

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

AUDIT REPORT

JUNE 30, 2003

PETALUMA CITY SCHOOLS

JUNE 30, 2003

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Petaluma City Schools
200 Douglas Street
Petaluma, CA 94952

We have audited the accompanying financial statements of the governmental activities and each major fund of Petaluma City Schools, as of and for the fiscal year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Petaluma City Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as noted in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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.

In accordance with Education Code Section 33128.1, management has chosen to recognize for General Fund and Adult Education Fund budgetary and financial reporting purposes, state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 revenue that is available for payment of fiscal year 2002-03 expenditures. Contrary to this practice, accounting principles generally accepted in the United States of America prohibit similar revenues from being recognized for budgetary or financial reporting purposes until the funds have been appropriated by the state legislature. The effect of this departure on the financial position and changes in financial position of the General Fund and Adult Education Fund is not reasonably determined.

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 Funds (see Note 15).

In our opinion, except for the effects of recognizing state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 General Fund and Adult Education Fund revenues that are available for payment of fiscal year 2002-03 expenditures, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and Adult Education Fund of Petaluma City Schools, as of June 30, 2003, and the changes in financial position of the General Fund and Adult Education Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for 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 financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, Bond Interest and Redemption Fund, Building Fund, and remaining fund information for Petaluma City Schools, as of June 30, 2003, and the changes in financial position including cash flows of those activities and funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 51 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 1C, Petaluma City Schools has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, on our consideration of Petaluma City Schools' internal control over financial reporting and our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Petaluma City Schools' basic financial statements. The accompanying supplementary information, including the combining statements and individual fund schedules, the schedule of expenditures of federal awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of Petaluma City Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 22, 2003

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 25, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status remains positive. Over the course of the year, total net assets increased by 11.2%.
- Total current year revenues exceeded total current year expenses by \$2,513,720.
- Capital assets, net of depreciation, increased by \$5,386,576, and were primarily financed by school facilities apportionments and bond proceeds.
- Long-term debt increased by \$3,761,614, due primarily to the issuance of general obligation bonds in the amount of \$3,500,000 in August 2002.
- Average daily attendance (ADA), excluding adult ADA, in the District increased by 94 ADA (1.3%) from 7,396 ADA in fiscal year 2001-02 to 7,490 ADA in fiscal year 2002-03.
- This is the first year that capital asset balances have been included in the financial statements of the District as mandated by the Governmental Accounting Standards Board.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2002-03, General Fund expenditures and other financing uses totaled \$54,250,703, exclusive of state on-behalf payments made by the State of California. At June 30, 2003, the District had available reserves of \$3,073,142 in the General Fund, which represents a reserve of 5.7%.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

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

PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

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

Business-type Activities:

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

Reporting the District's Most Significant Funds:

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

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets increased from \$22,527,770 at June 30, 2002 to \$25,041,490 at June 30, 2003, or 11.2%.

<u>Comparative Statement of Net Assets</u>		
	Governmental Activities	
	2003	2002
<u>Assets:</u>		
Cash	\$ 24,058,443	\$
Receivables	4,967,954	
Stores Inventory	79,050	
Prepaid Expenditures	1,518,048	
Capital Assets, net	71,167,724	
Total Assets	101,791,219	****
<u>Liabilities:</u>		
Other Liabilities	4,178,883	
Long-term Debt Outstanding	72,570,846	
Total Liabilities	76,749,729	****
<u>Net Assets:</u>		
Invested in Capital Assets		
- Net of Related Debt	11,349,987	
Restricted	9,907,010	
Unrestricted	3,784,493	
Total Net Assets	\$ 25,041,490	\$ ****

Table includes financial data of the combined governmental and proprietary funds

***** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.*

The District invested \$8,598,745 in capital assets in 2002-03 increasing total capital assets, net of depreciation, by \$5,386,576 over 2001-02. The most significant investment was the modernization projects completed at McDowell Elementary and Casa Grande High School. These projects were financed by a combination of school facilities apportionments received in the County School Facilities Fund and local general obligation bond funds.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

District net assets increased \$2,513,720 during fiscal year 2002-03.

Comparative Statement of Revenues, Expenses, Special Item and Change in Net Assets		
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Program Revenues:		
Charges for Services	\$ 1,808,499	\$
Operating Grants and Contributions	10,942,934	
Capital Grants and Contributions	2,267,226	
General Revenues:		
Taxes Levied	28,118,140	
Federal and State Aid	20,153,647	
Interest and Investment Earnings	985,794	
Transfers From Other Agencies	665,937	
Miscellaneous	2,092,583	
Total Revenues	<u>67,034,760</u>	<u>****</u>
Program Expenses:		
Instruction	37,668,656	
Instruction-Related Services	5,924,661	
Pupil Services	7,003,061	
General Administration	2,292,037	
Plant Services	6,048,594	
Ancillary Services	233,711	
Community Services	440,258	
Enterprise Activities	57,379	
Interest on Long-Term Debt	3,472,439	
Other Outgo	1,352,744	
Total Expenses	<u>64,493,540</u>	<u>****</u>
Excess Revenues Before Special Item	2,541,220	
Special Item	<u>(27,500) *</u>	
Change in Net Assets	<u>\$ 2,513,720</u>	<u>\$ ****</u>

Table includes financial data of the combined governmental and proprietary funds

* The special item relates to the loss the District incurred on the sale of land.

*** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

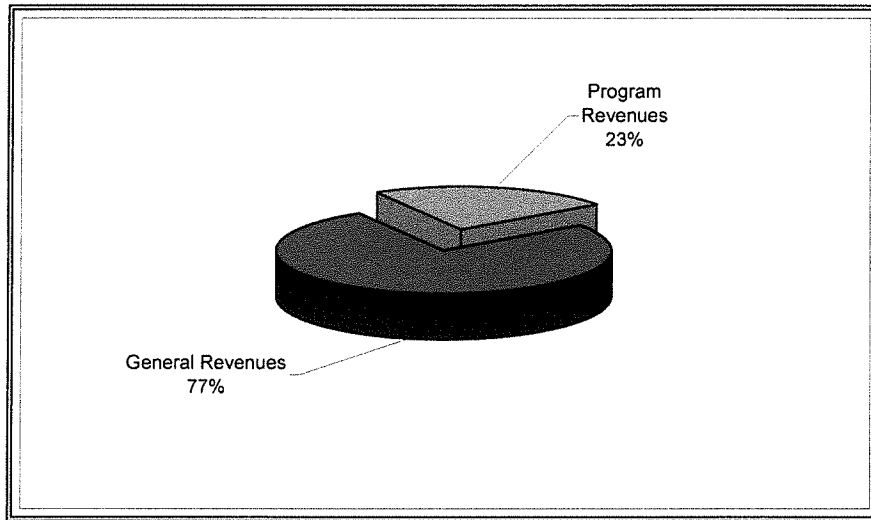
The table below presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$49,474,881 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed below.

	Comparative Schedule of Costs of Services					
	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2003	2002		2003	2002	
Instruction	\$ 37,668,656	\$		\$ (27,866,927)	\$	
Instruction Related Services	5,924,661			(5,224,594)		
Pupil Services	7,003,061			(3,162,124)		
General Administration	2,292,037			(2,158,819)		
Plant Services	6,048,594			(5,704,684)		
Ancillary Services	233,711			(233,711)		
Community Services	440,258			(440,258)		
Enterprise Activities	57,379			(57,379)		
Interest on Long-Term Debt	3,472,439			(3,472,439)		
Other Outgo	1,352,744			(1,153,946)		
Totals	\$ 64,493,540	\$ ****	****	\$ (49,474,881)	\$ ****	****

Table includes financial data of the combined governmental and proprietary funds

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

Program revenues financed 23% of the total cost of providing the services listed above, while the remaining 77% was financed by the general revenues of the District.



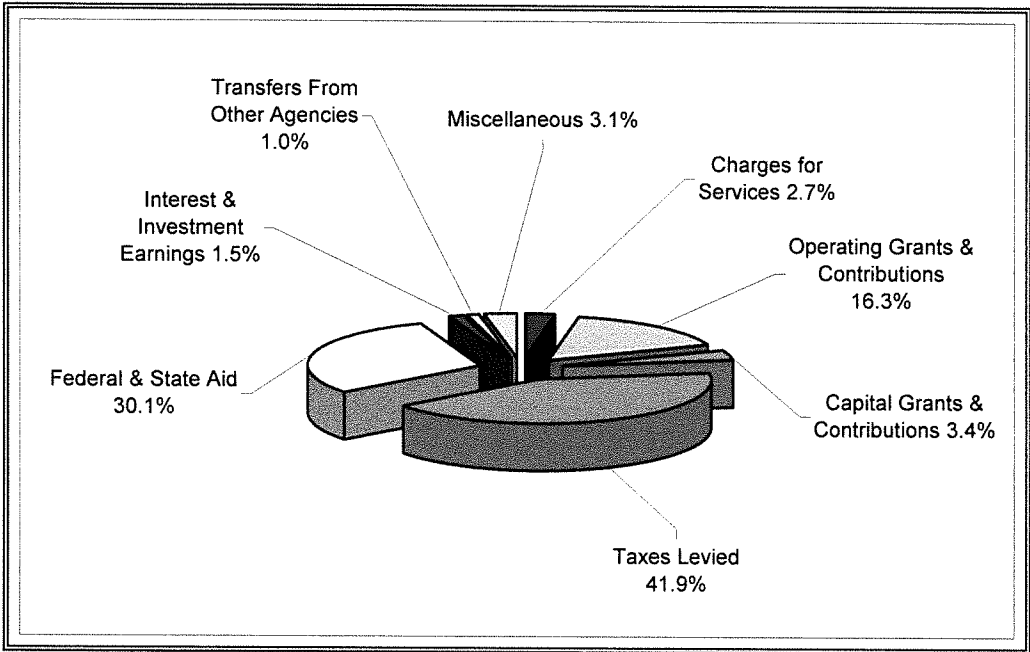
**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	FYE 2003 Amount	Percent of Total	Increase (Decrease) from FYE 2002	Percent Increase (Decrease)
Program Revenues:				
Charges for Services	\$ 1,808,499	2.70%	\$	
Operating Grants & Contributions	10,942,934	16.32%		
Capital Grants & Contributions	2,267,226	3.38%		
General Revenues:				
Taxes Levied	28,118,140	41.95%		
Federal and State Aid	20,153,647	30.06%		
Interest and Investment Earnings	985,794	1.47%		
Transfers From Other Agencies	665,937	0.99%		
Miscellaneous	2,092,583	3.12%		
Total Revenues	\$ 67,034,760	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

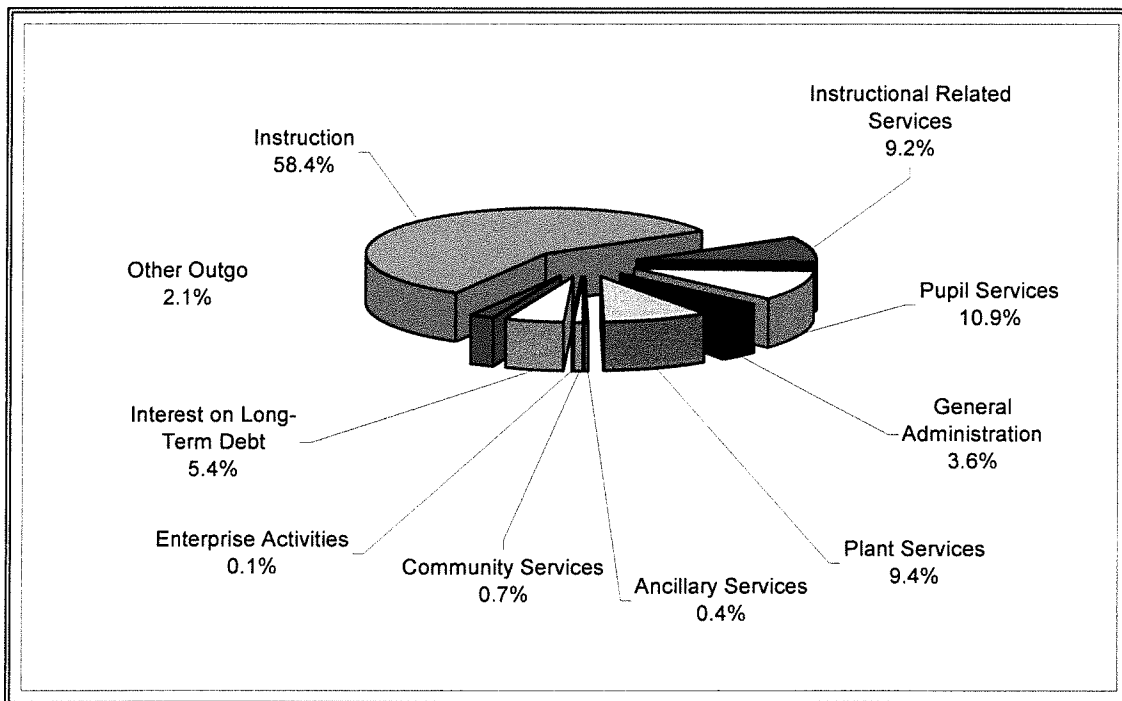
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2003 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from FYE 2002</u>	<u>Percent Increase (Decrease)</u>
Instruction	\$ 37,668,656	58.41%	\$	
Instruction Related Services	5,924,661	9.19%		
Pupil Services	7,003,061	10.86%		
General Administration	2,292,037	3.55%		
Plant Services	6,048,594	9.38%		
Ancillary Services	233,711	0.36%		
Community Services	440,258	0.68%		
Enterprise Activities	57,379	0.09%		
Interest on Long-Term Debt	3,472,439	5.38%		
Other Outgo	1,352,744	2.10%		
Total Expenses	\$ 64,493,540	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

GOVERNMENTAL ACTIVITIES (CONCLUDED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2003	2002
Land	\$ 4,375,201	\$ 4,575,201
Sites and Improvements	4,590,540	4,590,540
Buildings and Improvements	82,101,679	59,762,055
Furniture and Equipment	4,173,513	3,927,527
Work in Progress	3,579,386	17,570,988
Subtotals	98,820,319	90,426,311
Less: Accumulated Depreciation	(27,652,595)	(24,645,163)
Capital Assets, net	<u>\$ 71,167,724</u>	<u>\$ 65,781,148</u>

Capital assets, net of depreciation, increased by \$5,386,576, and were primarily financed by school facilities apportionments and bond proceeds.

In August 2002, the District issued general obligation bonds in the amount of \$3,500,000. These bond funds, enhanced by state funds, will continue to increase the value of capital assets over the coming years.

<u>Comparative Schedule of Outstanding Debt</u>		
	Governmental Activities	
	2003	2002
Compensated Absences	\$ 480,128	\$ 411,184
General Obligation Bonds	68,577,988	64,884,350
Capital Leases	2,119,889	2,327,426
Retiree Benefits	1,392,841	1,186,272
Totals	<u>\$ 72,570,846</u>	<u>\$ 68,809,232</u>

The General Obligation Bonds are financed by the local taxpayers and represent 95% of the District's long-term debt. During fiscal year 2002-03, the District issued \$3,500,000 of general obligation bonds. The remaining portion of long-term debt is to be paid by the District and includes retiree benefits, capital leases, and the value of vacation earned, but not taken as of June 30, 2003. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2003	Fund Balances June 30, 2002	Increase (Decrease)
General	\$ 5,479,597	\$ 4,421,196	\$ 1,058,401
Deferred Maintenance	644,151	566,552	77,599
Cafeteria	58,725	49,151	9,574
Adult Education	102,820	57,417	45,403
Bond Interest & Redemption	5,953,120	5,875,017	78,103
Capital Facilities	2,085,742	1,760,214	325,528
Building	10,437,099	9,277,012	1,160,087
State School Building	0	180,645	(180,645)
Capital Projects - Special Reserve	93,146	372,118	(278,972)
County School Facilities	877,986	3,958,614	(3,080,628)
Self-Insurance	5,141	417	4,724
Totals	\$ 25,737,527	\$ 26,518,353	\$ (780,826)

The increase in the General Fund balance is due to budget reductions and cost containment in order to meet multi-year projection requirements or possible mid-year cuts.

The increase in fund balance in the Building Fund is a result of unspent bond proceeds. The decrease in fund balance in the County School Facilities Fund is a result of spending school facilities apportionments received during the prior fiscal year.

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The Original budget presented on page 51 includes only new revenues for 2002-03.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The State's economic situation is a major factor affecting the District's future. The financial well being of the District is tied, in large measure, to the state funding formula which is precarious at this time. In 2002-03, the District had made sufficient reductions to meet reserve requirements through 2005-06. However, it is not clear whether or not the District will need to make additional budget reductions for 2004-05 until the details of the 2004-05 State Budget are known. Specifically, the inclusion/exclusion of a statutorily fund COLA will be the determining factor.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

- Student enrollment and average daily attendance (ADA) are primary factors in the computation of most funding formulas for public schools in the State of California. ADA for the elementary district is expected to continue to decline while the high school district is expected to grow through 2005-06.
- Together, these two factors, enrollment/ADA and the State's economic condition require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.
- The District presently has an indexed cap on employee health and welfare benefits. With escalating health care costs, the District is continuing to search for solutions to this problem.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Petaluma City Schools, 200 Douglas Street, Petaluma, California 94952.

**PETALUMA CITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
<u>Assets</u>	
Cash (Note 2)	\$ 24,058,443
Receivables (Note 4)	4,967,954
Stores Inventory (Note 1K)	79,050
Prepaid Expenditures (Note 1K)	1,518,048
Capital Assets (Note 6)	
Land	4,375,201
Sites and Improvements	4,590,540
Buildings and Improvements	82,101,679
Furniture and Equipment	4,173,513
Work-in-Progress	3,579,386
Less: Accumulated Depreciation	(27,652,595)
Total Assets	101,791,219
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	3,671,185
Deferred Revenue (Note 1K)	507,698
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
General Obligation Bonds (Note 7)	
Current Interest	1,285,000
Capital Appreciation	1,239,663
Capital Leases (Note 8)	340,886
Retiree Benefits (Note 10)	259,423
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 1K)	480,128
General Obligation Bonds (Note 7)	
Current Interest	48,800,000
Capital Appreciation	17,253,325
Capital Leases (Note 8)	1,779,003
Retiree Benefits (Note 10)	1,133,418
Total Liabilities	76,749,729
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	11,349,987
Restricted:	
For Capital Projects	3,056,874
For Debt Service	5,953,120
For Educational Programs	733,200
For Other Purposes	163,816
Unrestricted	3,784,493
Total Net Assets	\$ 25,041,490

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities:</u>					
Instruction	\$ 37,668,656	\$ 189,847	\$ 7,404,030	\$ 2,207,852	\$ (27,866,927)
Instruction-Related Services:					
Supervision of Instruction	851,230		225,680		(625,550)
Instructional Library, Media, Technology	723,326		30,743		(692,583)
School Site Administration	4,350,105	28,464	415,180		(3,906,461)
Pupil Services:					
Home-to-School Transportation	1,069,938	97,297	647,003		(325,638)
Food Services	1,905,798	1,424,666	478,903		(2,229)
Other Pupil Services	4,027,325	18,005	1,175,063		(2,834,257)
General Administration:					
Other General Administration	2,292,037	3,903	129,315		(2,158,819)
Plant Services	6,048,594	18,670	265,866	59,374	(5,704,684)
Ancillary Services	233,711				(233,711)
Community Services	440,258				(440,258)
Enterprise Activities	57,379				(57,379)
Interest on Long-Term Debt	3,472,439				(3,472,439)
Other Outgo	1,352,744	27,647	171,151		(1,153,946)
Total Governmental Activities	\$ 64,493,540	\$ 1,808,499	\$ 10,942,934	\$ 2,267,226	(49,474,881)
<u>General Revenues:</u>					
Taxes Levied for General Purposes					23,625,570
Taxes Levied for Debt Service					4,492,570
Federal and State Aid - Unrestricted					20,153,647
Interest and Investment Earnings					985,794
Transfers From Other Agencies					665,937
Miscellaneous					2,092,583
Special Item					(27,500)
Total General Revenues and Special Item					51,988,601
Change in Net Assets					2,513,720
Net Assets - July 1, 2002					22,527,770
Net Assets - June 30, 2003					\$ 25,041,490

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General Fund	Bond Interest and Redemption Fund
<u>Assets</u>		
Cash in County Treasury (Note 2)	\$ 3,726,570	\$ 5,953,120
Cash in Banks	2,000	
Cash in Revolving Fund	20,000	
Accounts Receivable (Note 4)		
Federal Government	469,487	
State Government	2,659,313	
Local Governments	945,806	
Miscellaneous	289,983	
Due from Other Funds (Note 5)	593,753	
Stores Inventory (Note 1K)	47,576	
Prepaid Expenditures (Note 1K)	64,466	
	\$ 8,818,954	\$ 5,953,120
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 2,261,527	
Due to Other Funds (Note 5)	382,829	
Deferred Revenue (Note 1K)	695,001	
	3,339,357	
Fund Balances: (Note 12)		
Reserved	865,242	\$ 5,953,120
Unreserved:		
Designated	3,163,184	
Undesignated	1,451,171	
	5,479,597	5,953,120
Total Fund Balances	\$ 8,818,954	\$ 5,953,120
Total Liabilities and Fund Balances	\$ 8,818,954	\$ 5,953,120

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 10,392,966	\$ 3,951,353	\$ 24,024,009
	300	2,000
	301,229	20,300
	214,481	770,716
	17,866	2,873,794
	69,691	963,672
167,312	28,137	359,674
	31,474	789,202
		79,050
		64,466
<u>\$ 10,560,278</u>	<u>\$ 4,614,531</u>	<u>\$ 29,946,883</u>
\$ 122,546	\$ 269,276	\$ 2,653,349
633	405,944	789,406
	76,741	771,742
<u>123,179</u>	<u>751,961</u>	<u>4,214,497</u>
	31,774	6,850,136
10,437,099	3,830,796	3,163,184
10,437,099	3,862,570	15,719,066
<u>\$ 10,560,278</u>	<u>\$ 4,614,531</u>	<u>\$ 25,732,386</u>
		<u>\$ 29,946,883</u>

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Total Fund Balances - Governmental Funds \$ 25,732,386

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$98,820,319, and the accumulated depreciation is \$27,652,595. 71,167,724

Unamortized costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Unamortized debt issue costs, reported as prepaid expenditures, at year-end consist of:

Deferred Charges - Discount	\$ 140,766	
Deferred Charges - Costs of Issuance	239,411	
Deferred Charges - Refunding	1,073,405	
		1,453,582

Unmatured interest on long-term debt: In governmental funds, interest is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owed at the end of the period was: (1,010,541)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements is: 264,044

An internal service fund is used by District management to charge the cost of vision insurance to the individuals funds. The assets and liabilities of the internal service fund are included in governmental activities. 5,141

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	\$ 480,128	
General Obligation Bonds		
Current Interest	50,085,000	
Capital Appreciation	18,492,988	
Capital Leases	2,119,889	
Retiree Benefits	1,392,841	
		(72,570,846)

Total Net Assets - Governmental Activities \$ 25,041,490

**PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>
<u>Revenues</u>		
Revenue Limit Sources:		
State Apportionment	\$ 17,612,365	
Local Taxes	23,625,570	
Total Revenue Limit Sources	41,237,935	
Federal Revenue	1,732,517	
State Revenue	6,578,644	\$ 59,195
State On-Behalf Payments	1,212,424	
Local Revenue	5,575,006	4,566,135
Total Revenues	56,336,526	4,625,330
<u>Expenditures</u>		
Instruction	35,866,654	
Supervision of Instruction	795,302	
Instructional Library, Media and Technology	589,342	
School Administration	3,776,958	
Home-to-school Transportation	908,999	
Food Services		
Other Pupil Services	3,820,484	
Other General Administration	2,133,772	
Plant Services	5,092,948	
Facilities Acquisition and Construction		
Ancillary Services	213,497	
Community Services	391,538	
Enterprise Activities	57,379	
Debt Service:		
Principal	201,458	18,769,413
Interest	19,904	3,227,184
Other Outgo	1,352,744	
Total Expenditures	55,220,979	21,996,597
Excess of Revenues Over (Under) Expenditures	1,115,547	(17,371,267)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		
Operating Transfers Out	(242,148)	
Other Sources	185,002	17,838,020
Other Uses		(388,650)
Total Other Financing Sources (Uses)	(57,146)	17,449,370
Net Change in Fund Balances	1,058,401	78,103
Fund Balances - July 1, 2002	4,421,196	5,875,017
Fund Balances - June 30, 2003	\$ 5,479,597	\$ 5,953,120

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$ 1,241,123	\$ 18,853,488
	1,241,123	23,625,570
	667,066	42,479,058
	2,404,880	2,399,583
	2,222,439	9,042,719
\$ 357,140	6,535,508	1,212,424
357,140		12,720,720
		67,854,504
	1,149,320	37,015,974
	14,525	809,827
	320,393	589,342
	1,876,667	4,097,351
	373	908,999
	59,625	1,876,667
151,284	462,191	3,820,857
1,722,053	6,664,754	2,193,397
		5,706,423
		8,386,807
		213,497
		391,538
		57,379
	191,081	19,161,952
	117,084	3,364,172
		1,352,744
1,873,337	10,856,013	89,946,926
(1,516,197)	(4,320,505)	(22,092,422)
	1,121,741	1,177,618
55,877	(55,877)	(1,177,618)
(879,593)	172,500	21,695,522
3,500,000		(388,650)
2,676,284	1,238,364	21,306,872
1,160,087	(3,082,141)	(785,550)
9,277,012	6,944,711	26,517,936
\$ 10,437,099	\$ 3,862,570	\$ 25,732,386

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net Change in Fund Balances - Governmental Funds \$ (785,550)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay expenditures exceeded depreciation during the fiscal year.

Depreciation Expense	\$ (3,012,169)	
Capital Outlays	<u>8,598,745</u>	5,586,576

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is:

(200,000)

Earned but unavailable revenue is reported in governmental funds only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the statement of activities, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is:

264,044

Debt issue and refunding costs are recognized as expenditures in the period they are incurred in governmental funds. In the government-wide statements, issue and refunding costs are amortized over the life of the debt. The difference between debt issue and refunding costs recognized in the current period and issue and refunding costs amortized for the period are:

Cost of Issuance and Refunding	\$ 1,483,607	
Cost of Issuance and Refunding Amortized	<u>(30,025)</u>	1,453,582

In the statement of activities, certain operating expenses-compensated absences (vacations) and retiree benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year amounts earned exceeded amounts used by:

(275,513)

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

General Obligation Bonds:		
Current Interest	\$ 11,285,000	
Capital Appreciation	7,484,413	
Capital Leases	<u>392,539</u>	19,161,952

Proceeds from debt issuance are recognized as Other Financing Sources in governmental funds. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:

(21,523,022)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued and accreted interest on bonds and leases increased by:

(1,173,073)

An internal service fund is used by District management to charge the costs of vision insurance to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

4,724

Change in Net Assets of Governmental Activities

\$ 2,513,720

PETALUMA CITY SCHOOLS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	Governmental Activities
	Internal Service Fund
<u>Assets</u>	
Cash in County Treasury (Note 2)	\$ 12,134
Receivables (Note 4)	98
Due from Other Funds (Note 5)	204
Total Assets	<u>12,436</u>
<u>Liabilities</u>	
Accounts Payable	7,295
Total Liabilities	<u>7,295</u>
<u>Net Assets</u>	
Designated	<u>5,141</u>
Total Net Assets	<u><u>\$ 5,141</u></u>

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities
	Internal Service Fund
<u>Operating Revenues</u>	
Self-insurance Premiums	\$ 128,636
<u>Operating Expenses</u>	
Payments for Contracted Services	123,786
Operating Gain	4,850
<u>Non-Operating Expenses</u>	
Interest Expense	(126)
Change in Net Assets	4,724
Net Assets - July 1, 2002	417
Net Assets - June 30, 2003	\$ 5,141

**PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Activities
	Internal Service Fund
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Premiums	\$ 129,001
Cash Paid for Contracted Services	(123,382)
	5,619
<i>Cash Flows From Investing Activities:</i>	
Interest Expense	(126)
	(126)
Net Cash Used by Investing Activities	(126)
Net Increase in Cash	5,493
Cash Balance - July 1, 2002	6,641
	6,641
Cash Balance - June 30, 2003	\$ 12,134
	12,134
<i>Reconciliation of Operating Gain to Net Cash Provided by Operating Activities:</i>	
Operating Gain	\$ 4,850
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase in Accounts Receivables	(28)
Decrease in Due From Other Funds	393
Increase in Accounts Payable	404
	769
Net Adjustments	769
Net Cash Provided by Operating Activities	\$ 5,619
	5,619

PETALUMA CITY SCHOOLS
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	<u>Private-Purpose Trust</u> <u>Scholarship Fund</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<u>Assets</u>			
Cash in Banks (Note 2)	\$ 6,874	\$ 333,465	\$ 340,339
Investments (Note 2)	99,781		99,781
Receivables (Note 4)	309		309
	<u>106,964</u>	<u>333,465</u>	<u>440,429</u>
<u>Liabilities</u>			
Due to Student Groups		333,465	333,465
<u>Net Assets</u>			
Reserved for Scholarships	106,964		106,964
Total Net Assets	<u>\$ 106,964</u>	<u>\$ 0</u>	<u>\$ 106,964</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private-Purpose Trust
	Scholarship Fund
<u>Additions</u>	
Interest	\$ 1,791
<u>Deductions</u>	
Scholarships Awarded	7,401
Change in Net Assets	(5,610)
<u>Net Assets</u>	
Net Assets - July 1, 2002	112,574
Net Assets - June 30, 2003	\$ 106,964

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

Petaluma City Schools (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to U.S. 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 activities of the "Petaluma City Elementary School District" and the "Petaluma Joint Union High School District". The districts share a common governing board, administration, and staff. These two entities are referred to collectively as Petaluma City Schools, and for purposes 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. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis for accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements, and the preparation of a Management Discussion and Analysis to clarify the District's financial activities. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for a decrease of \$3,990,583, for a net asset balance of \$22,527,770 at June 30, 2002 on the government-wide financial statements.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

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

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

Fund Financial Statements:

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

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

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance premiums. Operating expenses for internal service funds include the costs of providing vision benefits to District employees.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions:

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

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

Deferred Revenue:

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Concluded)

Expenses/Expenditures:

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

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

F. Fund Accounting

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

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

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

The *Building Fund* is used to account for the proceeds of funds generated by the sale of Election 1991 and Election 1992 General Obligation Bonds. Expenditures are made from this fund for acquisition of major governmental facilities.

Non-major Governmental Funds:

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 non-major 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 received and expenditures made to operate adult education programs maintained by the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains four non-major 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. Special Reserve Fund is used to account for special building projects as determined by the District.
4. County School Facilities Fund is used to account for revenue received from state allocations for construction projects and the expenditures made for those projects (Education Code Sections 17009.5 and 17070.10-17076.10).

Proprietary Funds:

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 for payment of vision premiums. As of July 1, 1996, the District is no longer self-insured.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains two private-purpose trust funds, the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, collectively the Scholarship Fund, 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 an agency fund for the seven student body accounts. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 51.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Concluded)

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).

H. Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

I. 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.

J. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows for 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.

K. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation (FDIC).

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

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

The District did not directly enter into any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Assets, Liabilities and Equity (Continued)

2. Inventories and Prepaid Expenditures

Inventory is 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.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred. Prepaid expenditures include the costs associated with the bonds issued and refunded in the current year. The costs will be amortized over the life of the bond obligations.

Reported inventories and prepaid expenditures are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

There are two thresholds established for capital assets. The first tier includes capital assets purchased or acquired (e.g., equipment, vehicles and the like) with an original cost of \$5,000 or more, and are reported at historical cost or estimated historical cost. The second tier includes capital improvements or building projects with an original cost of \$50,000 or more, and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on capital assets has been computed using the straight-line basis over the following estimated useful lives:

Asset Class	Example	Estimated Useful Life in Years
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Assets, Liabilities and Equity (Continued)

3. Capital Assets (Concluded)

Asset Class	Example	Estimated Useful Life in Years
Custodian equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PC's, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

4. Deferred Revenue

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

5. Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Premiums and discounts as well as issuance costs, related to long-term debt issued after the implementation of GASB Statement No. 34, are deferred and amortized over the life of the debt. Long-term debt is reported net of the applicable premium or discount.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

K. Assets, Liabilities and Equity (Concluded)

6. Long-term Obligations (Concluded)

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

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable 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.

8. Revenue Limit/Property Tax

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

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on secured roll are due on November 15 and March 15, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

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

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

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates fair value. The difference between cost and fair value of the District's share of pooled investments in the Sonoma County Treasury was not material throughout fiscal year 2002-03. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Cash in County Treasury (Concluded)

Investments by the District in pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Cash in Banks and in Revolving Fund

Cash balances in Banks and in the Revolving Fund are insured up to \$100,000 by the Federal Depository Insurance Corporation.

Cash Balances

Cash at June 30, 2003, consisted of the following:

	<u>Governmental Funds</u>	<u>Proprietary Fund</u>	<u>Total Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:				
Cash in County Treasury	\$ 24,024,009	\$ 12,134	\$ 24,036,143	
Deposits:				
Cash in Banks	2,000		2,000	\$ 340,339
Cash in Revolving Fund	<u>20,300</u>		<u>20,300</u>	
Total Cash	<u>\$ 24,046,309</u>	<u>\$ 12,134</u>	<u>\$ 24,058,443</u>	<u>\$ 340,339</u>

Investments

Investments as of June 30, 2003, are presented below:

	<u>Category</u>				<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>		
Certificates of Deposit	<u>\$ 99,781</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,781</u>	<u>\$ 99,781</u>

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the District's name.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

<u>Funds</u>	<u>Excess Expenditures</u>
<u>Special Revenue Funds:</u>	
Cafeteria Fund:	
Debt Service: Interest and Fiscal Charges	\$ 48
Adult Education Fund:	
Certificated Salaries	6,149

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS (CONCLUDED)

<u>Funds</u>	<u>Excess Expenditures</u>
<u>Debt Service Fund:</u>	
Bond Interest and Redemption Fund:	
Debt Service: Principal Retirement	\$ 85,743

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 consist of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Proprietary Fund</u>	<u>Total Governmental Activities</u>	<u>Fiduciary Activities</u>
Federal Government					
Categorical Programs	\$ 469,487	\$ 301,229		\$ 770,716	
State Government					
State Aid	870,023	102,629		972,652	
Categorical Programs	901,307	111,852		1,013,159	
Lottery	136,155			136,155	
Other Allowances	<u>751,828</u>			<u>751,828</u>	
Total State	2,659,313	214,481		2,873,794	
Local Governments	945,806	17,866		963,672	
Interest					\$ 309
Miscellaneous	<u>289,983</u>	<u>69,691</u>	\$ 98	<u>359,772</u>	
Totals	<u>\$ 4,364,589</u>	<u>\$ 603,267</u>	<u>\$ 98</u>	<u>\$ 4,967,954</u>	<u>\$ 309</u>

NOTE 5 - INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2003 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 593,753	\$ 382,829
Deferred Maintenance		2,253
Cafeteria	3,106	133,221
Adult Education	25,031	101,887
Capital Facilities		39,684
State School Building		119,875
Building	167,312	633
County School Facilities		9,024
Self-Insurance	<u>204</u>	
Totals	<u>\$ 789,406</u>	<u>\$ 789,406</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2002-03 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 242,148
Deferred Maintenance	\$ 298,718	
State School Building		55,877
Building	55,877	879,593
Capital Projects - Special Reserve	242,148	
County School Facilities	580,875	
Totals	<u>\$ 1,177,618</u>	<u>\$ 1,177,618</u>

Transfer of \$298,718 from the Building Fund to the Deferred Maintenance Fund to match state allocation.

Transfer of \$18,303 from the State School Building Fund to the Building Fund for additional funds received after project completion.

Transfer of \$37,574 from the State School Building Fund to the Building Fund to return District's match contribution for modernization funds returned to the state.

Transfer of \$242,148 from the General Fund to the Capital Projects - Special Reserve Fund for redevelopment funds to pay for District Office facility.

Transfer of \$580,875 from the Building Fund to the County School Facilities Fund for District's required match contribution for Petaluma Junior High School project.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2003, are shown below:

	<u>Balances</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2003</u>
Land	\$ 4,575,201		\$ 200,000	\$ 4,375,201
Sites and Improvements	4,590,540			4,590,540
Buildings and Improvements	59,762,055	\$ 22,339,624		82,101,679
Furniture and Equipment	3,927,527	250,723	4,737	4,173,513
Work in Progress	17,570,988	3,579,386	17,570,988	3,579,386
Totals at Historical Cost	<u>90,426,311</u>	<u>26,169,733</u>	<u>17,775,725</u>	<u>98,820,319</u>
Less Accumulated Depreciation for:				
Sites and Improvements	2,668,107	258,449		2,926,556
Buildings and Improvements	19,467,351	2,470,090		21,937,441
Furniture and Equipment	2,509,705	283,630	4,737	2,788,598
Total Accumulated Depreciation	<u>24,645,163</u>	<u>3,012,169</u>	<u>4,737</u>	<u>27,652,595</u>
Governmental Activities				
Capital Assets, net	<u>\$ 65,781,148</u>	<u>\$ 23,157,564</u>	<u>\$ 17,770,988</u>	<u>\$ 71,167,724</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation Expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 1,729,129
Supervision of Instruction	38,587
Instructional Library, Media and Technology	128,641
School Site Administration	246,589
Home to School Transportation	157,872
Food Services	23,860
Other Pupil Services	201,191
Other General Administration	87,923
Plant Services	316,473
Ancillary Services	20,142
Community Services	<u>61,762</u>
Total Depreciation Expense	<u>\$ 3,012,169</u>

NOTE 7 - GENERAL OBLIGATION BONDS

On August 1, 2002, the elementary school district issued general obligation bonds in the aggregate principal amount of \$3,500,000. The proceeds from the bonds can be used to acquire school sites, build or purchase school buildings, make permanent alterations, additions or improvements to school buildings and grounds.

On December 4, 2002, the high school district issued general obligation bonds in the amount of \$11,943,021, with interest rates from 2.0% to 5.6%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1992, outstanding Series A bonds and the outstanding Series C bonds maturing on or after August 1, 2005, through August 1, 2020, inclusive, and to pay the costs of issuance of the bonds. The 2002 refunding bonds were issued as \$10,435,000 of current interest bonds and \$1,508,021 of capital appreciation bonds.

On April 17, 2003, the elementary school district issued general obligation bonds in the amount of \$5,895,000, with interest rates from 2.75% to 4.30%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1991, outstanding Series D bonds maturing on and after August 1, 2004, the outstanding Series F bonds maturing on and after August 1, 2005, and to pay the costs of issuance of the bonds. The 2003 refunding bonds were issued as \$5,895,000 of current interest bonds.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

The outstanding General Obligation debt of the District as of June 30, 2003 is as follows:

A. Current Interest Bonds

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2002	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2003
Elementary						
1991 Series						
1993 B	5.00-8.00	\$ 5,600,000	\$ 4,740,000		\$ 165,000	\$ 4,575,000
1995 D	4.80-7.50	2,000,000	1,760,000		1,695,000	65,000
1997 E	5.10-7.00	2,000,000	105,000		50,000	55,000
1997 F	5.15-6.15	4,500,000	4,140,000		3,875,000	265,000
1999 G	4.20-7.20	1,500,000	1,440,000		35,000	1,405,000
2000 H	5.00-8.00	2,000,000	1,965,000		35,000	1,930,000
2002 I	1.70-5.00	3,500,000	0	\$ 3,500,000		3,500,000
1998 Series						
Refunding	4.00-4.60	7,530,000	7,225,000		255,000	6,970,000
2003 Series						
Refunding	2.75-4.30	<u>5,895,000</u>	<u>0</u>	<u>5,895,000</u>		<u>5,895,000</u>
Total Elementary		<u>34,525,000</u>	<u>21,375,000</u>	<u>9,395,000</u>	<u>6,110,000</u>	<u>24,660,000</u>
High School						
1992 Series						
1993 A	5.50-8.50	\$ 6,000,000	\$ 4,825,000		\$ 4,825,000	\$ 0
1999 D	4.25-7.25	3,900,000	3,615,000		110,000	3,505,000
1999 E	4.50-7.00	2,600,000	2,490,000		60,000	2,430,000
2000 F	5.00-8.00	9,400,000	9,235,000		180,000	9,055,000
2002 Series						
Refunding	2.00-4.75	<u>10,435,000</u>	<u>0</u>	<u>\$ 10,435,000</u>		<u>10,435,000</u>
Total High School		<u>32,335,000</u>	<u>20,165,000</u>	<u>10,435,000</u>	<u>5,175,000</u>	<u>25,425,000</u>
Total Current Interest Bonds		<u>\$ 66,860,000</u>	<u>\$ 41,540,000</u>	<u>\$ 19,830,000</u>	<u>\$ 11,285,000</u>	<u>\$ 50,085,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 1,285,000	\$ 2,687,237	\$ 3,972,237
2005	1,395,000	2,432,558	3,827,558
2006	1,995,000	2,143,225	4,138,225
2007	2,075,000	2,061,165	4,136,165
2008	2,160,000	1,973,725	4,133,725
2009-2013	12,115,000	8,393,249	20,508,249
2014-2018	13,605,000	5,448,806	19,053,806
2019-2023	12,390,000	2,076,649	14,466,649
2024-2028	<u>3,065,000</u>	<u>238,374</u>	<u>3,303,374</u>
Totals	<u>\$ 50,085,000</u>	<u>\$ 27,454,988</u>	<u>\$ 77,539,988</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2002*	Issued & Accreted Interest Current Year	Redeemed Current Year	Outstanding June 30, 2003
High School 1992 Series						
1997 C	4.50-6.20	\$ 10,623,276	\$ 10,470,671	\$ 358,286	\$ 7,414,413	\$ 3,414,544
1995 Series						
Refunding	4.65-5.80	8,972,019	12,873,679	722,039	70,000	13,525,718
2002 Series						
Refunding	5.60	<u>1,508,021</u>	<u>0</u>	<u>1,552,726</u>	<u> </u>	<u>1,552,726</u>
Total Capital Appreciation Bonds		<u>\$ 21,103,316</u>	<u>\$ 23,344,350</u>	<u>\$ 2,633,051</u>	<u>\$ 7,484,413</u>	<u>\$ 18,492,988</u>

* The July 1, 2002, outstanding balance has been adjusted to reflect the accreted interest on the 1992 Series C and the 1995 Series capital appreciation bonds which had not been presented in prior years.

The outstanding obligation for the 1992 Series C capital appreciation bonds at June 30, 2003, is as follows:

Maturity Date	Interest Rate %	Amount of Original Issue (Principal)	Accreted Interest	Outstanding June 30, 2003
2004	5.00	\$ 791,028	\$ 279,292	\$ 1,070,320
2005	5.10	636,355	229,852	866,207
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009-2013		0	0	0
2014-2018		0	0	0
2019-2023	6.20	<u>1,016,969</u>	<u>461,048</u>	<u>1,478,017</u>
Totals		<u>\$ 2,444,352</u>	<u>\$ 970,192</u>	<u>\$ 3,414,544</u>

The annual requirements to amortize the 1992 Series C capital appreciation bonds at June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 791,028	\$ 283,972	\$ 1,075,000
2005	636,355	278,645	915,000
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009-2013	0	0	0
2014-2018	0	0	0
2019-2023	<u>1,016,969</u>	<u>3,443,031</u>	<u>4,460,000</u>
Totals	<u>\$ 2,444,352</u>	<u>\$ 4,005,648</u>	<u>\$ 6,450,000</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds (Continued)

The outstanding obligation for the 1995 Series capital appreciation bonds at June 30, 2003, is as follows:

<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Outstanding June 30, 2003</u>
2004	4.75	\$ 118,568	\$ 50,775	\$ 169,343
2005	4.85	191,359	83,981	275,340
2006	5.00	257,358	117,081	374,439
2007	5.10	327,119	152,356	479,475
2008	5.20	384,419	183,230	567,649
2009-2013	5.30-5.75	2,650,022	1,362,396	4,012,418
2014-2018	5.70-5.80	3,979,553	2,116,661	6,096,214
2019-2023	5.70	1,012,116	538,724	1,550,840
Totals		<u>\$ 8,920,514</u>	<u>\$ 4,605,204</u>	<u>\$ 13,525,718</u>

The annual requirements to amortize the 1995 Series capital appreciation bonds at June 30, 2003, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2004	\$ 118,568	\$ 51,432	\$ 170,000
2005	191,359	98,641	290,000
2006	257,358	157,642	415,000
2007	327,119	232,881	560,000
2008	384,419	315,581	700,000
2009-2013	2,650,022	3,349,978	6,000,000
2014-2018	3,979,553	8,205,447	12,185,000
2019-2023	1,012,116	2,607,884	3,620,000
Totals	<u>\$ 8,920,514</u>	<u>\$ 15,019,486</u>	<u>\$ 23,940,000</u>

The outstanding obligation for the 2002 Series capital appreciation bonds at June 30, 2003, is as follows:

<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Outstanding June 30, 2003</u>
2004		\$ 0	\$ 0	\$ 0
2005		0	0	0
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009-2013		0	0	0
2014-2018		0	0	0
2019-2023	5.60	1,508,021	44,705	1,552,726
Totals		<u>\$ 1,508,021</u>	<u>\$ 44,705</u>	<u>\$ 1,552,726</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The annual requirements to amortize the 2002 Series capital appreciation bonds at June 30, 2003, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2004	\$ 0	\$ 0	\$ 0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009-2013	0	0	0
2014-2018	0	0	0
2019-2023	<u>1,508,021</u>	<u>2,481,979</u>	<u>3,990,000</u>
Totals	<u>\$ 1,508,021</u>	<u>\$ 2,481,979</u>	<u>\$ 3,990,000</u>

NOTE 8 - CAPITAL LEASES

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

Year Ended <u>June 30</u>	<u>Lease Payments</u>
2004	\$ 464,794
2005	374,222
2006	298,678
2007	277,205
2008	240,951
2009-2013	<u>1,057,223</u>
Total payments	2,713,073
Less amounts representing interest	<u>(593,184)</u>
Present value of net minimum lease payments	<u>\$ 2,119,889</u>

The District will receive no sublease rental revenue nor pay any contingent rental for the leased assets.

NOTE 9 - 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - RETIREE BENEFITS

In addition to the benefits described in Note 13, 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 the age of 65. For the year ended June 30, 2003, 89 employees were eligible to receive retiree benefits. Future estimated payments required under the plan are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Retiree</u> <u>Benefits</u>
2004	\$ 259,423
2005	228,393
2006	205,965
2007	185,531
2008	163,544
2009-2013	338,953
2014-2018	<u>11,032</u>
Total	<u>\$ 1,392,841</u>

NOTE 11 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2003, is shown below.

	<u>Balances</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2003</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 411,184	\$ 68,944		\$ 480,128	
General Obligation Bonds					
Current Interest	41,540,000	19,830,000	\$ 11,285,000	50,085,000	\$ 1,285,000
Capital Appreciation *	23,344,350	2,633,051	7,484,413	18,492,988	1,239,663
Capital Leases *	2,327,426	185,002	392,539	2,119,889	340,886
Retiree Benefits	<u>1,186,272</u>	<u>206,569</u>	<u> </u>	<u>1,392,841</u>	<u>259,423</u>
Totals	<u>\$ 68,809,232</u>	<u>\$ 22,923,566</u>	<u>\$ 19,161,952</u>	<u>\$ 72,570,846</u>	<u>\$ 3,124,972</u>

* The July 1, 2002, outstanding balance for the general obligation bonds has been adjusted to reflect the accreted interest on the 1992 Series C and 1995 Series capital appreciation bonds which had not been presented in prior years. In addition, the July 1, 2002, outstanding balance for the capital leases has been adjusted for a prior year overstatement.

NOTE 12 - FUND BALANCES

A. Reservations of fund balances as of June 30, 2003 are as follows:

	<u>General</u> <u>Fund</u>	<u>Bond Interest</u> <u>& Redemption</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Revolving Fund	\$ 20,000		\$ 300	\$ 20,300
Stores Inventory	47,576		31,474	79,050
Prepaid Expenditures	64,466			64,466
Debt Service		\$ 5,953,120		5,953,120
Restricted Programs	<u>733,200</u>			<u>733,200</u>
Totals	<u>\$ 865,242</u>	<u>\$ 5,953,120</u>	<u>\$ 31,774</u>	<u>\$ 6,850,136</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - FUND BALANCES (CONCLUDED)

A. 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 Expenditures represents the portion of the ending fund balance represented by current year payments, which will benefit future periods beyond June 30, 2003.

Reserved for Debt Service includes \$5,953,120 in the Bond Interest and Redemption Fund, which is reserved for future payment of interest and redemption of bond principal.

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

Restricted program balances at June 30, 2003 are as follows:

SIPA Block Grant	\$ 41,115
Cal-safe Supportive Services	3,662
Cal-safe Child Care and Development	2,821
English Language Acquisition Program	24,374
Classroom Library K-4	3,487
California Public School Library	19,563
Lottery - Instructional Materials	100,737
School Safety	6,346
Education Technology	232
Gifted and Talented	50,709
Instructional Materials K-8	92,021
Instructional Materials Realignment Program	107,419
Instructional Materials 9-12	3,838
Standard Based Instructional Materials	97,821
Staff Development: Instructional Materials	115,383
Peer Assistance and Review	45,796
Staff Development SB 1882	3,585
Tenth Grade Counseling	13,620
Lead Testing	671
Total	<u>\$ 733,200</u>

B. Designations of ending fund balances as of June 30, 2003 are as follows:

MAJOR FUNDS:

General Fund:

Economic Uncertainties	\$ 1,621,971
One-Time Charter Conversion	999,526
API/GPA	353,839
Grants and Donations	150,066
Kenilworth Site Use	17,051
Vending	20,731
Total	<u>\$ 3,163,184</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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 2002-03 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 ended June 30, 2003, 2002, and 2001, were \$2,184,952, \$2,062,976, and \$2,005,834, 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.

Funding Policy

Active plan members are required to contribute 7.0% 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 CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-03 was 2.83%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$666,595, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) and to the California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$1,203,687 to STRS (4.5475% of salaries subject to STRS) and \$8,737 to CalPERS (0.092% of salaries subject to CalPERS).

NOTE 15 - 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 16 - JOINT VENTURES

The District participates in three joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools' Insurance Group (RESIG) and the Schools Excess Liability Fund (SELF) for common risk management of property & liability and workers' compensation coverage; and the School Project for Utility Rate Reduction (SPURR) for direct purchase of gas, electricity, and other utility services. SPURR also provides advisory services relative to utilities. 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.

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

NOTE 17 - 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 various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 17 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

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, respectively. 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. During the year ended June 30, 2003, the District relieved the Casa Grande High School Booster Club of the remaining \$32,219 outstanding balance, and received no payments from the Petaluma High School Booster Club. The remaining balance owed to the District as of June 30, 2003, by the Petaluma High School Booster Club is \$49,272.

NOTE 18 - CHARTER SCHOOLS

In accordance with Education Code Section 47605, the District had approved 2002-03 Charter School agreements with Live Oak Charter School, Sonoma Charter School, and Mary Collins School at Cherry Valley Charter School. The financial activities of the Mary Collins School at Cherry Valley Charter School are presented in the District's General Fund, and under the terms of the agreements with the Live Oak and Sonoma Charter Schools, each charter school is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted governmental accounting principles. Therefore, the financial activities of these charter schools are not included in these financial statements; however, the financial transactions between these charters and the District are included.

The District approved an agreement with Live Oak Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006.

The District approved an agreement with Sonoma Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006.

The District approved an agreement with Mary Collins School at Cherry Valley Charter School in 2002 to serve students in kindergarten through eighth grade. Renewal of the Charter for succeeding years is subject to approval of the operating agreement by the respective boards and determined on an annual basis.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 19 - SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes (TRANS)

On July 1, 2003, the District issued tax and revenue anticipation notes (TRANS) for \$3,435,000. The notes mature on June 30, 2004. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

B. General Obligation Refunding Bonds

On October 29, 2003, the District issued general obligation bonds in the amount of \$4,560,000, with interest rates from 3.00% to 4.00%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1991, outstanding Series B bonds, and to pay the costs of issuance of the bonds. The refunding bonds were issued as \$4,560,000 of current interest bonds.

SUPPLEMENTARY INFORMATION SECTION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP) - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues:</u>				
Revenue Limit Sources:				
State Apportionment	\$ 21,143,555	\$ 20,642,723	\$ 17,612,365	\$ (3,030,358)
Local Sources	18,651,237	21,565,983	23,625,570	2,059,587
Total Revenue Limit Sources	39,794,792	42,208,706	41,237,935	(970,771)
Federal Revenue	1,301,888	2,157,961	1,732,517	(425,444)
Other State Revenue	6,585,009	6,546,693	6,578,644	31,951
Other Local Revenue	4,694,251	4,965,320	5,575,006	609,686
Total Revenues	52,375,940	55,878,680	55,124,102	(754,578)
<u>Expenditures:</u>				
Certificated Salaries	25,778,875	26,316,545	26,206,322	110,223
Classified Salaries	8,681,543	9,047,565	8,888,300	159,265
Employee Benefits	9,035,706	9,206,044	9,079,017	127,027
Books and Supplies	2,159,991	3,622,386	2,408,367	1,214,019
Services and Other				
Operating Expenditures	6,080,327	6,345,099	5,644,029	701,070
Capital Outlay	722,570	456,537	253,541	202,996
Debt Service:				
Interest and Fiscal Charges		19,904	19,904	
Principal Retirement		201,458	201,458	
Other Expenditures	219,944	1,367,088	1,307,617	59,471
Total Expenditures	52,678,956	56,582,626	54,008,555	2,574,071
Excess of Revenues Over (Under) Expenditures	(303,016)	(703,946)	1,115,547	1,819,493
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	45,000	(5,341)		5,341
Operating Transfers Out	(400,000)	(242,148)	(242,148)	
Other Sources	185,002	185,002	185,002	
Total Other Financing Sources (Uses)	(169,998)	(62,487)	(57,146)	5,341
Net Change in Fund Balances	(473,014)	(766,433)	1,058,401	\$ 1,824,834
Fund Balances - July 1, 2002	4,421,196	4,421,196	4,421,196	
Fund Balances - June 30, 2003	\$ 3,948,182	\$ 3,654,763	\$ 5,479,597	

SEE NOTES TO SUPPLEMENTARY INFORMATION

**PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003**

	Total Non-Major Special Revenue Funds	Total Non-Major Capital Projects Funds	Total Non-Major Governmental Funds
<u>Assets</u>			
Cash in County Treasury	\$ 693,392	\$ 3,257,961	\$ 3,951,353
Cash in Revolving Fund	300		300
Accounts Receivable			
Federal Government	241,960	59,269	301,229
State Government	214,481		214,481
Local Governments	17,866		17,866
Miscellaneous	23,611	46,080	69,691
Due from Other Funds	28,137		28,137
Stores Inventory	31,474		31,474
Total Assets	\$ 1,251,221	\$ 3,363,310	\$ 4,614,531
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 131,423	\$ 137,853	\$ 269,276
Due to Other Funds	237,361	168,583	405,944
Deferred Revenue	76,741		76,741
Total Liabilities	445,525	306,436	751,961
Fund Balances:			
Reserved	31,774		31,774
Unreserved:			
Undesignated	773,922	3,056,874	3,830,796
Total Fund Balances	805,696	3,056,874	3,862,570
Total Liabilities and Fund Balances	\$ 1,251,221	\$ 3,363,310	\$ 4,614,531

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Total Non-Major Special Revenue Funds	Total Non-Major Capital Projects Funds	Total Non-Major Governmental Funds
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 1,241,123		\$ 1,241,123
Federal Sources:			
Child Nutrition Program	448,723		448,723
Other	159,074	\$ 59,269	218,343
Other State Sources:			
State Nutrition Program	30,180		30,180
Other	166,743	2,207,957	2,374,700
Local Sources:			
Food Service Sales	1,424,666		1,424,666
Developer Fees		500,546	500,546
Interest	12,145	127,135	139,280
Other	103,219	54,728	157,947
Total Revenues	3,585,873	2,949,635	6,535,508
<u>Expenditures</u>			
Certificated Salaries	856,044		856,044
Classified Salaries	1,046,612	11,193	1,057,805
Employee Benefits	531,921	3,304	535,225
Books and Supplies	881,849	650	882,499
Services and Other			
Operating Expenditures	377,468	177,558	555,026
Capital Outlay		6,616,121	6,616,121
Debt Service:			
Interest and Fiscal Charges	1,669	115,415	117,084
Principal Retirement	11,324	179,757	191,081
Other Expenditures	45,128		45,128
Total Expenditures	3,752,015	7,103,998	10,856,013
Excess of Revenues (Under) Expenditures	(166,142)	(4,154,363)	(4,320,505)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	298,718	823,023	1,121,741
Operating Transfers Out		(55,877)	(55,877)
Other Sources		172,500	172,500
Total Other Financing Sources (Uses)	298,718	939,646	1,238,364
Net Change in Fund Balances	132,576	(3,214,717)	(3,082,141)
Fund Balances - July 1, 2002	673,120	6,271,591	6,944,711
Fund Balances - June 30, 2003	\$ 805,696	\$ 3,056,874	\$ 3,862,570

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2003

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>	<u>Total Non-Major Special Revenue Funds</u>
<u>Assets</u>				
Cash in County Treasury	\$ 689,655	\$ 117	\$ 3,620	\$ 693,392
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		128,094	113,866	241,960
State Government		8,611	205,870	214,481
Local Governments		17,866		17,866
Miscellaneous	578	13,704	9,329	23,611
Due from Other Funds		3,106	25,031	28,137
Stores Inventory		31,474		31,474
Total Assets	<u>\$ 690,233</u>	<u>\$ 202,972</u>	<u>\$ 358,016</u>	<u>\$ 1,251,221</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 43,829	\$ 11,026	\$ 76,568	\$ 131,423
Due to Other Funds	2,253	133,221	101,887	237,361
Deferred Revenue			76,741	76,741
Total Liabilities	<u>46,082</u>	<u>144,247</u>	<u>255,196</u>	<u>445,525</u>
Fund Balances:				
Reserved		31,474	300	31,774
Unreserved:				
Undesignated	644,151	27,251	102,520	773,922
Total Fund Balances	<u>644,151</u>	<u>58,725</u>	<u>102,820</u>	<u>805,696</u>
Total Liabilities and Fund Balances	<u>\$ 690,233</u>	<u>\$ 202,972</u>	<u>\$ 358,016</u>	<u>\$ 1,251,221</u>

PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>	<u>Total Non-Major Special Revenue Funds</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment			\$ 1,241,123	\$ 1,241,123
Federal Sources:				
Child Nutrition Program		\$ 448,723		448,723
Other			159,074	159,074
Other State Sources:				
State Nutrition Program		30,180		30,180
Other	\$ 34,091		132,652	166,743
Local Sources:				
Food Service Sales		1,424,666		1,424,666
Interest	10,759		1,386	12,145
Other	1,194		102,025	103,219
Total Revenues	<u>46,044</u>	<u>1,903,569</u>	<u>1,636,260</u>	<u>3,585,873</u>
<u>Expenditures</u>				
Certificated Salaries			856,044	856,044
Classified Salaries	54,656	768,508	223,448	1,046,612
Employee Benefits	15,909	272,050	243,962	531,921
Books and Supplies	252	832,587	49,010	881,849
Services and Other				
Operating Expenditures	196,346	7,857	173,265	377,468
Debt Service:				
Interest and Fiscal Charges		1,669		1,669
Principal Retirement		11,324		11,324
Other Expenditures			45,128	45,128
Total Expenditures	<u>267,163</u>	<u>1,893,995</u>	<u>1,590,857</u>	<u>3,752,015</u>
Excess of Revenues Over (Under) Expenditures	(221,119)	9,574	45,403	(166,142)
<u>Other Financing Sources</u>				
Operating Transfers In	298,718			298,718
Net Change in Fund Balances	77,599	9,574	45,403	132,576
Fund Balances - July 1, 2002	<u>566,552</u>	<u>49,151</u>	<u>57,417</u>	<u>673,120</u>
Fund Balances - June 30, 2003	<u>\$ 644,151</u>	<u>\$ 58,725</u>	<u>\$ 102,820</u>	<u>\$ 805,696</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2003

	<u>Capital Facilities</u>	<u>State School Building</u>
<u>Assets</u>		
Cash in County Treasury	\$ 2,086,150	\$ 119,875
Accounts Receivable		
Federal Government		
Miscellaneous	45,591	
Total Assets	<u>\$ 2,131,741</u>	<u>\$ 119,875</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 6,315	
Due to Other Funds	39,684	\$ 119,875
Total Liabilities	<u>45,999</u>	<u>119,875</u>
Fund Balances:		
Unreserved:		
Undesignated	2,085,742	
Total Fund Balances	<u>2,085,742</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 2,131,741</u>	<u>\$ 119,875</u>

Special Reserve	County School Facilities	Total Non-Major Capital Projects Funds
\$ 139,249	\$ 912,687	\$ 3,257,961
59,269		59,269
489		46,080
<u>\$ 199,007</u>	<u>\$ 912,687</u>	<u>\$ 3,363,310</u>
\$ 105,861	\$ 25,677	\$ 137,853
	9,024	168,583
<u>105,861</u>	<u>34,701</u>	<u>306,436</u>
93,146	877,986	3,056,874
93,146	877,986	3,056,874
<u>\$ 199,007</u>	<u>\$ 912,687</u>	<u>\$ 3,363,310</u>

PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Capital Facilities</u>	<u>State School Building</u>
<u>Revenues</u>		
Federal Sources:		
Other		
Other State Sources:		
Other		\$ (46,205)
Local Sources:		
Developer Fees	\$ 500,546	
Interest	62,123	4,163
Other		
Total Revenues	562,669	(42,042)
<u>Expenditures</u>		
Classified Salaries	11,193	
Employee Benefits	3,304	
Books and Supplies	403	
Services and Other		
Operating Expenditures	127,523	
Capital Outlay	40,770	82,726
Debt Service:		
Interest and Fiscal Charges	2,266	
Principal Retirement	51,682	
Total Expenditures	237,141	82,726
Excess of Revenues Over (Under) Expenditures	325,528	(124,768)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		
Operating Transfers Out		(55,877)
Other Sources		
Total Other Financing Sources (Uses)	0	(55,877)
Net Change in Fund Balances	325,528	(180,645)
Fund Balances - July 1, 2002	1,760,214	180,645
Fund Balances - June 30, 2003	\$ 2,085,742	\$ 0

<u>Special Reserve</u>	<u>County School Facilities</u>	<u>Total Non-Major Capital Projects Funds</u>
\$ 59,269		\$ 59,269
	\$ 2,254,162	2,207,957
1,475	59,374	500,546
54,728		127,135
<u>115,472</u>	<u>2,313,536</u>	<u>54,728</u>
		2,949,635
247		11,193
50,035		3,304
517,586	5,975,039	650
		177,558
113,149		6,616,121
128,075		115,415
<u>809,092</u>	<u>5,975,039</u>	<u>179,757</u>
		7,103,998
(693,620)	(3,661,503)	(4,154,363)
242,148	580,875	823,023
172,500		(55,877)
<u>414,648</u>	<u>580,875</u>	<u>172,500</u>
		939,646
(278,972)	(3,080,628)	(3,214,717)
372,118	3,958,614	6,271,591
<u>\$ 93,146</u>	<u>\$ 877,986</u>	<u>\$ 3,056,874</u>

PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS - STUDENT BODY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Balances</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2003</u>
<u>Assets</u>				
Cash:				
Petaluma High	\$ 180,344	\$ 664,000	\$ 724,922	\$ 119,422
Casa Grande High	180,485	653,968	692,744	141,709
Sonoma Mountain High	214	1,881	1,322	773
Carpe Diem High	206	4,329	3,336	1,199
Kenilworth Junior High	70,459	151,217	168,477	53,199
Petaluma Junior High	25,396	184,892	193,125	17,163
McDowell Elementary	1,650	120	1,770	0
Total Assets	<u>\$ 458,754</u>	<u>\$ 1,660,407</u>	<u>\$ 1,785,696</u>	<u>\$ 333,465</u>
<u>Liabilities</u>				
Due to Student Groups	<u>\$ 458,754</u>	<u>\$ 1,660,407</u>	<u>\$ 1,785,696</u>	<u>\$ 333,465</u>

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	DEFERRED MAINTENANCE		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Other State Sources:			
Other	\$ 280,091	\$ 34,091	\$ (246,000)
Local Sources:			
Interest	12,000	10,759	(1,241)
Other	650	1,194	544
Total Revenues	<u>292,741</u>	<u>46,044</u>	<u>(246,697)</u>
<u>Expenditures</u>			
Classified Salaries	108,025	54,656	53,369
Employee Benefits	24,350	15,909	8,441
Books and Supplies	553	252	301
Services and Other			
Operating Expenditures	<u>703,796</u>	<u>196,346</u>	<u>507,450</u>
Total Expenditures	<u>836,724</u>	<u>267,163</u>	<u>569,561</u>
Excess of Revenues (Under) Expenditures	(543,983)	(221,119)	322,864
<u>Other Financing Sources</u>			
Operating Transfers In	<u>290,000</u>	<u>298,718</u>	<u>8,718</u>
Net Change in Fund Balance	<u>\$ (253,983)</u>	<u>77,599</u>	<u>\$ 331,582</u>
Fund Balance - July 1, 2002		<u>566,552</u>	
Fund Balance - June 30, 2003		<u>\$ 644,151</u>	

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	CAFETERIA		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Federal Sources:			
Child Nutrition Program	\$ 419,680	\$ 448,723	\$ 29,043
Other State Sources:			
State Nutrition Program	38,516	30,180	(8,336)
Local Sources:			
Food Service Sales	1,506,154	1,424,666	(81,488)
Total Revenues	<u>1,964,350</u>	<u>1,903,569</u>	<u>(60,781)</u>
<u>Expenditures</u>			
Classified Salaries	782,671	768,508	14,163
Employee Benefits	277,859	272,050	5,809
Food and Supplies	871,995	832,587	39,408
Services and Other			
Operating Expenditures	9,951	7,857	2,094
Capital Outlay	4,705		4,705
Debt Service:			
Interest and Fiscal Charges	1,621	1,669	(48)
Principal Retirement	11,324	11,324	
Total Expenditures	<u>1,960,126</u>	<u>1,893,995</u>	<u>66,131</u>
Net Change in Fund Balance	<u>\$ 4,224</u>	9,574	<u>\$ 5,350</u>
Fund Balance - July 1, 2002		<u>49,151</u>	
Fund Balance - June 30, 2003		<u>\$ 58,725</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	ADULT EDUCATION		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 1,255,269	\$ 1,241,123	\$ (14,146)
Federal Sources:			
Other	211,870	159,074	(52,796)
Other State Sources:			
Other	169,188	132,652	(36,536)
Local Sources:			
Interest	2,000	1,386	(614)
Other	97,000	102,025	5,025
Total Revenues	<u>1,735,327</u>	<u>1,636,260</u>	<u>(99,067)</u>
<u>Expenditures</u>			
Certificated Salaries	849,895	856,044	(6,149)
Classified Salaries	261,774	223,448	38,326
Employee Benefits	254,913	243,962	10,951
Books and Supplies	91,888	49,010	42,878
Services and Other			
Operating Expenditures	217,528	173,265	44,263
Other Expenditures	45,128	45,128	
Total Expenditures	<u>1,721,126</u>	<u>1,590,857</u>	<u>130,269</u>
Net Change in Fund Balance	<u>\$ 14,201</u>	<u>45,403</u>	<u>\$ 31,202</u>
Fund Balance - July 1, 2002		<u>57,417</u>	
Fund Balance - June 30, 2003		<u>\$ 102,820</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BOND INTEREST AND REDEMPTION		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Other State Sources:			
Other		\$ 59,195	\$ 59,195
Local Sources:			
Interest		132,744	132,744
Other	\$ 3,414,709	4,433,391	1,018,682
Total Revenues	<u>3,414,709</u>	<u>4,625,330</u>	<u>1,210,621</u>
<u>Expenditures</u>			
Debt Service:			
Interest and Fiscal Charges	3,362,753	3,227,184	135,569
Principal Retirement	18,683,670	18,769,413	(85,743)
Total Expenditures	<u>22,046,423</u>	<u>21,996,597</u>	<u>49,826</u>
Excess of Revenues (Under) Expenditures	<u>(18,631,714)</u>	<u>(17,371,267)</u>	<u>1,260,447</u>
<u>Other Financing Sources (Uses)</u>			
Other Sources	17,838,020	17,838,020	
Other Uses	(388,650)	(388,650)	
Total Other Financing Sources (Uses)	<u>17,449,370</u>	<u>17,449,370</u>	<u>0</u>
Net Change in Fund Balance	<u>\$ (1,182,344)</u>	<u>78,103</u>	<u>\$ 1,260,447</u>
Fund Balance - July 1, 2002		<u>5,875,017</u>	
Fund Balance - June 30, 2003		<u>\$ 5,953,120</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

**PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	CAPITAL FACILITIES		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Local Sources:			
Interest	\$ 168,500	\$ 62,123	\$ (106,377)
Developer Fees	780,000	500,546	(279,454)
Total Revenues	<u>948,500</u>	<u>562,669</u>	<u>(385,831)</u>
<u>Expenditures</u>			
Classified Salaries	11,800	11,193	607
Employee Benefits	3,503	3,304	199
Books and Supplies	1,000	403	597
Services and Other			
Operating Expenditures	142,454	127,523	14,931
Capital Outlay	823,731	40,770	782,961
Debt Service:			
Interest and Fiscal Charges	2,266	2,266	
Principal Retirement	51,682	51,682	
Total Expenditures	<u>1,036,436</u>	<u>237,141</u>	<u>799,295</u>
Net Change in Fund Balance	<u>\$ (87,936)</u>	325,528	<u>\$ 413,464</u>
Fund Balance - July 1, 2002		<u>1,760,214</u>	
Fund Balance - June 30, 2003		<u>\$ 2,085,742</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUILDING		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Local Sources:			
Interest	\$ 400,000	\$ 357,140	\$ (42,860)
<u>Expenditures</u>			
Classified Salaries	133,826	133,138	688
Employee Benefits	44,105	43,201	904
Books and Supplies	111,342	76,939	34,403
Services and Other			
Operating Expenditures	235,240	215,583	19,657
Capital Outlay	6,019,179	1,404,476	4,614,703
Total Expenditures	<u>6,543,692</u>	<u>1,873,337</u>	<u>4,670,355</u>
Excess of Revenues			
(Under) Expenditures	<u>(6,143,692)</u>	<u>(1,516,197)</u>	<u>4,627,495</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	18,303	55,877	37,574
Operating Transfers Out	(880,875)	(879,593)	1,282
Other Sources	3,500,000	3,500,000	
Total Other Financing Sources (Uses)	<u>2,637,428</u>	<u>2,676,284</u>	<u>38,856</u>
Net Change in Fund Balance	<u>\$ (3,506,264)</u>	<u>1,160,087</u>	<u>\$ 4,666,351</u>
Fund Balance - July 1, 2002		<u>9,277,012</u>	
Fund Balance - June 30, 2003		<u>\$ 10,437,099</u>	

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	STATE SCHOOL BUILDING		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Other State Sources:			
Other	\$ (46,204)	\$ (46,205)	\$ (1)
Local Sources:			
Interest	7,000	4,163	(2,837)
Total Revenues	(39,204)	(42,042)	(2,838)
<u>Expenditures</u>			
Capital Outlay	123,138	82,726	40,412
Excess of Revenues (Under) Expenditures	(162,342)	(124,768)	37,574
<u>Other Financing (Uses)</u>			
Operating Transfers Out	(18,303)	(55,877)	(37,574)
Net Change in Fund Balance	<u>\$ (180,645)</u>	<u>(180,645)</u>	<u>\$ 0</u>
Fund Balance - July 1, 2002		180,645	
Fund Balance - June 30, 2003		<u>\$ 0</u>	

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	SPECIAL RESERVE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Federal Sources:			
Other	\$ 308,360	\$ 59,269	\$ (249,091)
Local Sources:			
Interest	25,528	1,475	(24,053)
Other		54,728	54,728
Total Revenues	<u>333,888</u>	<u>115,472</u>	<u>(218,416)</u>
<u>Expenditures</u>			
Books and Supplies	250	247	3
Services and Other			
Operating Expenditures	51,742	50,035	1,707
Capital Outlay	958,998	517,586	441,412
Debt Service:			
Interest and Fiscal Charges	113,151	113,149	2
Principal Retirement	128,075	128,075	
Total Expenditures	<u>1,252,216</u>	<u>809,092</u>	<u>443,124</u>
Excess of Revenues (Under) Expenditures	<u>(918,328)</u>	<u>(693,620)</u>	<u>224,708</u>
<u>Other Financing Sources</u>			
Operating Transfers In	242,148	242,148	
Other Sources	422,500	172,500	(250,000)
Total Other Financing Sources (Uses)	<u>664,648</u>	<u>414,648</u>	<u>(250,000)</u>
Net Change in Fund Balance	<u>\$ (253,680)</u>	<u>(278,972)</u>	<u>\$ (25,292)</u>
Fund Balance - July 1, 2002		<u>372,118</u>	
Fund Balance - June 30, 2003		<u>\$ 93,146</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	COUNTY SCHOOL FACILITIES		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Other State Sources:			
Other	\$ 2,254,162	\$ 2,254,162	
Local Sources:			
Interest	68,000	59,374	\$ (8,626)
Total Revenues	2,322,162	2,313,536	(8,626)
<u>Expenditures</u>			
Capital Outlay	6,861,651	5,975,039	886,612
Excess of Revenues (Under) Expenditures	(4,539,489)	(3,661,503)	877,986
<u>Other Financing Sources</u>			
Operating Transfers In	580,875	580,875	0
Net Change in Fund Balance	<u>\$ (3,958,614)</u>	<u>(3,080,628)</u>	<u>\$ 877,986</u>
Fund Balance - July 1, 2002		3,958,614	
Fund Balance - June 30, 2003		<u>\$ 877,986</u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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>
Carolyn Tennyson	President	December, 2006
Deborah Sloan	Clerk	December, 2004
Christina Kauk	Member	December, 2006
Lou Steinberg	Member	December, 2006
Camille Sauv�	Member	December, 2004

ADMINISTRATION

Margaret Viguie, Ed. D.
Superintendent

Steve Bolman
Deputy Superintendent, Business and Administration

Sandra Hill
Assistant Superintendent, Human Resources

Sue Olds
Assistant Superintendent, Instruction and Curriculum

PETALUMA CITY SCHOOLS
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Second Period <u>Report</u>	Annual <u>Report</u>
<u>Elementary</u>		
Kindergarten	313	314
First through Third	931	932
Fourth through Sixth	999	997
Home and Hospital	1	1
Special Education	28	29
Subtotals	<u>2,272</u>	<u>2,273</u>
<u>Secondary</u>		
Seventh and Eighth	1,819	1,817
Ninth through Twelfth	3,125	3,098
Continuation Education	183	181
Home and Hospital	22	25
Special Education	44	45
Special Education - Nonpublic	12	12
Community Day School	11	12
Extended Year	2	2
Subtotals	<u>5,218</u>	<u>5,192</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	2	2
Not Concurrently Enrolled	517	548
Subtotals	<u>519</u>	<u>550</u>
Totals	<u>8,009</u>	<u>8,015</u>
<u>Community Day School</u>		
5th Hour		11
6th Hour		11
<u>Supplemental Hours</u>		Hours of <u>Attendance</u>
Elementary		58,691
Secondary		96,676

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>2002-03 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	36,000	36,890	180	N/A	In Compliance
Grades 1 – 3	42,000	50,400	50,825	180	N/A	In Compliance
Grades 4 – 8	49,875	54,000	54,420	180	N/A	In Compliance
Grades 9 – 12	56,525	64,800	65,414	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 350,604
Basic School Breakfast	10.553	13525	8,793
Especially Needy Breakfast	10.553	13526	83,923
Meal Supplements	10.557	13755	5,403
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I	84.010	13797	286,553
NCLB: Title V	84.298	13340	25,339
NCLB: Title III Language Acquisition	84.365	14346	14,028
NCLB: Title III Limited English Proficiency	84.365	10084	52,428
NCLB: Title II Improving Teacher Quality	84.367	14341	126,169
NCLB: Title X McKinney Homeless Assistance	84.196	13697	21,389
Eisenhower	84.281	13207	11,806
Safe and Drug Free Schools	84.186	13453	21,259
Special Education:			
IDEA Part B Local Assistance	84.027	13379	958,953
IDEA Part B Workability I	84.027	13705	113,220
Vocational Education	84.048	13924	52,299
Adult Education:			
Priority 1-3, ABE	84.002A	13973	57,938
Priority 5, ASE	84.002A	13978	5,227
English Literacy & Civics	84.002A	14109	95,909
Federal Renovation	84.352	14313	59,269
Goals 2000	84.276A	14379	3,426
School To Career	84.048	10009	2,616
Charter School Grant	84.282	13150	29,114
Garden Enhanced Nutrition Project	n/a	24155	2,126
Corporation for National & Community			
Service Agency:			
CalServe: Learn & Serve America	94.004	13161	11,792
Subtotal			2,399,583
Nonmonetary Assistance			
USDA Food Distribution	10.550	*	41,559
Total			\$ 2,441,142

* Pass through number is not available.

**PETALUMA CITY SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Adult Education Fund
June 30, 2003 Annual Financial and Budget Report Fund Balance	\$ 142,888
Adjustment Increasing (Decreasing) Fund Balances:	
Overstatement of State Aid Revenue	(40,068)
June 30, 2003 Audited Financial Statements Fund Balance	\$ 102,820
	Capital Assets
June 30, 2003 Annual Financial and Budget Report Total Capital Assets, net	\$ 0
Adjustments Increasing (Decreasing) Total Capital Assets and Accumulated Depreciation:	
Understatement of Capital Assets:	
Land	4,375,201
Sites and Improvements	4,590,540
Buildings and Improvements	82,101,679
Furniture and Equipment	4,173,513
Work In Progress	3,579,386
Understatement of Accumulated Depreciation for:	
Sites and Improvements	(2,926,556)
Buildings and Improvements	(21,937,441)
Furniture and Equipment	(2,788,598)
Net Adjustments	71,167,724
June 30, 2003 Audited Financial Statement, Total Capital Assets, net	\$ 71,167,724
	Long-Term Liabilities
June 30, 2003 Annual Financial and Budget Report Total Long-Term Liabilities	\$ 66,995,735
Adjustments Increasing Total Long-Term Liabilities:	
Understatement of Capital Appreciation Bonds	5,435,101
Understatement of Capital Leases	140,010
Net Adjustments	5,575,111
June 30, 2003 Audited Financial Statement, Total Long-Term Liabilities	\$ 72,570,846

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2003.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL FUND			
	(Budget) 2003-04*	2002-03*	2001-02*	2000-01*
Revenues and Other Financial Sources	\$ 51,273,701	\$ 55,309,104	\$ 53,712,362	\$ 52,322,587
Expenditures	50,951,025	54,008,555	52,799,240	52,199,298
Other Uses and Transfers Out	242,148	242,148	398,791	384,999
Total Outgo	51,193,173	54,250,703	53,198,031	52,584,297
Change in Fund Balance	80,528	1,058,401	514,331	(261,710)
Ending Fund Balance	\$ 5,560,125	\$ 5,479,597	\$ 4,421,196	\$ 3,906,865
Available Reserves	\$ 2,741,499	\$ 3,073,142	\$ 2,595,599	\$ 1,520,512
Designated for Economic Uncertainties	\$ 1,535,795	\$ 1,621,971	\$ 1,646,064	\$ 1,520,512
Undesignated Fund Balance	\$ 1,205,704	\$ 1,451,171	\$ 949,535	\$ 0
Available Reserves as a Percentage of Total Outgo	5.36%	5.66%	4.88%	2.89%
Total Long-Term Liabilities	\$ 70,586,725	\$ 72,570,846	\$ 68,809,232	\$ 64,614,664
Average Daily Attendance at P-2 (Exclusive of Adult ADA)	7,576	7,490	7,396	7,410

* On-behalf payments, made by the State of California, have been excluded from the above financial presentation in order to maintain comparability between fiscal years.

The fund balance of the General Fund increased \$1,572,732 (40.3%) over the past two years. The fiscal year 2003-04 budget projects an increase of \$80,528 (1.5%). For a district 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 produced operating surpluses of \$1,058,401 and \$514,331 during fiscal years 2002-03 and 2001-02, respectively, and incurred an operating deficit of \$261,710 during fiscal year 2000-01.

Long-term liabilities increased \$7,956,182 over the past two years, due primarily to the \$3,500,000 bond issuance in fiscal year 2002-03 and the accreted interest on capital appreciation bonds that is not reflected in the 2000-01 fiscal year information presented above.

Average daily attendance increased 80 ADA over the past two years. An increase of 86 ADA is anticipated during fiscal year 2003-04.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

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

B. Combining Statements and Individual Fund Schedules

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

C. 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.

D. 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 46200 through 46206.

E. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

This schedule provides the information necessary to reconcile the fund balances of all funds, the total net assets of the Schedule of Capital Assets, and the total liabilities of the Schedule of Long-Term Liabilities, as reported in the Annual Financial and Budget Report to the audited financial statements.

G. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

OTHER INDEPENDENT AUDITORS REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
 Petaluma City Schools
 200 Douglas Street
 Petaluma, CA 94952

We have audited the financial statements of Petaluma City Schools, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003. Our audit was conducted in accordance with U.S. 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
Kindergarten Continuation	3	Yes
Independent Study	13	Yes
Continuation Education	11	Yes
Adult Education	8	Yes
Regional Occupational Center/Programs	4	Not Applicable
Staff Development Days	4	Yes

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentive for longer instructional day: School Districts	4	Yes
County Offices of Education	4	Not Applicable
GANN Limit Calculation	1	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	Yes
Class Size Reduction Program:		
Option One Classes	10	Yes
Option Two Classes	9	Not Applicable
Option One and Two Classes	14	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Materials Fund:		
Instructional Materials Realignment Program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public Schools Library Act of 1998	4	Yes
Office of Criminal Justice Planning	-	Not Applicable
Ratios of Administrative Employees to Teachers	3	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 Questioned Costs 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.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
 Certified Public Accountants

December 22, 2003

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
200 Douglas Street
Petaluma, CA 94952

We have audited the financial statements of Petaluma City Schools as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003. We conducted our audit in accordance with U.S. 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 Questioned Costs 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 solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 22, 2003

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
200 Douglas Street
Petaluma, CA 94952

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, 2003. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. 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 U.S. 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, 2003. 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 Questioned Costs 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 solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 22, 2003

FINDINGS AND QUESTIONED COSTS SECTION

PETALUMA CITY SCHOOLS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION I - 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? Qualified

	_____ Yes	_____ X No	
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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) Unqualified

	_____ X Yes	_____ No	
--	-------------	----------	--

Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
10.555 & 10.553	Child Nutrition Cluster
84.027	Special Education Cluster

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

Auditee qualified as low-risk auditee? Unqualified

	_____ Yes	_____ X No	
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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: Unqualified

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS

03 - 1 / 30000

CAFETERIA - CASH RECEIPTS VARIANCES

- Criteria: Significant differences noted between reported sales on the daily sales deposit worksheet and amounts actually deposited should be investigated, resolved, and documented.
- Condition: The amount of sales reported on the daily sales deposit worksheet was overstated and understated from the actual cash collected, and no explanation for the difference was documented.
- Questioned Costs: None.
- Context: The condition was present during fiscal year 2002-03 at one school site.
- Effect: Variances between reported sales and cash collected are not investigated to ensure that cash or checks are not stolen or misplaced and that reported meal counts are accurate and complete.
- Cause: The District has not enforced procedures that require all significant differences noted between deposit amounts and reported sales on daily sales deposit worksheets to be investigated and/or documented.
- Recommendation: Significant differences noted between reported sales on the daily sales deposit worksheet and amounts actually deposited should be investigated, resolved, documented, and retained for audit.
- District Response: The District will implement training for food service staff on proper reconciliation procedures. The Food Services Supervisor will implement process to investigate variances between reported sales and cash collected and that meal counts are accurate.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

03 - 2 / 30000

STUDENT BODY – CASH DISBURSEMENTS

Criteria: The District business office is responsible for the general oversight of the student body activities. In this capacity, the business office should ensure that appropriate internal controls are in place to:

- Safeguard the organization's assets
- Promote success of fund-raising ventures
- Promote reliable financial information
- Reduce the risk of fraud and abuse

Condition: The following conditions were noted during our testing of student body disbursements:

- Student body funds were used to advance a coach the amount of the stipend he would have earned and received from the District office at the end of the fiscal year.
- Reimbursement claims were not submitted to the student body clerk within a reasonable period of time after incurring expenses. One employee submitted a reimbursement claim seven months after incurring the expenses.

Questioned Cost: None.

Context: The conditions were noted at Casa Grande High and Petaluma Junior High schools.

Effects: Internal controls for student body disbursements do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

Cause: The District business office has not performed internal audits of the student body accounts to ensure that proper procedures and policies are being followed.

Recommendation: Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site. In addition, the District business office should perform internal audits of the student body accounts to ensure that proper procedures and policies are being followed.

District Response: The District will remind sites that student body accounts are not to pay personnel. All stipends/employee payments are to be made via the District payroll office. In addition, staff will be reminded to submit timely expense claims.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

03 - 3 / 30000

STUDENT BODY CASH RECEIPTS

- Criteria: Cash receipts collected from student body athletic events should be counted and summarized on an athletic ticket report that is signed by the individual(s) who counted the cash, prior to being submitted to the student body clerk for deposit.
- Condition: Cash receipts collected from student body athletic events were not counted and summarized on athletic ticket reports, and the reports were not signed or completed by individuals who submit cash and checks to the student body clerk for deposit, and the reports were also not signed by the student body clerk.
- Questioned Cost: None.
- Context: The condition was noted at Casa Grande High School.
- Effect: There is no way to determine that amounts reported on athletic ticket reports were provided by someone other than the student body clerk. As a result, improprieties may occur and not be detected in a timely manner, or false accusations could be made against the student body clerk for which there is no evidence to support the employee's innocence.
- Cause: Gate keepers were not required to count the cash and checks collected, and complete the athletic ticket report, prior to submitting the monies to the student body clerk.
- Recommendation: Cash receipts collected from student body athletic events should be counted and summarized on an athletic ticket report that is signed by the individual(s) who counted the cash, prior to being submitted to the student body clerk for deposit. The student body clerk should verify the cash count, sign, and note any differences on the athletic ticket report. All significant over/short amounts noted should be brought to the attention of the Principal immediately.
- District Response: The District will review process with appropriate staff and implement auditors' recommendation.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

03 - 4 / 30000

ATHLETIC EVENTS CASH BOXES

- Criteria: The amount of cash maintained on hand for cash boxes used for athletic events should be supported by a schedule or ledger that reconciles to the amounts in all cash boxes.
- Condition: The District does not maintain a schedule or ledger that supports the amount of monies in the cash boxes at the high schools.
- Questioned Costs: None.
- Context: This condition was noted at Casa Grande High School.
- Effect: There is no way to determine the propriety or completeness of monies maintained in cash boxes. As a result, errors or irregularities may occur and not be detected, in a timely manner.
- Cause: A schedule or ledger was not maintained to support the cash balances maintained in the cash boxes. Also, an imprest balance for the cash boxes was not established.
- Recommendation: The amount of cash maintained on hand for cash boxes used for athletic events should be supported by a schedule or ledger that reconciles to the amounts in all cash boxes. Also, the high schools should establish an imprest balance for the cash boxes and should not increase or decrease the amount without the prior approval of the school's Principal.
- District Response: The District will review process with appropriate staff and implement auditors' recommendation.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

03 - 5 / 50000

Department of Education

Special Education Cluster CFDA 84.027 2002/03

FEDERAL CERTIFICATIONS

Criteria: In Accordance with 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: Payroll charges to the Special Education Cluster programs, during fiscal year 2002-03, were not supported by semi-annual certifications or personnel activity reports.

Questioned Costs: None. (No improper payroll charges were identified)

Context: The District was able to provide other documentation, which substantiated that the employees' payroll was appropriately charged to the Special Education Cluster programs.

Effect: Salaries charged to the Special Education Cluster programs were not adequately supported in accordance with federal guidelines.

Cause: Proper follow-up by the District office was not performed to ensure that semi-annual certifications were prepared.

Recommendation: The District should implement procedures that will ensure that the required certifications are prepared on a semi-annual basis. The certifications should be signed by the employee and the supervisor having first hand knowledge of the work performed. These certifications should be completed and forwarded to the business office.

District Response: The District has been cognizant of this requirement and has performed this procedure in the past but was unable to due to lack of resources. The District will implement previous practices to ensure this requirement is met.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

03 - 6 / 10000

ATTENDANCE - CASA GRANDE HIGH

- Criteria:** Students absent all day on block scheduled days should be manually coded as absent for the entire day, in the computer system, by the attendance clerks.
- Condition:** Students absent on block scheduled days were credited with attendance apportionment because the students were not manually marked as absent for the entire day, by the attendance clerks. Students on block schedules either attend all even or all odd numbered periods on that day. Since the students are only absent for odd or even periods, the computer system assumes the students are present for the other periods.
- Questioned Costs:** Average daily attendance was overstated by 10.96 ADA. The estimated fiscal impact of this finding is a \$58,892 decrease in revenue limit funding, which was computed as follows:
- (10.96 ADA x \$5,373.40 Per ADA Base Revenue Limit)
- Context:** The overstated ADA was identified after reviewing and correcting all student absences on block scheduled days for fiscal year 2002-03.
- Effect:** Errors, which affect the level of state funding received by the District, may occur and not be detected in a timely manner. The District amended the P-2 attendance report prior to closing the books, therefore the state apportionment revenue in the General Fund did not include the overstated ADA.
- Cause:** The attendance clerks failed to manually code students, who were absent on block scheduled days, as absent for the entire day.
- Recommendation:** Students that are absent for all odd/even periods on block scheduled days should be manually coded as absent for the entire day, in the computer system, by the attendance clerks. The attendance clerks should review all absences on block scheduled days to ensure accuracy and completeness. The District should amend the P-2 attendance report to report 3,124.76 ADA on line A-5.
- District Response:** The site staff have immediately changed their procedure to utilize the "all day" code so that ADA is not overstated. The District has already amended the 2002-03 P-2 attendance report on July 7, 2003, to account for the loss of 10.96 ADA.

**PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
02 - 1 / 30000		
<u>STUDENT BODY - CASH DISBURSEMENTS</u>		
Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site. In addition, the District business office should perform internal audits of the student body accounts to ensure that proper procedures and policies are being followed.	Partially Implemented	Comment Repeated (See 03 - 2 / 30000)
02 - 2 / 30000		
<u>INDEPENDENT CONTRACTOR REPORTING</u>		
The District should require that all payments made to independent contractors be processed through the District's financial system. The student body should then reimburse the District and shift the independent contractor reporting responsibility to the District Office, where they are better equipped to track and accumulate payments to independent contractors.	Implemented	
<u>STATE AWARDS</u>		
02 - 3 / 10000		
<u>KINDERGARTEN RETENTION</u>		
The District should amend the fiscal year 2001-02 J18/19 P-2 attendance report to exclude the .89 ADA generated by the one retained student.	Implemented	