360,934
Operating Transfers Out		
Other Sources	24,699	2,500
Total Other Financing Sources (Uses)	<u>24,699</u>	<u>363,434</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	952,298	(564,816)
Fund Balances - July 1, 1999 (As restated - Note 18)	<u>1,440,714</u>	<u>829,185</u>
Fund Balances - June 30, 2000 (Deficit - Note 17)	<u>\$ 2,393,012</u>	<u>\$ 264,369</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>Special Reserve</u>	<u>County School Facilities</u>	<u>Totals</u>
			\$ 1,561,672
\$ 328,730	\$ 1,944	\$ 33,804	532,314
	9,600		9,600
<u>328,730</u>	<u>11,544</u>	<u>33,804</u>	<u>2,103,586</u>
124,431			133,840
41,741			44,806
2,093			2,093
467,021	5,522	88	524,656
4,320,100	354,083	2,172,655	8,254,202
36,500	61,791		313,764
8,084	117,900		168,807
<u>4,999,970</u>	<u>539,296</u>	<u>2,172,743</u>	<u>9,442,168</u>
<u>(4,671,240)</u>	<u>(527,752)</u>	<u>(2,138,939)</u>	<u>(7,338,582)</u>
	199,256	1,163,563	1,723,753
(1,393,218)		(360,000)	(1,753,218)
<u>11,403,040</u>	<u>160,636</u>	<u>2,500</u>	<u>11,593,375</u>
<u>10,009,822</u>	<u>359,892</u>	<u>806,063</u>	<u>11,563,910</u>
5,338,582	(167,860)	(1,332,876)	4,225,328
<u>8,981,025</u>	<u>70,071</u>	<u>1,653,908</u>	<u>12,974,903</u>
<u>\$ 14,319,607</u>	<u>\$ (97,789)</u>	<u>\$ 321,032</u>	<u>\$ 17,200,231</u>

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Developer Fees	\$ 1,561,673	\$ 1,561,672	\$ (1)
Interest	111,961	111,961	
Total Revenues	<u>1,673,634</u>	<u>1,673,633</u>	<u>(1)</u>
<u>EXPENDITURES</u>			
Classified Salaries	9,411	9,409	2
Employee Benefits	3,070	3,065	5
Services and Other			
Operating Expenditures	53,642	51,901	1,741
Capital Outlay	666,132	423,363	242,769
Debt Service:			
Principal Retirement	215,473	215,473	
Interest and Fiscal Charges	59,054	42,823	16,231
Total Expenditures	<u>1,006,782</u>	<u>746,034</u>	<u>260,748</u>
Excess of Revenues Over Expenditures	666,852	927,599	260,747
Other Financing Sources:			
Other Sources	<u>24,699</u>	<u>24,699</u>	
Excess of Revenues and Other Financing Sources Over Expenditures	<u>\$ 691,551</u>	952,298	<u>\$ 260,747</u>
Fund Balance - July 1, 1999		<u>1,440,714</u>	
Fund Balance - June 30, 2000		<u>\$ 2,393,012</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	STATE SCHOOL BUILDING		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 55,875	\$ 55,875	
<u>EXPENDITURES</u>			
Services and Other			
Operating Expenditures	124	124	
Capital Outlay	1,100,695	984,001	\$ 116,694
Total Expenditures	1,100,819	984,125	116,694
Excess of Revenues (Under) Expenditures	(1,044,944)	(928,250)	116,694
Other Financing Sources:			
Operating Transfers In	360,934	360,934	
Other Sources	2,500	2,500	
Total Other Financing Sources	363,434	363,434	0
Excess of Revenues and Other Financing Sources (Under) Expenditures	\$ (681,510)	(564,816)	\$ 116,694
Fund Balance - July 1, 1999 (As restated - Note 18)		829,185	
Fund Balance - June 30, 2000		\$ 264,369	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	BUILDING		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Local Sources:			
Interest	\$ 328,730	\$ 328,730	
EXPENDITURES			
Classified Salaries	154,123	124,431	\$ 29,692
Employee Benefits	53,325	41,741	11,584
Books and Supplies	3,313	2,093	1,220
Services and Other			
Operating Expenditures	451,272	467,021	(15,749)
Capital Outlay	5,655,310	4,320,100	1,335,210
Debt Service:			
Principal Retirement	36,500	36,500	
Interest and Fiscal Charges	8,084	8,084	
Total Expenditures	6,361,927	4,999,970	1,361,957
Excess of Revenues (Under) Expenditures	(6,033,197)	(4,671,240)	1,361,957
Other Financing Sources (Uses):			
Operating Transfers Out	(1,393,218)	(1,393,218)	
Other Sources	11,403,040	11,403,040	
Total Other Financing Sources (Uses)	10,009,822	10,009,822	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>\$ 3,976,625</u>	5,338,582	<u>\$ 1,361,957</u>
Fund Balance - July 1, 1999 (As restated - Note 18)		<u>8,981,025</u>	
Fund Balance - June 30, 2000		<u><u>\$ 14,319,607</u></u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	SPECIAL RESERVE		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local Sources:			
Interest	\$ 1,945	\$ 1,944	\$ (1)
Other	9,600	9,600	
Total Revenues	11,545	11,544	(1)
EXPENDITURES			
Services and Other			
Operating Expenditures	6,164	5,522	642
Capital Outlay	397,805	354,083	43,722
Debt Service:			
Principal Retirement	61,791	61,791	
Interest and Fiscal Charges	117,909	117,900	9
Total Expenditures	583,669	539,296	44,373
Excess of Revenues (Under) Expenditures	(572,124)	(527,752)	44,372
Other Financing Sources:			
Operating Transfers In	209,000	199,256	(9,744)
Other Sources	458,675	160,636	(298,039)
Total Other Financing Sources	667,675	359,892	(307,783)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	\$ 95,551	(167,860)	\$ (263,411)
Fund Balance - July 1, 1999		70,071	
Fund (Deficit) - June 30, 2000 (Note 17)		\$ (97,789)	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>COUNTY SCHOOL FACILITIES</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 33,804	\$ 33,804	
<u>EXPENDITURES</u>			
Services and Other			
Operating Expenditures	20,000	88	\$ 19,912
Capital Outlay	2,469,228	2,172,655	296,573
Total Expenditures	<u>2,489,228</u>	<u>2,172,743</u>	<u>316,485</u>
Excess of Revenues (Under) Expenditures	<u>(2,455,424)</u>	<u>(2,138,939)</u>	<u>316,485</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,163,563	1,163,563	
Operating Transfers Out	(360,000)	(360,000)	
Other Sources	1,919,104	2,500	(1,916,604)
Total Other Financing Sources (Uses)	<u>2,722,667</u>	<u>806,063</u>	<u>(1,916,604)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ 267,243</u>	(1,332,876)	<u>\$ (1,600,119)</u>
Fund Balance - July 1, 1999 (As restated - Note 18)		<u>1,653,908</u>	
Fund Balance - June 30, 2000		<u>\$ 321,032</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>TOTAL CAPITAL PROJECTS FUNDS</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Developer Fees	\$ 1,561,673	\$ 1,561,672	\$ (1)
Interest	532,315	532,314	(1)
Other	9,600	9,600	
Total Revenues	<u>2,103,588</u>	<u>2,103,586</u>	<u>(2)</u>
<u>EXPENDITURES</u>			
Classified Salaries	163,534	133,840	29,694
Employee Benefits	56,395	44,806	11,589
Books and Supplies	3,313	2,093	1,220
Services and Other			
Operating Expenditures	531,202	524,656	6,546
Capital Outlay	10,289,170	8,254,202	2,034,968
Debt Service:			
Principal Retirement	313,764	313,764	
Interest and Fiscal Charges	185,047	168,807	16,240
Total Expenditures	<u>11,542,425</u>	<u>9,442,168</u>	<u>2,100,257</u>
Excess of Revenues (Under) Expenditures	<u>(9,438,837)</u>	<u>(7,338,582)</u>	<u>2,100,255</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,733,497	1,723,753	(9,744)
Operating Transfers Out	(1,753,218)	(1,753,218)	
Other Sources	13,808,018	11,593,375	(2,214,643)
Total Other Financing Sources (Uses)	<u>13,788,297</u>	<u>11,563,910</u>	<u>(2,224,387)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>\$ 4,349,460</u>	4,225,328	<u>\$ (124,132)</u>
Fund Balances - July 1, 1999		<u>12,974,903</u>	
Fund Balances - June 30, 2000		<u>\$ 17,200,231</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 TRUST AND AGENCY FUNDS
 JUNE 30, 2000

	<u>Expendable Trusts</u>			<u>Agency Funds</u>	<u>Total Trust and Agency Funds</u>
	<u>Schwobeda Memorial Trust Fund</u>	<u>At Risk Youth Trust Fund</u>	<u>Total Trust Funds</u>		
<u>Assets</u>					
Cash in County Treasury	\$ 2,433		\$ 2,433		\$ 2,433
Cash on Hand and in Bank	6,700	\$ 6,174	12,874	\$ 549,960	562,834
Investments	<u>101,212</u>		<u>101,212</u>		<u>101,212</u>
Total Assets	<u>\$ 110,345</u>	<u>\$ 6,174</u>	<u>\$ 116,519</u>	<u>\$ 549,960</u>	<u>\$ 666,479</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Due to Student Groups				\$ 549,960	\$ 549,960
Fund Balances:					
Reserved for Expendable Trusts	<u>\$ 110,345</u>	<u>\$ 6,174</u>	<u>\$ 116,519</u>		<u>116,519</u>
Total Liabilities and Fund Balances	<u>\$ 110,345</u>	<u>\$ 6,174</u>	<u>\$ 116,519</u>	<u>\$ 549,960</u>	<u>\$ 666,479</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS - STUDENT BODY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>Balances</u> July 1, 1999*	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> June 30, 2000
<u>ASSETS</u>				
Cash:				
Petaluma High	\$ 217,207	\$ 642,411	\$ 573,790	\$ 285,828
San Antonio High	1,759	2,673	4,106	326
Casa Grande High	169,556	555,898	544,986	180,468
Sonoma Mountain High	667	659	1,277	49
Carpe Diem High	255	3,017	3,104	168
Kenilworth Junior High	35,491	158,372	148,629	45,234
Petaluma Junior High	22,062	141,968	129,250	34,780
Penngrove Elementary	2,100	1,391	3,491	0
McNear Elementary	353	1,057	573	837
McDowell Elementary	2,133	7,212	7,075	2,270
McKinley Elementary	6,961	30,235	37,196	0
Mary Collins Elementary	1,680	25	1,705	0
Total Assets	<u>\$ 460,224</u>	<u>\$ 1,544,918</u>	<u>\$ 1,455,182</u>	<u>\$ 549,960</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 460,224</u>	<u>\$ 1,544,918</u>	<u>\$ 1,455,182</u>	<u>\$ 549,960</u>

* Student body account balances were not presented in the 1998-99 audit report. In addition, student body accounts at Grant Elementary and Valley Vista Elementary are not reported for fiscal year 1999-00 (see finding 00 - 7 / 30000).

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Blank Page

SUPPLEMENTARY INFORMATION SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the fiscal year ended June 30, 2000 and have issued our report thereon dated October 12, 2000. These financial statements are the responsibility of the District's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial and statistical information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Petaluma City Schools. The accompanying schedule of expenditures of federal awards is presented for purposes of analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States and Local Governments and Nonprofit Organizations, and is not a required part of the financial statements of Petaluma City Schools. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 12, 2000

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD/ADMINISTRATION

JUNE 30, 2000

ORGANIZATION

Petaluma City Schools, a political subdivision of the State of California, was established in 1857. The territory covered by the District includes Petaluma City Elementary School District and the Petaluma Joint Union High School District. There were no changes in the boundaries of the District during the current year.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Camille Sauvé	President	December, 2000
Elizabeth Marquardt	Clerk	December, 2000
Lou Steinberg	Member	December, 2002
Christina Kauk	Member	December, 2002
Carolyn Tennyson	Member	December, 2002

ADMINISTRATION

Dr. Carl Wong
Superintendent

Steve Bolman
Assistant Superintendent, Business

Dr. D. Kim Jamieson
Deputy Superintendent, Human Services

Dr. Stephen Collins
Assistant Superintendent, Instruction

PETALUMA CITY SCHOOLS
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	291	292
First through Third	1,006	1,006
Fourth through Sixth	1,041	1,041
Special Education	45	45
Home or Hospital	2	3
Extended Year	<u>1</u>	<u>1</u>
Subtotal	<u>2,386</u>	<u>2,388</u>
<u>Secondary</u>		
Seventh and Eighth	1,651	1,645
Ninth through Twelfth	3,034	3,001
Continuation Education	149	150
Opportunity School	32	33
Home or Hospital	23	24
Special Education	32	31
Extended Year	<u>2</u>	<u>2</u>
Subtotal	<u>4,923</u>	<u>4,886</u>
<u>Classes for Adults</u>		
Concurrently Enrolled		1
Not Concurrently Enrolled	<u>454</u>	<u>485</u>
Totals	<u>7,763</u>	<u>7,760</u>

	<u>Hours of Attendance</u>
<u>Summer School</u>	
<u>Elementary</u>	
Core	18,578
Optional Programs for Pupils Recommended for/at Risk of Retention	
Grades 2 through 6	9,146
<u>Secondary</u>	
Core	43,939
Remedial	8,240
Optional Programs for Pupils Recommended for/at Risk of Retention	
Grades 7 through 9	22,634

PETALUMA CITY SCHOOLS
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

<u>Grade Level</u>	<u>1986-87 Minutes Required</u>	<u>1982-83 Actual Minutes</u>	<u>1999-00 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 through 3	50,400	42,000	50,695	In Compliance
Grades 4 through 6	54,000	49,875	54,040	In Compliance
Grades 7 through 8	54,000	49,875	54,665	In Compliance
Grades 9 through 12	64,800	56,525	65,429	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
US Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	03524	\$ 269,062
Basic School Breakfast	10.553	03525	50,887
Especially Needy Breakfast	10.553	03526	10,775
US Department of Education:			
Passed through CDE:			
IASA - Title I	84.010	03797	216,283
IASA - Title VI	84.298	03340	28,812
Special Education (PL 101-476)	84.027	03379	461,543
Special Education - Workability	84.027A	03705	41,542
Professional Development	84.027	03613	1,033
Homeless Children Education	84.196	03699	26,195
Class Size Reduction	84.340	03073	65,064
Eisenhower	84.168	03207	18,334
Drug Free Schools	84.186	03453	31,226
Vocational Education Act - Carl Perkins	84.048	03577	32,972
Goals 2000	84.276	03264	48,225
Emergency Immigrant Education	84.162	03159	14,252
School To Career	84.048	10009	83,024
Adult Education and Family Literacy	84.002A	03974	12,000
US Department of Labor:			
Passed through CDE:			
Job Training Partnership Act	17.250	03422	76,878
Subtotal			1,488,107
Nonmonetary Assistance			
USDA Food Distribution	10.550		33,957
Total			<u>\$1,522,064</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (J-200) WITH
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>State School Building Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund</u>	<u>Scholarship Fund</u>
June 30, 2000 Annual Financial and Budget Report (Form J-200) Fund Balances	<u>\$ 271,681</u>	<u>\$ 14,351,282</u>	<u>\$ 20,250</u>	<u>\$ 108,914</u>
Adjustments and Reclassifications: Increasing / (Decreasing) Fund Balances:				
Overstatement of Cash with Fiscal Agent			(118,039)	
Understatement of Contract Service Expenditures		(15,750)		
Understatement of Capital Outlay Expenditures	(7,312)	(15,925)		
Understatement of Interest Revenue				1,431
Net Adjustments and Reclassifications	<u>(7,312)</u>	<u>(31,675)</u>	<u>(118,039)</u>	<u>1,431</u>
June 30, 2000 Audited Financial Statements Fund Balances (Deficit)	<u>\$ 264,369</u>	<u>\$ 14,319,607</u>	<u>\$ (97,789)</u>	<u>\$ 110,345</u>

General Long-Term
Debt Account Group

June 30, 2000 Annual Financial and Budget Report (Form J-200) Total Liabilities	<u>\$ 56,597,100</u>
Adjustments and Reclassifications: Increasing Total Liabilities:	
Understatement of Compensated Absences	46,284
Understatement of General Obligation Bonds	9,678,797
Understatement of Capital Leases	116,974
Understatement of Retiree Benefits	<u>111,540</u>
Net Adjustments and Reclassifications	<u>9,953,595</u>
June 30, 2000 Audited Financial Statement, General Long-Term Debt Total Liabilities	<u>\$ 66,550,695</u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report (J-200) for the year ended June 30, 2000.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	GENERAL FUND			
	(Budget) 2000-01	1999-00	1998-99	1997-98
Revenues and Other Financial Sources	\$ 49,497,298	\$ 45,442,224	\$ 41,836,526	\$ 39,498,535
Expenditures	49,033,992	44,064,666	40,505,191	38,361,621
Other Uses and Transfers Out	417,292	199,256	260,784	632,674
Total Outgo	49,451,284	44,263,922	40,765,975	38,994,295
Change in Fund Balance	46,014	1,178,302	1,070,551	504,240
Ending Fund Balance	\$ 4,214,589	\$ 4,168,575	\$ 2,990,273	\$ 1,919,722
Available Reserves	\$ 4,102,839	\$ 2,459,951	\$ 1,919,058	\$ 1,671,035
Designated for Economic Uncertainties	\$ 1,440,000	\$ 1,357,366	\$ 1,255,796	\$ 1,169,800
Undesignated Fund Balance	\$ 2,662,839	\$ 1,102,585	\$ 663,262	\$ 501,235
Available Reserves as a Percentage of Total Outgo	8.3%	5.6%	4.7%	4.3%
Total Long-Term Debt	\$ 64,204,181	\$ 66,550,695	\$ 56,597,100	\$ 49,201,537
Average Daily Attendance at P-2 (Exclusive of Adult ADA)	7,407	7,309	7,219	7,314

The fund balance of the General Fund has increased \$2,248,853 (117%) over the past two years. The fiscal year 2000-01 budget projects an increase of \$46,014. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District General Fund has produced operating surpluses in each of the past three years.

Long-term debt has increased \$17,349,158 over the past two years, due primarily to the issuance of general obligation bonds in the amount of \$11,400,000 during fiscal year 1999-00.

Average daily attendance has decreased by 5 ADA over the past two years. The fiscal year 2000-01 budget projects an increase of 98 ADA.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

NOTE 1 - PURPOSE OF 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

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and state requirements, this schedule was prepared for the District.

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

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 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.

INDEPENDENT AUDITOR REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools, as of and for the year ended June 30, 2000, and have issued our report thereon dated October 12, 2000. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Except as discussed in the preceding sentence, our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. 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 in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	4	Yes
Staff Development Days	3	Yes
Kindergarten Enrollment	4	Yes
Independent Study	13	Yes
Continuation Education	13	Yes
Adult Education	8	Yes
Regional Occupational Centers/Programs	5	Not Applicable
County Office of Education Programs	9	Not Applicable

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentive for longer instructional day: School Districts	3	Yes
County Offices of Education	3	Not Applicable
GANN Limit Calculation	2	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	Not Applicable
Class Size Reduction Program:		
Option One Classes	12	Yes
Option Two Classes	11	Not Applicable
Option One and Two Classes	17	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Materials Fund	8	Yes
Schiff-Bustamante Standards Based Instructional Materials	4	Yes
Digital High School Education Technology Grant Program	5	Yes

Based on our audit, we found that, for the items tested, Petaluma City Schools complied with the state laws and regulations of the state programs referred to above, except as described in the Findings and Recommendation Section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Petaluma City Schools had not complied with the state laws and regulations.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
 Certified Public Accountants

October 12, 2000

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

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

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the year ended June 30, 2000, and have issued our report thereon dated October 12, 2000. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Findings and Recommendations Section of this report.

Internal Control over Financial Reporting (Concluded)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the District Board, management, the California Department of Education, the State Controllers Office and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 12, 2000

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Petaluma City Schools
Petaluma, California

Compliance

We have audited the compliance of Petaluma City Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Petaluma City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides reasonable basis for our opinion. Our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

In our opinion, Petaluma City Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying Findings and Recommendations Section of this report.

Internal Control Over Compliance

The management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the District Board, management, the California Department of Education, the State Controllers Office and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 12, 2000

FINDINGS AND RECOMMENDATIONS SECTION

PETALUMA CITY SCHOOLS
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 JUNE 30, 2000

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? X Yes _____ None reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a) X Yes _____ No

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
84.027	Special Education
10.555/10.553	National School Lunch Cluster

Dollar threshold used to distinguish between Type A
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

State Awards

Internal control over state programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? X Yes _____ None reported

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

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL

00 - 1 / 30000

CAFETERIA CASH RECEIPTS

- Criteria:** In order to maintain appropriate internal controls over cafeteria cash receipts, duties should be segregated to ensure that individuals who counts cafeteria cash receipts, do not have access to the accounting records that support the amount of cash that should have been collected.
- Condition:** The cafeteria cash receipts clerk counts all cash received from the elementary sites, and maintains the completed meal rosters and daily sales reports, that support the amount of cash collected. In addition, the meal rosters and daily sales reports are completed in pencil and are not signed by the preparer.
- Questioned Cost:** None.
- Context:** This condition was present for all cash collected from the cafeterias at the elementary sites.
- Effect:** Internal control procedures are not adequate to prevent or detect potential irregularities that may be caused by the absence of an appropriate segregation of duties.
- Cause:** Due to limited staffing, the District has been unable to provide an appropriate segregation of duties.
- Recommendation:** Meal rosters and daily sales reports should be completed in ink, and be signed by the individuals at the sites who prepared them. In addition, meal production records should be reconciled to the number of meals reported on the monthly meal reimbursement claims, to identify potential errors or irregularities in a timely manner.
- District Response:** Cafeteria personnel will be instructed to complete and sign forms in ink to prevent inappropriate changes from being made to source documents. Reconciliations will be performed to identify potential errors and irregularities.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 2 / 30000

ALA CARTE SALES

Criteria: In order to maintain appropriate internal controls over ala carte sales, cash receipt procedures should include a reconciliation of items sold to the amount of cash receipts collected.

Condition: Cash receipts from ala carte sales are not formally reconciled to the quantity of ala carte items sold. In addition, daily production records are completed in pencil and are not signed by the preparer.

Questioned Cost: None.

Context: This condition was present for all cash collected from ala carte sales.

Effect: Internal control procedures are not adequate to ensure the accuracy and completeness of ala carte cash receipts, or to deter potential irregularities from occurring.

Cause: The form currently utilized by the District to identify the quantity of ala carte items sold, does not contain columns that identify the unit price or projected sales dollars for each item. In addition, the District has never been notified of the importance of requiring individuals to complete and sign all cafeteria forms in ink.

Recommendation: The daily production report should be reconfigured to include columns that identify the unit price and projected sales dollars for each item. The daily production record should be completed and signed in ink by the preparer, and the projected sales figure should be reconciled to cash collections. Any significant discrepancies should be investigated in a timely manner.

District Response: Cafeteria forms will be modified to allow for a timely reconciliation of items sold to cash collected, for purposes of identifying potential errors and/or irregularities. Cafeteria personnel will be instructed to complete and sign forms in ink to prevent inappropriate changes from being made to source documents.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 3 / 30000

STUDENT BODY ACCOUNTS

Criteria: Student body bank accounts should be reconciled on a monthly basis. Also, the book balance should be updated on a daily basis to account for all deposits and checks processed.

Condition: A student body account check register had not been updated in more than six months and no bank reconciliations had been performed during that period of time.

Questioned Cost: None.

Context: The condition was present at Petaluma Jr. High.

Effect: Errors or irregularities may occur and not be detected in a timely manner. In addition, the school secretary was unable to provide the register book balance or the balances of any individual club accounts at any given time.

Cause: Student body accounting records were not maintained on a current basis due to staff turnover and the implementation of a new accounting system.

Recommendation: Bank statements should be reconciled to the check register balance on a monthly basis. In addition, each check written and every deposit made should be posted to the manual check register on a daily basis.

District Response: Procedures have been implemented to ensure that reconciliations are performed in a timely manner, and that check registers are maintained on a current basis.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 4 / 30000

STUDENT BODY

Criteria: Payments should be supported by original invoices or receipts.

Condition: Payments were made prior to receiving invoices or receipts.

Questioned Cost: None.

Context: The condition was present in six of twenty-six transactions tested.

Effect: There is no way to determine the propriety of student body expenditures when there is no supporting documentation to support the amount being paid. In addition, the risk of issuing duplicate payments for the same goods or services is increased when payments are issued prior to receiving original invoices or receipts.

Cause: Student body accounting procedures did not prohibit the issuance of checks prior to receiving original invoices or receipts.

Recommendation: Student body accounting procedures should require student body account clerks to obtain original invoices or receipts prior to issuing payments. No payments should be made prior to receiving appropriate supporting documentation.

District Response: The District will remind student body account clerks of the proper procedures to follow when processing student body cash disbursement transactions.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 5 / 30000

STUDENT GOVERNMENT AND FUNDRAISING ACCOUNTS

<u>Criteria:</u>	Student government and fundraising accounts should be reconciled and submitted to the District office on a monthly basis.
<u>Condition:</u>	Reconciled bank statements for student body related accounts are not being submitted to the District office on a monthly basis.
<u>Questioned Cost:</u>	None.
<u>Context:</u>	Bank reconciliations were not submitted to the District office, on a consistent basis, throughout fiscal year 1999-00.
<u>Effect:</u>	Errors or irregularities may occur and not be detected in a timely manner. In addition, complete financial information for the accounts was not available as of June 30, 2000.
<u>Cause:</u>	Due to a lack of available staff, follow-up was not performed by the administration, to ensure that the reconciliations were prepared in an accurate and timely manner.
<u>Recommendation:</u>	Monthly bank reconciliations should be prepared for all checking, savings, and time deposit accounts, maintained at school sites. In addition, copies of the reconciliations should be submitted to the business office for review.
<u>District Response:</u>	The District will remind student body account clerks of the procedures to be followed for submitting reconciled bank statements. The District will perform appropriate follow-up with sites that do not comply on a regular basis. In addition, all student body accounts, which have not been approved by the Board, will be closed during fiscal year 2000-01.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 6 / 30000

STUDENT BODY CASH BALANCES

Criteria: Cash balances maintained in commercial bank accounts should not exceed the maximum balance insured by the Federal Depository Insurance Corporation of \$100,000.

Condition: Cash balances maintained in the Casa Grande and Petaluma High School student body bank accounts exceeded the FDIC insured limit on numerous occasions during fiscal year 1999-00.

Questioned Cost: None.

Context: The high school student body accounts are the only commercial account with balances that exceeded the FDIC insured limit.

Effects: The schools are exposed to unnecessary risks related to maintaining uninsured cash balances in commercial bank accounts.

Cause: The District was unaware that two student body accounts within the District routinely maintain cash balances in excess of the \$100,000 FDIC insured limit.

Recommendation: The District should enter into a collateralization agreement with the bank to safeguard balances, which exceed the \$100,000 FDIC insured limit.

District Response: The District will investigate collateralization agreements with the appropriate financial institutions.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONTINUED)

00 - 7 / 30000

STUDENT BODY ACCOUNTS

- Criteria:** Student body bank accounts should be reconciled on a monthly basis. In addition, annual financial statements that summarize the activity in the account should be prepared at the end of each fiscal year.
- Condition:** Bank statements are not being reconciled on a current basis, and annual financial activity reports are not completed.
- Questioned Cost:** None.
- Context:** This condition was present at Grant Elementary and Valley Vista Elementary.
- Effect:** Errors or irregularities may occur and not be detected in a timely manner. In addition, complete financial information for Grant Elementary and Valley Vista Elementary was not available at the completion of our audit.
- Cause:** Due to the limited staff and resources, follow-up on the student body accounts was not done by the administration, to ensure that the reconciliations and financial activity reports were prepared timely and accurately.
- Recommendation:** Bank statements should be reconciled to the register balance on a monthly basis. In addition, annual financial statements, which summarize the activity of the account, should be prepared at the end of the school year for each separate account, and should be submitted to the District Office.
- District Response:** Student body account clerks will be reminded of the appropriate procedures to follow for reconciling bank statements and preparing annual financial statements. In addition, both of the student body accounts mentioned above, will be closed during fiscal year 2000-01.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

INTERNAL CONTROL (CONCLUDED)

00 - 8 / 30000

VACATION CARRYOVER

Criteria: The District vacation policy allows eligible employees to accumulate and carryover twenty (20) days of unused vacation to the next fiscal year.

Condition: Numerous employees have accrued vacation carryover balances that exceed the amount allowed per the District's vacation carryover policy.

Questioned Cost: None.

Context: As of June 30, 2000, approximately fifty-nine (59) employees had vacation balances that exceeded twenty (20) days.

Effect: The District vacation policy is not being adhered to and the liability for accrued unpaid compensated absences may increase.

Cause: The District has not enforced its vacation carryover policy.

Recommendation: The District should encourage employees to use the excess accumulated vacation time by the end of each fiscal year. The value of any vacation excess not taken by the end of the fiscal year should be paid to the employee(s).

District Response: The District carefully monitors excess annual leave balances, and actively encourages it to be used. In addition, the District is working with supervisors and employees to reduce the excess annual leave balances.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

FEDERAL COMPLIANCE

00 - 9 / 50000

Department of Agriculture
U.S. Department of Education

Passed through California Department of Education

National School Lunch	CFDA	10.555	1999/00
Basic School Breakfast	CFDA	10.553	1999/00
Especially Needy Breakfast	CFDA	10.553	1999/00
Special Education	CFDA	84.027	1999/00

MULTI-FUNDED TIMESHEETS

- Criteria: In Accordance with state and federal regulations, employees funded by more than one source should prepare personal activity reports or use other methods to document the allocation of the employees' salary and benefits. These personnel activity reports should be prepared on a monthly basis unless the District elects to use the approved substitute system beginning July 1, 1998. Under this substitute system, the personnel activity reports are required to be filled out every fourth month (three times per year).
- Condition: Multi-funded timesheets were not prepared by employees whose payroll was allocated and charged to the national school lunch programs or the special education program during fiscal year 1999-00.
- Questioned Cost: The total sample of salaries tested for one month \$1,284 X 12 months = \$15,408 for the national school lunch programs, and \$5,694 X 12 months = \$68,328 for the special education program.
- Context: Multi-funded timesheets were not prepared for federal national school lunch and special education program employees during fiscal year 1999-00.
- Effect: Appropriate documentation has not been maintained to support salaries charged to federal programs. In addition, the costs allocated to national school lunch cluster programs and special education programs may be disallowed due to the lack of adequate documentation.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

FEDERAL COMPLIANCE (CONTINUED)

MULTI-FUNDED TIMESHEETS (CONCLUDED)

- Cause:** The District was under the impression that multi-funded timesheets were not necessary if the Notice of Employment forms, prepared for multi-funded employees, included the national school lunch programs and special education program resource code on it.
- Recommendation:** The District should require all multi-funded employees to submit multi-funded timesheets on a regular basis. In addition, the District Office should monitor this process throughout the year to ensure that it complies with all federal timekeeping regulations.
- District Response:** The District will require all multi-funded employees to submit multi-funded timesheets on a regular basis. In addition, the District Office will monitor this process throughout the year to ensure that it complies with all federal timekeeping regulations.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

FEDERAL COMPLIANCE (CONTINUED)

00 - 10 / 50000

Department of Agriculture
U.S. Department of Education

National School Lunch	CFDA	10.555	1999/00
Basic School Breakfast	CFDA	10.553	1999/00
Especially Needy Breakfast	CFDA	10.553	1999/00
Special Education	CFDA	84.027	1999/00

FEDERAL CERTIFICATIONS

- Criteria: In Accordance with state and federal regulations, if an employee is funded solely (100%) from a single federal categorical program or cost objective, the minimum requirement for documenting salary or wages is a semi-annual certification by the employee that he/she worked solely on that federal categorical or cost objective. The certification must be signed by the employee and the supervisor having first hand knowledge of the work performed.
- Condition: Salaries charged to the national school lunch cluster programs and special education program, during fiscal year 1999-00, were not supported by semi-annual certifications or personnel activity reports.
- Questioned Cost: The total sample of salaries tested for one month \$10,490 X 12 months = \$125,880 for the national school lunch programs, and \$12,567 X 12 months = \$150,804 for the special education program.
- Context: Semi-annual certifications were not prepared for national school lunch program or special education program employees during fiscal year 1999-00.
- Effect: Appropriate documentation has not been maintained to support salaries charged to federal programs. In addition, the costs allocated to national school lunch cluster programs and special education programs may be disallowed due to the lack of adequate documentation.
- Cause: The District was unaware of the requirement for semi-annual certification by employees who are funded solely (100%) from a single federal categorical program.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

FEDERAL COMPLIANCE (CONCLUDED)

FEDERAL CERTIFICATIONS

Recommendation: Semi-annual certifications should be prepared by all employees who are funded solely (100%) from a single federal categorical program. These certifications should be forwarded to the District office as soon as they are complete.

District Response: Semi-annual certifications will be prepared by all employees who are funded solely (100%) from a single federal categorical program. These certifications will be forwarded to the District office as soon as they are complete.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE

00 - 11 / 10000

CONTINUATION SCHOOL

- Criteria:** Continuation school average daily attendance is required to be maintained on an hourly basis whereby student attendance is recorded each hour or portion of an hour that a student is scheduled to attend class.
- Condition:** District attendance records do not adequately reflect that attendance was recorded more than once for students who were present in classes that were held for more than 60 minutes.
- Questioned Cost:** None. Student attendance in excess of three hours per day, generated excess hours that offset the hours disallowed by the non-compliance.
- Context:** This condition was present during one or more periods at Carpe Diem High School and Sonoma Mountain High School.
- Effect:** The District is not in compliance with the California School Attendance Accounting Manual.
- Cause:** The District was not aware of the requirement to separately record each hour or portion of an hour that a student is scheduled to attend for classes held for more than 60 minutes.
- Recommendation:** The District should consider limiting all classes to 60 minutes, or reconfiguring its scantrons and attendance system to properly reflect student attendance in classes held for more than 60 minutes.
- District Response:** The District will configure the continuation school attendance accounting system to accurately reflect positive hourly attendance for classes held for more than 60 minutes.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

00 - 12 / 10000

KINDERGARTEN RETENTION

- Criteria:** Education Code Section 46300(g) allows a district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to section 48011, approved in form and content by the California Department of Education (CDE), and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance.
- Condition:** The District retained one kindergarten student for a second year of kindergarten during fiscal year 1999-00 and did not utilize the pre-approved retention form included in CDE Management Advisory 90-10.
- Questioned Cost:** Average daily attendance was overstated by .98 ADA.
- Context:** There was only one instance of noncompliance due to the fact that only the Spanish version of the kindergarten retention form did not comply with CDE Management Advisory 90-10.
- Effect:** The District incurred costs related to providing education to a kindergarten student, who was not ready for entry into first grade, but does not qualify to receive funding for the student, due to the use of a non-approved retention form.
- Cause:** The District was unaware that the form used to document kindergarten retention did not meet state requirements that are a condition of apportionment.
- Recommendation:** The District should translate the pre-approved retention form, included in CDE Management Advisory 90-10, to Spanish, and instruct all sites to discard all other non-compliant versions. Also, the J-18/19 P-2 report should be amended to exclude the overstated kindergarten ADA of .98.
- District Response:** The District will translate the pre-approved retention form, included in CDE Management Advisory 90-10, to Spanish, and instruct all sites to discard all other non-compliant versions. Having legitimately served this child during fiscal year 1999-00, the District contests the exclusion of the .98 ADA.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

00 - 13 / 10000

INDEPENDENT STUDY

Criteria: Education Code Section 46300(e)(1) requires, for purposes of apportionment, a five consecutive school day minimum for independent study agreements.

Condition: Students were generating independent study apportionment when they were absent from school for less than five consecutive days. For example, the attendance report by student (ATD 02) would show two days of independent study apportionment credit followed by three days of regular apportionment credit when the student returned three days early from a five day independent study contract.

Questioned Cost: Average daily attendance was overstated by .91 ADA.

Context: We reviewed all school sites with short-term independent study during fiscal year 1999-00.

Effect: The District is not in compliance with Education Code 46300(e)(1).

Cause: This District was unaware that school sites were not recording attendance in accordance with Education Code 46300(e)(1).

Recommendation: The District should instruct attendance clerks at school sites on the proper procedures for recording independent study attendance. Also, the J-18/19 P-2 report should be amended to exclude the overstated ADA of .91.

District Response: The District has instructed attendance clerks at school sites on the proper procedure for recording for short-term independent study attendance.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

00 - 14 / 10000

ATTENDANCE – CASA GRANDE HIGH

- Criteria:** Due to the relationship between attendance and state apportionments, each LEA must develop and maintain accurate attendance records to support the attendance reported to the State.
- Condition:** Teachers are not taking attendance in a consistent manner. Students were not marked as absent by some teachers on days when the students were ill or out of school for the entire day.
- Questioned Cost:** None. The attendance clerk routinely investigates the attendance of students who are absent for only a portion of a day, and properly records all periods as being absent, if it is determined that the student was absent for the entire day.
- Context:** The condition was present in two of twenty scantrons tested.
- Effect:** Students out of school for illness or personal reasons could conceivably generate apportionment attendance if the attendance clerk was not checking the classroom attendance recorded by the teachers.
- Cause:** The importance of accurate attendance reporting has not been stressed to District teachers.
- Recommendation:** The District should inform all school staff on the importance of accurate attendance reporting.
- District Response:** The District will remind all individuals, responsible for recording attendance, of the importance of accurate attendance reporting.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

00 - 15 / 10000

ATTENDANCE

- Criteria:
1. Worksheets prepared for summarizing attendance information should be reconciled to the J-18/19 P-2 report, and to the supporting monthly SASI reports, by someone other than the preparer, to ensure the accuracy and completeness of the reported information.
 2. Monthly attendance reports (ATD 03, ATP 53) used in the preparation of the J-18/19 P-2 report should be maintained in an auditable manner.

- Condition:
1. Several errors were noted in the summary worksheet. The attendance apportionment on the summary worksheet did not agree to the monthly attendance reports (ATD 03, ATP 53).
 2. The original monthly attendance summary reports by grade, used for preparing the J-18/19 P-2 attendance report, were not retained by the preparer. The retained monthly attendance summary reports were printed after the J-18/19 P-2 report was prepared, and did not agree to the worksheet used in the preparation of the P-2 report.

Questioned Cost: None. Average daily attendance (ADA) reported on the J-18/19 P-2 attendance report was understated by .42 ADA.

Context: Not applicable.

- Effect:
1. Average daily attendance (ADA) reported on the J-18/19 P-2 report might be understated/overstated and not be detected in a timely manner.
 2. Contemporaneous monthly attendance reports are not maintained as support for the worksheet used in preparing the J-18/19 P-2 report.

- Cause:
1. The attendance clerk did not review the summary report for accuracy and completeness.
 2. Supporting documentation and reports used in preparing the P-2 report were not maintained in an organized auditable manner.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

ATTENDANCE (CONCLUDED)

- Recommendation:**
1. The J-18/19 P-2 report should be reviewed for accuracy, and completeness, by someone other than the preparer, prior to being submitting to the State.
 2. Monthly attendance reports, which support the information reported on the J-18/19 P-2 report, should be maintained in an organized auditable manner.

District Response: The District will have someone, other than the preparer, review and compare detail to the summarized data on the J-18/19 report prior to submission. Monthly attendance reports will be maintained in an organized manner.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONTINUED)

00 - 16 / 10000

**INSTRUCTIONAL TIME AND STAFF DEVELOPMENT
REFORM PROGRAM**

- Criteria:** Instructional Time and Staff Development Reform (ITSDR) provides \$273.81 per day, for up to three days, for each qualifying classroom teacher and \$141.97 per day, for up to one day, for each qualifying classroom instructional aide and certificated teaching assistant who participates in appropriate staff development activities.
- Condition:** Contemporaneous records were not maintained for one staff development day. The sign-in / sign-out sheets maintained for that day were not legible or auditable. As a result, the ITSDR Application for Funding was overstated by 39 classroom teachers, and 15 classroom aides/assistants.
- Questioned Cost:** \$12,808.14 (39 classroom teachers x \$273.81) and (15 classroom aides/assistants x \$141.97).
- Context:** The condition was limited to the Petaluma Joint Union High School District ITSDR Application for Funding.
- Effect:** The District incurred costs to provide staff development training for its employees, but failed to qualify for a portion of available state funding, due to the absence of auditable sign-in / sign-out sheets.
- Cause:** Information reported on the ITSDR Application for Funding was not independently traced to supporting sign-in / sign-out sheets, to ensure accuracy and completeness, prior to submitting to the final claim to the California Department of Education.
- Recommendation:** Information reported on the ITSDR Application for Funding should be independently traced to supporting sign-in / sign-out sheets, to ensure accuracy and completeness, prior to submitting to the final claim to the California Department of Education. In addition, the District should amend the 1999-00 Petaluma Joint Union High School District ITSDR Form, to exclude thirty-nine (39) teacher staff development days and fifteen (15) aide staff development days.
- District Response:** The District has in fact provided the staff development and has paid the respective staff. The District has submitted documentation for review by the State relative to the questioned reimbursement.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2000

STATE COMPLIANCE (CONCLUDED)

00 - 17 / 40000

MORGAN HART CLASS SIZE REDUCTION

- Criteria:** The District is entitled to receive \$165 for each pupil enrolled in eligible 9th grade English, Mathematics, Science, and Social Studies class size reduction classes. To be eligible for funding, the average class enrollment for all classes participating in the program, at each school site, cannot exceed 20 pupils per certificated teacher. In addition, the average class enrollment for each individual class cannot exceed 22 pupils per certificated teacher. For 1999-00, Districts were instructed to calculate class size by calculating the average enrollment count for all instructional days of each school month. They were then instructed to average the monthly enrollment counts and divide by the number of months each class was implemented. In effect, District's were instructed to calculate average daily enrollment for each eligible class.
- Condition:** The District participated in the Morgan Hart Program to reduce class size in grade 9 only during 1999-00. However, the District prepared Form J-9MH-A using the instructions for districts with tenth, eleventh, and twelfth grade programs continued from fiscal year 1997-98 and 1998-99, which required District's to certify average class sizes on October 6, 1999 and March 15, 2000.
- Questioned Cost:** None. The District recalculated the average class sizes for eligible grade 9 classes, using the Morgan Hart Form J-9MH-A instructions, and average enrollment was determined to be equivalent to the Full-Year Equivalent Enrollment (FYEE) claimed on the originally filed J-9MH-A Form.
- Context:** The District complied with all other reporting requirements for completing the Morgan Hart Program Form J-9MH-A.
- Effect:** Full-Year Equivalent Enrollment (FYEE) reported on future Morgan Hart Form J-9MH-A claims may be understated or overstated if the District does not follow the instructions provided.
- Cause:** The District did not follow Form J-9MH-A instructions in calculating FYEE for 1999-00.
- Recommendation:** District should review and understand the instructions for preparing Form J-9MH-A, prior to finalizing and sending the form to the State.
- District Response:** The District will implement procedures for computing FYEEs that will comply with the instructions provided by the California Department of Education.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2000

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>INTERNAL CONTROL</u>		
99 - 1 / 30000		
<u>TRUST AND AGENCY FUNDS</u>		
School sites should provide information regarding account activity to the District on a timely basis and the District should perform a review of all Trust and Agency Accounts to ensure that all transactions are included in the account activity and that cash balances are accurate and reconciled to the bank statements.	Not Implemented	Comment Repeated (See 00 - 5 / 30000)
99 - 2 / 30000		
<u>STUDENT BODY ACCOUNTING</u>		
The District should review controls over the sites accounts and establish policies and procedures for these accounts to ensure information is being documented and recorded accurately and that the District is being provided with timely financial information. Additionally, accounts that are outstanding should be closed and appropriate documentation provided to the District.	Partially Implemented	Comment Repeated (See 00 - 3 / 30000) (See 00 - 5 / 30000)
99 - 3 / 30000		
<u>GENERAL LONG-TERM DEBT</u>		
Form 97 provides a useful summary of activity in the General Long-Term Debt Account Group. The District should maintain schedules for all of its bonds, post-retirement benefits, and other long-term debt.	Implemented	
Capital lease obligations are to be recorded in the funds that will provide the debt servicing as a capital outlay expense with a corresponding financing source for the lease secured in the year it was entered into. A corresponding entry in Long-Term Debt would also be made to indicate the District's obligation under the lease terms.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2000

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>INTERNAL CONTROL (CONCLUDED)</u>		
99 - 4 / 30000		
<u>REVOLVING ACCOUNTS</u>		
The District should establish a policy requiring copies of all monthly bank statements be sent to the District office. The District should review the expenditures for appropriateness and reconcile the actual amounts in the bank to the book balance.	Implemented	
99 - 5 / 30000		
<u>ACCOUNTS PAYABLE</u>		
The District should implement procedures to ensure all purchase orders are received by the business office during year-end close. These purchase orders should be evaluated to determine if accrual of an accounts payable is appropriate.	Implemented	
<u>FEDERAL COMPLIANCE</u>		
99 - 6 / 50000		
<u>FIXED ASSETS INVENTORY</u>		
A physical inventory should be taken of equipment acquired under Federal awards and reconciled to equipment records for the 1999/000 fiscal year and on a bi-annual basis thereafter.	Not Implemented	Comment Not Repeated The District will implement in accordance with GASB 34 as time and resources allow.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2000

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE COMPLIANCE</u>		
99 - 7 / 10000		
<u>ATTENDANCE ACCOUNTING AND REPORTING</u>		
Each school site should implement procedures to review excuse notes and logs and attendance records to ensure apportioned attendance is accurately reflected. For the ADA overstatement, the District should revise their P-2 attendance report or perform additional testing that projects an error of less than 1 ADA.	Implemented	
99 - 8 / 40000		
<u>STATE INSTRUCTIONAL MATERIALS</u>		
Purchases for State instructional materials should be reviewed to determine if they have been properly classified as State adopted, nonadopted, or other nonadopted materials that have passed legal compliance review or are exempt for such review.	Implemented	