

**PETALUMA  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2006**



**PETALUMA CITY SCHOOLS  
OF SONOMA COUNTY  
PETALUMA, CALIFORNIA  
JUNE 30, 2006**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Lou Steinberg	President	2006
Carolyn Tennyson	Clerk	2006
Christina Kauk	Member	2006
Troy Sanderson	Member	2006
Mary Schafer	Member	2008

**ADMINISTRATION**

Margaret Viguie, Ed. D.	Superintendent
Steve Bolman	Deputy Superintendent, Business and Administration
Sandra Hill	Assistant Superintendent, Human Resources
Sue Olds	Assistant Superintendent, Curriculum and Instruction



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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Petaluma City Schools  
Petaluma, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on page 50, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co LLP  
Pleasanton, California  
October 20, 2006

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

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This section of Petaluma City Schools (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the District (including capital assets), as well as all liabilities including long-term obligations. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Petaluma City Schools. This includes the Petaluma City Elementary School District, the Petaluma Joint Union High School District and the Mary Collins at Cherry Valley Charter School.

### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

#### REPORTING THE DISTRICT AS A WHOLE

##### The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

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These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we separate the District activities as follows:

**Governmental Activities** - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

**Business-Type Activities** - The District charges fees to help it cover the costs of certain services it provides. The District's Downtown Project is included here.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

# METALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

**Proprietary funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets were \$49.8 million for the fiscal year ended June 30, 2006. Of this amount, \$1.3 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities		Business-Type Activities		School District Activities	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 30,931,358	\$ 41,941,820	\$ 63,221	\$ 27,746	\$ 30,994,579	\$ 41,969,566
Capital assets	103,370,449	92,706,891	-	-	103,370,449	92,706,891
<b>Total Assets</b>	<b>134,301,807</b>	<b>134,648,711</b>	<b>63,221</b>	<b>27,746</b>	<b>134,365,028</b>	<b>134,676,457</b>
Current liabilities	7,821,259	12,391,802	1,585	6,994	7,822,844	12,398,796
Long-term debt	76,730,213	78,113,772	-	-	76,730,213	78,113,772
<b>Total Liabilities</b>	<b>84,551,472</b>	<b>90,505,574</b>	<b>1,585</b>	<b>6,994</b>	<b>84,553,057</b>	<b>90,512,568</b>
Net assets						
Invested in capital assets, net of related debt	30,078,540	20,597,858	-	-	30,078,540	20,597,858
Restricted	18,452,379	17,272,411	-	-	18,452,379	17,272,411
Unrestricted	1,219,416	6,272,868	61,636	21,052	1,281,052	6,293,920
<b>Total Net Assets</b>	<b>\$ 49,750,335</b>	<b>\$ 44,143,137</b>	<b>\$ 61,636</b>	<b>\$ 21,052</b>	<b>\$ 49,811,971</b>	<b>\$ 44,164,189</b>

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

The \$1.3 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our non-capital liabilities (compensated absences as an example), we would have \$1.3 million left.

### Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues and expenses for the year.

**Table 2**

	Governmental Activities		Business-Type Activities		School District Activities	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,377,225	\$ 1,513,394	\$ 100,658	\$ 73,576	\$ 1,477,883	\$ 1,586,970
Operating grants and contributions	13,534,671	11,888,642	-	-	13,534,671	11,888,642
Capital grants and contributions	5,835,947	-	-	-	5,835,947	-
General revenues:						
Federal and state aid	23,059,138	22,762,379	-	-	23,059,138	22,762,379
Property taxes	30,890,747	28,302,977	-	-	30,890,747	28,302,977
Other general revenues	6,204,085	3,915,789	29,069	-	6,233,154	3,915,789
<b>Total Revenues</b>	<b>80,901,813</b>	<b>68,383,181</b>	<b>129,727</b>	<b>73,576</b>	<b>81,031,540</b>	<b>68,456,757</b>
<b>Expenses</b>						
Instruction-related	49,809,971	46,028,038	-	-	49,809,971	46,028,038
Student support services	8,415,945	7,607,464	-	-	8,415,945	7,607,464
Administration	2,349,981	2,428,472	-	-	2,349,981	2,428,472
Maintenance and operations	7,130,886	6,820,582	-	-	7,130,886	6,820,582
Other	8,087,832	5,840,317	89,143	55,513	8,176,975	5,895,830
<b>Total Expenses</b>	<b>75,794,615</b>	<b>68,724,873</b>	<b>89,143</b>	<b>55,513</b>	<b>75,883,758</b>	<b>68,780,386</b>
<b>Excess (Deficiency)</b>	<b>5,107,198</b>	<b>(341,692)</b>	<b>40,584</b>	<b>18,063</b>	<b>5,147,782</b>	<b>(323,629)</b>
Special item: sale of land	500,000	393,120	-	-	500,000	393,120
<b>Change in Net Assets</b>	<b>\$ 5,607,198</b>	<b>\$ 51,428</b>	<b>\$ 40,584</b>	<b>\$ 18,063</b>	<b>\$ 5,647,782</b>	<b>\$ 69,491</b>

### Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$75.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$30.9 million because the cost was paid by those who benefited from the programs (\$1.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$19.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$23.1 million in Federal and state aid, and with other revenues, like interest and general entitlements.



# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

In Table 3, we have presented the cost of each of the District's 5 largest functions: regular program instruction, special instruction programs, other instructional programs, plant services, student transportation services, and school food services as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$ 49,809,971	\$ 46,028,038	\$ 33,680,096	\$ 37,196,240
Pupil services	8,415,945	7,607,464	4,577,725	4,142,834
School administration	2,349,981	2,428,472	2,176,892	2,262,446
Maintenance and operations	7,130,886	6,820,582	6,667,182	6,096,630
Other	8,087,832	5,840,317	7,944,877	5,624,687
<b>Totals</b>	<b>\$ 75,794,615</b>	<b>\$ 68,724,873</b>	<b>\$ 55,046,772</b>	<b>\$ 55,322,837</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$25.3 million, which is a decrease of \$6.9 million from last year (Table 4).

**Table 4**

	Fund Balance	
	June 30, 2006	June 30, 2005
General	\$ 7,384,018	\$ 7,431,205
Building	4,770,195	6,853,671
County Schools Facilities	190,368	-
Capital Projects - Special Reserve	3,236,343	8,310,305
Bond Interest and Redemption	5,358,029	5,714,676
Adult Education	231,467	254,159
Cafeteria	166,526	40,897
Deferred Maintenance	1,296,525	1,303,161
Capital Facilities	2,660,099	2,273,124
<b>Totals</b>	<b>\$ 25,293,570</b>	<b>\$ 32,181,198</b>

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

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The primary reasons for these increases/decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased by approximately \$47,000 to \$7.4 million. This decrease is due to:
  1. Decreased enrollment
  2. Decreased State revenue
  3. Increase in special education unfunded mandates
- b. Our special revenue funds increased by approximately \$96,000 from the prior year due to the sale of benches and the like under the Downtown Project contract with the City of Petaluma.
- c. Our capital project funds decreased by approximated \$7.0 million from the prior year due to modernization projects, construction of new junior high school, completion of stages at five elementary sites.
- d. The debt service funds showed a decrease of approximately \$350,000 due to the net change between the collection of property taxes for debt payments and the payment of principal and interest on bond issuances.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 27, 2006. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 50.

- Significant revenue revisions made to the 2005-2006 Budget were due to increased equalization aid that was announced by the Governor after the budget adoption.
- Budgeted expenditures increased by \$1.4 million due to the collective bargaining settlement reached during 2005-2006.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2006, the District had \$103.4 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of just under \$10.7 million, or 12 percent, from last year (Table 5).

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2006

Table 5

	Governmental Activities	
	2006	2005
Land	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	94,997,056	88,582,770
Equipment	5,276,212	4,217,755
Construction in progress	33,444,348	27,526,922
<b>Totals</b>	<b>137,984,502</b>	<b>124,594,333</b>
Less Accumulated Depreciation	(34,614,053)	(31,887,442)
<b>Capital Assets, net</b>	<b>\$ 103,370,449</b>	<b>\$ 92,706,891</b>

This years additions of \$8,1 million included the following: 13 buses, 2 lawnmowers, 2 vans, 1 truck, completion of stages at McDowell, McKinley, McNear, Penngrove and Valley Vista elementary sites, HVAC at McKinley elementary, solar at McDowell elementary, software and hardware for a point of sale system for Food Services, Petaluma High School D-wing modernization (Phase C), installation of portable classrooms for 7<sup>th</sup> & 8<sup>th</sup> grades at Mary Collins at Cherry Valley Charter School, a patio at Casa Grande High School, field renovations at McDowell and McNear elementary schools, and routing software for Transportation.

Several capital projects are planned for the 2006-2007 year. We anticipate capital additions to be approximately \$35 million for the 2006-2007 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

**Long-Term Obligations**

At the end of this year, the District had \$68.6 million in bonds outstanding versus \$68.2 million last year, an increase of 5 percent. Those bonds consisted of:

Table 6

	Totals	
	2006	2005
General obligation bonds (financed with property taxes)	\$ 68,579,207	\$ 68,228,923
Bond premiums, net of amortization	1,436	-
Certificates of participation	8,450,000	8,450,000
Capitalized lease obligations	1,032,897	2,763,546
Accrued vacation	377,689	432,352
Other post employment benefits	1,263,514	1,579,979
<b>Totals</b>	<b>\$ 79,704,743</b>	<b>\$ 81,454,800</b>

The District's general obligation bond rating continues to be "AAA." The State limits the amount of general obligation debt that District's can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily-imposed limit.

We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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### SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2005-2006 ARE NOTED BELOW:

The following projects were completed during the 2005-2006 fiscal year: stages at McDowell, McKinley, McNear, Penngrove and Valley Vista elementary sites, HVAC at McKinley elementary, solar installation at McDowell elementary, Petaluma High School D-wing modernization (Phase C), installation of portable classrooms for 7<sup>th</sup> & 8<sup>th</sup> grades at Mary Collins at Cherry Valley Charter School, field renovations at McDowell and McNear elementary schools.

Projects still in progress include the new Kenilworth Junior High School, expansion at Casa Grande High School (Phase E Growth), Grant Elementary modernization and Valley Vista modernization.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006-2007 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income increase due to 5.92% COLA, equalization and elimination of prior year deficits and will be offset by a loss of funding for an estimated 60 average daily attendance (ADA).
2. Developer fee collections are based on approximate new housing units to be constructed.
3. Federal income is estimated to have minimal change.
4. State income will increase by 5.92%.
5. Charges to other funds will increase by \$375K as the Deferred Maintenance required match is transferred back to the General Fund rather than Bond Funds.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	1,354
Grades four through six	27:1	943
Grades seven through eight	24.78:1	1,811
Grades nine through twelve	26.67:1	3,809

The new items specifically addressed in the budget are the addition of mandated cost reimbursement revenues of \$550K, of which \$250-350K is estimated to be one-time reimbursements from prior years.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any 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, 2006

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Deposits and investments	\$ 23,149,424	\$ 390	\$ 23,149,814
Receivables	6,181,447	70,831	6,252,278
Internal balances	8,000	(8,000)	-
Due from other governmental units	15,824	-	15,824
Deferred charges	1,510,283	-	1,510,283
Stores inventories	66,380	-	66,380
Capital assets not depreciated	37,711,234	-	37,711,234
Capital assets, net of accumulated depreciation	65,659,215	-	65,659,215
<b>Total Assets</b>	<u>134,301,807</u>	<u>63,221</u>	<u>134,365,028</u>
<b>LIABILITIES</b>			
Accounts payable	3,404,301	1,585	3,405,886
Interest payable	939,447	-	939,447
Due to other governments	59,786	-	59,786
Deferred revenue	443,195	-	443,195
Current portion of long-term obligations	2,974,530	-	2,974,530
Noncurrent portion of long-term obligations	76,730,213	-	76,730,213
<b>Total Liabilities</b>	<u>84,551,472</u>	<u>1,585</u>	<u>84,553,057</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	30,078,540	-	30,078,540
Restricted for:			
Debt service	4,401,652	-	4,401,652
Capital projects	11,017,231	-	11,017,231
Educational programs	1,523,213	-	1,523,213
Self-insurance	1,510,283	-	1,510,283
Unrestricted	1,219,416	61,636	1,281,052
<b>Total Net Assets</b>	<u>\$ 49,750,335</u>	<u>\$ 61,636</u>	<u>\$ 49,811,971</u>

The accompanying notes are an integral part of these financial statements.

**PETALUMA CITY SCHOOLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$42,729,599	\$ 57,334	\$ 9,058,669	\$ 5,835,947	\$ (27,777,649)	\$ -	\$ (27,777,649)
Instruction-related activities:							
Supervision of instruction	1,051,166	-	481,987	-	(569,179)	-	(569,179)
Instructional library, media, and technology	870,693	-	84,423	-	(786,270)	-	(786,270)
School site administration	5,158,513	13,122	598,393	-	(4,546,998)	-	(4,546,998)
Pupil services:							
Home-to-school transportation	1,416,793	93,044	736,669	-	(587,080)	-	(587,080)
Food services	2,042,278	1,188,466	680,512	-	(173,300)	-	(173,300)
All other pupil services	4,956,874	2,414	1,137,115	-	(3,817,345)	-	(3,817,345)
General administration:							
All other general administration	2,349,981	2,336	170,753	-	(2,176,892)	-	(2,176,892)
Plant services	7,130,886	7,522	456,182	-	(6,667,182)	-	(6,667,182)
Ancillary services	342,555	-	-	-	(342,555)	-	(342,555)
Community services	407,302	-	-	-	(407,302)	-	(407,302)
Enterprise services	38,430	-	-	-	(38,430)	-	(38,430)
Interest on long-term debt	5,505,567	-	-	-	(5,505,567)	-	(5,505,567)
Other outgo	1,793,978	12,987	129,968	-	(1,651,023)	-	(1,651,023)
<b>Total Governmental-Type Activities</b>	<b>75,794,615</b>	<b>1,377,225</b>	<b>13,534,671</b>	<b>5,835,947</b>	<b>(55,046,772)</b>	<b>-</b>	<b>(55,046,772)</b>
<b>Business-Type Activities</b>							
Enterprise services	89,143	100,658	-	-	-	11,515	11,515
<b>Total Business-Type Activities</b>	<b>\$ 89,143</b>	<b>\$ 100,658</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>11,515</b>	<b>11,515</b>
General revenues and subventions:							
Property taxes, levied for general purposes					24,523,465	-	24,523,465
Property taxes, levied for debt service					4,222,733	-	4,222,733
Taxes levied for other specific purposes					2,144,549	-	2,144,549
Federal and State aid not restricted to specific purposes					23,059,138	-	23,059,138
Interest and investment earnings					940,968	143	941,111
Miscellaneous					5,263,117	28,926	5,292,043
<b>Subtotal, General Revenues</b>					<b>60,153,970</b>	<b>29,069</b>	<b>60,183,039</b>
Special item							
Proceeds from option on land sale					500,000	-	500,000
<b>Change in Net Assets</b>					<b>5,607,198</b>	<b>40,584</b>	<b>5,647,782</b>
Net Assets - Beginning					44,143,137	21,052	44,164,189
Net Assets - Ending					<b>\$ 49,750,335</b>	<b>\$ 61,636</b>	<b>\$ 49,811,971</b>

The accompanying notes are an integral part of these financial statements.

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**PETALUMA CITY SCHOOLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006**

	<b>General Fund</b>	<b>Building Fund</b>	<b>County School Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 4,923,982	\$ 5,188,910	\$ 16,076
Receivables	4,147,890	-	1,479,239
Due from other funds	532,868	735,000	-
Due from other governments	15,824	-	-
Stores inventories	44,900	-	-
<b>Total Assets</b>	<b>\$ 9,665,464</b>	<b>\$ 5,923,910</b>	<b>\$ 1,495,315</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,290,142	\$ 1,153,715	\$ 569,947
Due to other funds	488,323	-	735,000
Due to other governments	59,786	-	-
Deferred revenue	443,195	-	-
<b>Total Liabilities</b>	<b>2,281,446</b>	<b>1,153,715</b>	<b>1,304,947</b>
<b>Fund Balances:</b>			
Reserved for:			
Stores inventories	44,900	-	-
Other reservations	1,543,213	-	-
Unreserved:			
Designated	3,299,246	-	-
Undesignated, reported in:			
General Fund	2,496,659	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	4,770,195	190,368
<b>Total Fund Balance</b>	<b>7,384,018</b>	<b>4,770,195</b>	<b>190,368</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,665,464</b>	<b>\$ 5,923,910</b>	<b>\$ 1,495,315</b>

The accompanying notes are an integral part of these financial statements.



<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 3,230,570	\$ 5,358,029	\$ 4,371,019	\$ 23,088,586
84,227	-	304,988	6,016,344
8,000	-	181,476	1,457,344
-	-	-	15,824
-	-	21,480	66,380
<u>\$ 3,322,797</u>	<u>\$ 5,358,029</u>	<u>\$ 4,878,963</u>	<u>\$ 30,644,478</u>
\$ 86,259	\$ -	\$ 289,749	\$ 3,389,812
195	-	234,597	1,458,115
-	-	-	59,786
-	-	-	443,195
<u>86,454</u>	<u>-</u>	<u>524,346</u>	<u>5,350,908</u>
-	-	21,480	66,380
-	-	300	1,543,513
-	-	183,181	3,482,427
-	-	-	2,496,659
-	-	1,489,557	1,489,557
-	5,358,029	-	5,358,029
3,236,343	-	2,660,099	10,857,005
<u>3,236,343</u>	<u>5,358,029</u>	<u>4,354,617</u>	<u>25,293,570</u>
<u>\$ 3,322,797</u>	<u>\$ 5,358,029</u>	<u>\$ 4,878,963</u>	<u>\$ 30,644,478</u>

**PETALUMA CITY SCHOOLS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 25,293,570</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 137,984,502	
Accumulated depreciation is	<u>(34,614,053)</u>	
Net Capital Assets		103,370,449
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are recorded as deferred charges on the accrual basis and amortized over the life of the bonds.		1,510,283
In governmental funds, long term receivables for special education mandate settlements are recognized in the year amounts are received, however it is recognized in governmental-wide financial statements in the year earned.		165,027
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(939,447)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		55,196
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	68,579,207	
Certificates of participation	8,450,000	
Capital leases payable	1,032,897	
Other post employment benefits	1,263,514	
Bond premiums, net of amortization	1,436	
Compensated absences (vacations)	<u>377,689</u>	
Total Long-Term Liabilities		<u>(79,704,743)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 49,750,335</u></b>

The accompanying notes are an integral part of these financial statements.

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PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund	Building Fund	County School Facilities Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 44,375,546	\$ -	\$ -
Federal sources	3,098,349	-	-
Other state sources	8,491,175	-	5,826,197
Other local sources	8,186,285	211,782	9,750
<b>Total Revenues</b>	<u>64,151,355</u>	<u>211,782</u>	<u>5,835,947</u>
<b>EXPENDITURES</b>			
Current			
Instruction	40,009,179	-	-
Instruction-related activities:			
Supervision of instruction	1,012,993	-	-
Instructional library, media and technology	746,020	-	-
School site administration	4,547,939	-	-
Pupil services:			
Home-to-school transportation	2,389,263	-	-
Food services	-	-	-
All other pupil services	4,720,170	-	-
General administration:			
All other general administration	2,346,173	-	-
Plant services	5,295,989	100,926	-
Facility acquisition and construction	88,598	1,829,332	5,645,579
Ancillary services	334,849	-	-
Community services	367,131	-	-
Other outgo	1,793,978	-	-
Enterprise services	38,439	-	-
Debt service			
Principal	291,686	-	-
Interest and other	38,943	1,562,205	-
<b>Total Expenditures</b>	<u>64,021,350</u>	<u>3,492,463</u>	<u>5,645,579</u>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<u>130,005</u>	<u>(3,280,681)</u>	<u>190,368</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Other financing sources refunding bond	-	14,812,205	-
Other financing sources	-	-	-
Transfers out	(177,191)	(365,000)	-
Payment to refunded bond escrow agent	-	(13,250,000)	-
<b>Net Financing Sources (Uses)</b>	<u>(177,191)</u>	<u>1,197,205</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(47,186)</u>	<u>(2,083,476)</u>	<u>190,368</u>
<b>Fund Balance - Beginning</b>	7,431,204	6,853,671	-
<b>Fund Balance - Ending</b>	<u>\$ 7,384,018</u>	<u>\$ 4,770,195</u>	<u>\$ 190,368</u>

The accompanying notes are an integral part of these financial statements.

Special Reserve Capital Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,433,036	\$ 45,808,582
-	-	713,631	3,811,980
-	43,629	444,447	14,805,448
1,008,660	4,309,309	2,750,017	16,475,803
1,008,660	4,352,938	5,341,131	80,901,813
-	-	1,168,505	41,177,684
-	-	-	1,012,993
-	-	-	746,020
-	-	329,889	4,877,828
-	-	-	2,389,263
-	-	2,023,180	2,023,180
-	-	-	4,720,170
-	-	74,112	2,420,285
475,055	-	995,879	6,867,849
4,176,506	-	804,189	12,544,204
-	-	-	334,849
-	-	-	367,131
-	-	-	1,793,978
-	-	-	38,439
1,435,082	2,080,000	3,882	3,810,650
495,979	2,629,585	410	4,727,122
6,582,622	4,709,585	5,400,046	89,851,645
(5,573,962)	(356,647)	(58,915)	(8,949,832)
-	-	542,191	542,191
-	-	-	14,812,205
500,000	-	-	500,000
-	-	-	(542,191)
-	-	-	(13,250,000)
500,000	-	542,191	2,062,205
(5,073,962)	(356,647)	483,276	(6,887,627)
8,310,305	5,714,676	3,871,341	32,181,197
\$ 3,236,343	\$ 5,358,029	\$ 4,354,617	\$ 25,293,570

**PETALUMA CITY SCHOOLS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006**

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (6,887,627)</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>	
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 of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.	
This is the amount by which capital outlays exceeds depreciation in the period.	
Depreciation expense	\$ (3,328,058)
Capital outlays	<u>13,991,615</u>
Net Expense Adjustment	10,663,557
Special education mandate settlement received in current fiscal year was accrued in 2001-02 in the governmental funds, therefore it is excluded in the statement of activities.	(33,006)
In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	54,663
Proceeds received from Certificates of Participation or Sale of Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	(14,825,000)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	15,330,000
Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the statement of net assets over the life of the bonds.	73,806
Payment of principal on capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	1,388,978
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.	316,465
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(497,783)
An internal service fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	23,145
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 5,607,198</u></b>

The accompanying notes are an integral part of these financial statements.

**PETALUMA CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>Business Type Activities Enterprise Fund Downtown Project Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 390	\$ 60,838
Receivables	70,831	76
Due from other funds	-	8,771
<b>Total Current Assets</b>	<u>71,221</u>	<u>69,685</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	1,585	14,489
Due to other funds	8,000	-
<b>Total Current Liabilities</b>	<u>9,585</u>	<u>14,489</u>
<b>NET ASSETS</b>		
Unrestricted	61,636	55,196
<b>Total Net Assets</b>	<u>\$ 61,636</u>	<u>\$ 55,196</u>

The accompanying notes are an integral part of these financial statements.

**PETALUMA CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

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	<b>Business Type Activities Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Downtown Project Fund</b>	
	<hr/>	<hr/>
<b>OPERATING REVENUES</b>		
Local and intermediate sources	\$ 129,584	\$ 100,658
<b>Total Operating Revenues</b>	<hr/> <b>129,584</b>	<hr/> <b>100,658</b>
<b>OPERATING EXPENSES</b>		
Payroll costs	22,844	-
Supplies and materials	55,449	-
Other operating cost	10,850	78,530
<b>Total Operating Expenses</b>	<hr/> <b>89,143</b>	<hr/> <b>78,530</b>
<b>Operating Income (Loss)</b>	<hr/> <b>40,441</b>	<hr/> <b>22,128</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	143	1,017
<b>Change in Net Assets</b>	<hr/> <b>40,584</b>	<hr/> <b>23,145</b>
<b>Total Net Assets - Beginning</b>	<hr/> <b>21,052</b>	<hr/> <b>32,051</b>
<b>Total Net Assets - Ending</b>	<hr/> <b>\$ 61,636</b>	<hr/> <b>\$ 55,196</b>

The accompanying notes are an integral part of these financial statements.



**PETALUMA CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities -</b>
	<b>Downtown</b>	<b>Internal</b>
	<b>Project Fund</b>	<b>Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 93,025	\$ 91,963
Cash payments to employees for services	(22,844)	-
Cash payments to suppliers for goods and services	(60,558)	-
Cash payments for other operating expenses	(17,935)	(69,401)
Net Cash Provided (Used) for Operating Activities	(8,312)	22,562
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	143	865
Net Cash Provided from Investing Activities	143	865
Net increase (decrease) in Cash and Cash Equivalents	(8,169)	23,427
Cash and Cash Equivalents - Beginning	8,559	37,411
Cash and Cash Equivalents - Ending	\$ 390	\$ 60,838
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 40,441	\$ 22,128
Changes in assets and liabilities:		
(Increase) Decrease Receivables	(36,559)	76
(Increase) Decrease Due from other fund	-	(8,481)
Increase (Decrease) Payables	(5,109)	8,839
Increase (Decrease) Due to other fund	(7,085)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (8,312)</b>	<b>\$ 22,562</b>

The accompanying notes are an integral part of these financial statements.

**PETALUMA CITY SCHOOLS**

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

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	<u>Scholarship Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 106,416	\$ 361,109
Receivables	932	-
<b>Total Assets</b>	<u>107,348</u>	<u>\$ 361,109</u>
 <b>LIABILITIES</b>		
Due to student groups	-	\$ 361,109
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 361,109</u>
 <b>NET ASSETS</b>		
Unreserved	107,348	
<b>Total Net Assets</b>	<u>\$ 107,348</u>	

The accompanying notes are an integral part of these financial statements.

**PETALUMA CITY SCHOOLS**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

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	<b>Scholarship Trust</b>
<b>ADDITIONS</b>	
Interest	\$ 3,239
<b>DEDUCTIONS</b>	
Scholarships awarded	3,000
<b>Change in Net Assets</b>	239
<b>Net Assets - Beginning</b>	107,109
<b>Net Assets - Ending</b>	<u>\$ 107,348</u>

The accompanying notes are an integral part of these financial statements.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial 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 as permitted under California Education Code Section 35110. 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 Petaluma City Elementary School District and the Petaluma Joint Union High School District were organized in 1857 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates six elementary, two middle, a community day school serving grades 7-9, two high schools, three continuation schools and one adult school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Petaluma City Schools, this includes general operations, food service, and student related activities of the District.

#### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

#### Other Related Entities

**Charter School** The District has approved Charters for the Live Oak Charter School and the Mary Collins School at Cherry Valley Charter School pursuant to Education Code Section 47605. The Mary Collins School at Cherry Valley Charter School is operated by the District, and its financial activities are presented in the General Fund. The Live Oak Charter School is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted accounting principles and not considered a component unit of the District.

**Joint Powers Agencies and Public Entity Risk Pools** The District is associated with three joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

Redwood Empire Schools' Insurance Group (RESIG)  
Schools Excess Liability Fund (SELF)  
School Project for Utility Rate Reduction (SPURR)

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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### **Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds.

### **Major Governmental Funds**

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

**County School Facilities Fund** The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

**Special Reserve Fund** The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

### **Non-Major Governmental Funds**

**Special Revenue Funds** The 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 the following special revenue funds:

**Adult Education Fund** The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

**Cafeteria Fund** The Cafeteria Fund Account is used to account for the financial transactions related to the food service operations of the District.

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

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service.

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Enterprise Downtown Project Fund of the District.

**Internal Service Fund** Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self insurance program that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: scholarship trust, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. 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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (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 fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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 expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

**Deferred Revenue** Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

### **Investments**

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Special Reserve Capital Outlay fund represent cash and cash equivalents held at Zion Bank required by the Certificate of Participation debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the Certificates of Participation.

### **Prepaid Expenditures**

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



# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the average cost basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment, vehicles and the like, and \$50,000 for buildings and other capital improvements. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 40 years; site improvements, 15 years; equipment, 5 to 10 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### **Compensated Absences**

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

### **Deferred Issuance Costs, Premiums and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

### **Fund Balance Reserves and Designations**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, and cash in county treasury, and other purposes.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to the City of Petaluma for benches and trash receptacles. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

### Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

### Estimates

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

### Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1<sup>st</sup> of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Sonoma bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### New Accounting Pronouncements

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged. The implementation of this statement did not have an effect on these financial statements as the District does not currently have these types of transactions.

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental activities	\$23,149,424
Business-type activities	390
Fiduciary funds	<u>467,525</u>
Total Deposits and Investments	<u><u>\$23,617,339</u></u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 369,743
Cash in revolving	20,300
Investments	<u>23,227,296</u>
Total Deposits and Investments	<u><u>\$23,617,339</u></u>

**Policies and Practices**

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

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**General Authorizations**

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
Certificates of Deposit	\$ 99,781	227 days
U.S. Agencies	2,253,868	5 days
County Pool	20,873,647	344 days
Total	<u>\$ 23,227,296</u>	

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Certificates of Deposit	\$ 99,781	[1]	\$ -	\$ -	\$ -
U.S. Agencies	2,253,868		2,253,868	-	-
County Pool	20,873,647		-	-	20,873,647
Total	<u>\$23,227,296</u>		<u>\$ 2,253,868</u>	<u>\$ -</u>	<u>\$20,873,647</u>

[1] The certificates of deposit account is maintained at Bank of America, and is insured up to \$100,000, by the Federal Deposit Insurance Corporation (FDIC).

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, \$296,895 of the District's bank balance of \$575,080 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Dreyfus Treasury Cash Management of \$2,253,868 the District has a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Federal Government							
Categorical aid	\$ 1,022,259	\$ -	\$ -	\$ 247,877	\$ 1,270,136	\$ -	\$ -
State Government							
Apportionment	490,700	-	-	20,067	510,767	-	-
Categorical aid	2,008,700	1,479,239	-	19,460	3,507,399	-	-
Lottery	150,230	-	-	-	150,230	-	-
Other State	140,624	-	-	-	140,624	-	-
Local Government							
Interest	-	-	-	-	-	-	932
Other Local Sources	335,377	-	84,227	17,584	437,188	70,907	-
Total	<u>\$ 4,147,890</u>	<u>\$ 1,479,239</u>	<u>\$ 84,227</u>	<u>\$ 304,988</u>	<u>\$ 6,016,344</u>	<u>\$ 70,907</u>	<u>\$ 932</u>

Additional long term receivables include \$165,027 for a special education settlement with payments expected to be received annually over the next five years.



**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	27,526,923	12,235,071	6,317,646	33,444,348
Total Capital Assets Not Being Depreciated	31,793,809	12,235,071	6,317,646	37,711,234
Capital Assets Being Depreciated:				
Land Improvements	5,539,109	497,150	-	6,036,259
Buildings and Improvements	83,043,661	5,917,136	-	88,960,797
Furniture and Equipment	4,217,755	1,659,904	601,447	5,276,212
Total Capital Assets Being Depreciated	92,800,525	8,074,190	601,447	100,273,268
Total Capital Assets	<u>124,594,334</u>	<u>20,309,261</u>	<u>6,919,093</u>	<u>137,984,502</u>
Less Accumulated Depreciation:				
Land Improvements	3,228,814	276,110	-	3,504,924
Buildings and Improvements	25,400,868	2,676,639	-	28,077,507
Furniture and Equipment	3,257,760	375,309	601,447	3,031,622
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	<u>\$ 92,706,892</u>	<u>\$ 16,981,203</u>	<u>\$ 6,317,646</u>	<u>\$ 103,370,449</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 1,886,734
Supervision of instruction	37,013
Instructional library, media, and technology	129,324
School site administration	293,486
Home-to-school transportation	234,473
Food services	33,746
All other pupil services	240,684
Ancillary services	7,756
Community services	40,470
All other general administration	85,251
Plant services	339,121
Total Depreciation Expenses Governmental Activities	<u>\$ 3,328,058</u>

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 5 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2006, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From					Total
	General Fund	Building	Special Reserve Capital Outlay	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$298,076	\$ -	\$ -	\$ 181,476	\$ 8,771	\$ 488,323
County School Facilities Fund	-	735,000	-	-	-	735,000
Special Reserve - Capital Outlay	195	-	-	-	-	195
Non-Major Governmental funds	234,597	-	-	-	-	234,597
Proprietary funds	-	-	8,000	-	-	8,000
<b>Total</b>	<b>\$532,868</b>	<b>\$735,000</b>	<b>\$ 8,000</b>	<b>\$ 181,476</b>	<b>\$ 8,771</b>	<b>\$1,466,115</b>

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfer To	Transfer From		Total
	Cafeteria Fund	Deferred Maintenance Fund	
General Fund	\$ 177,191	\$ 365,000	\$ 542,191

The General Fund transferred to the Cafeteria Fund for coverage of negative expenditures.	\$ 177,191
The Building Fund transferred to the Deferred Maintenance Fund for District match.	365,000
<b>Total</b>	<b>\$ 542,191</b>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Vendor payables	\$ 738,155	\$1,153,715	\$ 569,947	\$ 86,259	\$ 280,859	\$2,828,935	\$ 16,074
State apportionment	309,252	-	-	-	-	309,252	-
Salaries and benefits	52,900	-	-	-	8,890	61,790	-
Other	189,835	-	-	-	-	189,835	-
Total	<u>\$ 1,290,142</u>	<u>\$1,153,715</u>	<u>\$ 569,947</u>	<u>\$ 86,259</u>	<u>\$ 289,749</u>	<u>\$3,389,812</u>	<u>\$ 16,074</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2006, consists of the following:

	General Fund
Federal financial assistance	\$ 307,880
State categorical aid	119,770
Other local	15,545
Total	<u>\$ 443,195</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

On July 7, 2005, the District issued \$4,020,000 Tax and Revenue Anticipation Notes bearing interest at 4.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2006. By May, 2006, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$4,020,000 and related accrued interest and cash held in trust are not included in these financial statements.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2005	Additions	Accretions	Deductions	Balance June 30, 2006	Due in One Year
General obligation bonds	\$68,228,923	\$14,825,000	\$ 855,284	\$15,330,000	\$ 68,579,207	\$2,052,118
Premiums (discounts), net of amortization	14,824	(12,795)	-	593	1,436	593
Certificates of participation	8,450,000	-	-	-	8,450,000	205,000
Accumulated vacation	432,352	-	-	54,663	377,689	-
Capital leases	2,763,546	-	-	1,730,649	1,032,897	425,590
Other post employment benefits	1,579,979	-	-	316,465	1,263,514	291,229
	<u>\$81,469,624</u>	<u>\$14,812,205</u>	<u>\$ 855,284</u>	<u>\$17,432,370</u>	<u>\$ 79,704,743</u>	<u>\$2,974,530</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The Special Reserve –Capital Outlay Fund makes payments for the Certificates of Participation and the General Fund makes payments for the majority of the capital leases. The accrued vacation and other post employment benefits will be paid by the fund for which the employee worked.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2005	Issued	Accretions	Redeemed	Bonds Outstanding June 30, 2006
<b>Elementary</b>								
1991 J	8/1/2028	4.00-8.00	\$ 2,700,000	\$ 2,700,000	\$ -	\$ -	\$ 65,000	\$ 2,635,000
1999 G	8/1/2023	4.20-7.20	\$ 1,500,000	1,330,000	-	-	40,000	1,290,000
2000 H	8/1/2024	5.00-8.00	\$ 2,000,000	1,845,000	-	-	45,000	1,800,000
2002 I	8/1/2027	1.70-5.00	\$ 3,500,000	3,415,000	-	-	90,000	3,325,000
1998 Refunding	8/1/2021	4.00-4.60	\$ 7,530,000	6,370,000	-	-	340,000	6,030,000
2003 Refunding	8/1/2021	2.75-4.30	\$ 5,895,000	5,670,000	-	-	270,000	5,400,000
2003 Series B Refunding	8/1/2017	3.00-4.00	\$ 4,560,000	4,325,000	-	-	235,000	4,090,000
<b>High School</b>								
1995 Refunding	8/1/2021	4.50-6.20	\$10,623,276	1,670,018	-	105,753	-	1,775,771
1997 C	8/1/2018	4.65-5.80	\$ 8,972,019	14,604,864	-	650,465	415,000	14,840,329
1998 D	8/1/2021	4.25-7.25	\$ 3,900,000	3,270,000	-	-	2,965,000	305,000
1999 E	8/1/2023	4.50-7.00	\$ 2,600,000	2,295,000	-	-	2,200,000	95,000
2000 F	8/1/2024	5.00-8.00	\$ 9,400,000	8,660,000	-	-	8,085,000	575,000
2002 Refunding	8/1/2020	2.00-4.75	\$11,943,021	12,074,041	-	99,066	580,000	11,593,107
2005 Refunding	8/1/2024	3.125-7.00	\$14,825,000	-	14,825,000	-	-	14,825,000
				<u>\$68,228,923</u>	<u>\$14,825,000</u>	<u>\$ 855,284</u>	<u>\$15,330,000</u>	<u>\$ 68,579,207</u>

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Debt Service Requirements to Maturity**

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2007	\$ 2,052,118	\$ 2,028,782	\$ 4,080,900
2008	2,159,419	1,967,754	4,127,173
2009	2,293,141	1,901,270	4,194,411
2010	2,824,614	1,814,555	4,639,169
2011	2,983,298	1,707,204	4,690,502
2012-2016	16,657,018	6,878,982	23,536,000
2017-2021	18,626,642	3,482,721	22,109,363
2022-2026	12,451,969	862,039	13,314,008
2027-2031	960,000	58,440	1,018,440
Total	<u>61,008,219</u>	<u>\$20,701,747</u>	<u>\$ 81,709,966</u>
Accretions to date	7,570,988		
	<u>\$ 68,579,207</u>		

**Certificates of Participation**

In June 2005, the District issued certificates of participation in the amount of \$8,450,000 with a variable interest rate of 3%. As of June 30, 2006, the principal balance outstanding was \$8,450,000. The certificates mature through 2031 as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 205,000	\$ 248,900	\$ 453,900
2008	210,000	243,136	453,136
2009	220,000	235,625	455,625
2010	230,000	229,289	459,289
2011	240,000	222,165	462,165
2012-2016	1,345,000	994,553	2,339,553
2017-2021	1,620,000	769,855	2,389,855
2022-2026	1,975,000	498,701	2,473,701
2027-2031	2,405,000	168,206	2,573,206
Total	<u>\$ 8,450,000</u>	<u>\$ 3,610,430</u>	<u>\$ 12,060,430</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2006, amounted to \$377,689.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$1,385,148 with corresponding accumulated depreciation of \$113,244 at June 30, 2006. The District's liability on lease agreements with options to purchase are summarized below:

	Buses	Buildings and Equipment	Total
Balance, July 1, 2005	\$ 1,151,865	\$ 1,611,681	\$ 2,763,546
Payments	291,684	1,438,965	1,730,649
Balance, July 1, 2006	<u>\$ 860,181</u>	<u>\$ 172,716</u>	<u>\$ 1,032,897</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2007	\$ 392,790
2008	260,218
2009	196,461
2010	123,076
2011	96,758
2012-2016	48,379
Total	<u>1,117,682</u>
Less: Amount Representing Interest	84,786
Present Value of Minimum Lease Payments	<u>\$ 1,032,896</u>

### Other Post Employment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65. For the year ended June 30, 2006, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post Employment Benefits
2007	\$ 291,229
2008	257,252
2009	209,747
2010	170,316
2011	167,485
2012-2015	167,485
	<u>\$ 1,263,514</u>

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 10 - FUND BALANCES**

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Reserved</b>							
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 300	\$ 20,300
Stores inventory	44,900	-	-	-	-	21,480	66,380
Restricted programs	1,523,213	-	-	-	-	-	1,523,213
<b>Total Reserved</b>	<b>1,588,113</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,780</b>	<b>1,609,893</b>
<b>Unreserved</b>							
<b>Designated</b>							
Economic uncertainties	1,886,026	-	-	-	-	183,045	2,069,071
Other designation	1,413,220	-	-	-	-	136	1,413,356
<b>Total Designated</b>	<b>3,299,246</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>183,181</b>	<b>3,482,427</b>
<b>Undesignated</b>	<b>2,496,659</b>	<b>4,770,195</b>	<b>190,368</b>	<b>3,236,343</b>	<b>5,358,029</b>	<b>4,149,656</b>	<b>20,201,250</b>
<b>Total Unreserved</b>	<b>5,795,905</b>	<b>4,770,195</b>	<b>190,368</b>	<b>3,236,343</b>	<b>5,358,029</b>	<b>4,332,837</b>	<b>23,683,677</b>
<b>Total</b>	<b>\$ 7,384,018</b>	<b>\$ 4,770,195</b>	<b>\$ 190,368</b>	<b>\$ 3,236,343</b>	<b>\$ 5,358,029</b>	<b>\$ 4,354,617</b>	<b>\$ 25,293,570</b>

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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### NOTE 12 - RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2006, the District contracted with Redwood Schools Insurance Group (ReSIG), for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2006, the District participated in the Redwood School Insurance Group (ReSIG) JPA, an insurance purchasing pool. The intent of the ReSIG JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the ReSIG JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the ReSIG JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the ReSIG JPA. Participation in the ReSIG JPA is limited to districts that can meet the ReSIG JPA's selection criteria.

Coverage provided by Redwood Schools Insurance Group for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Redwood Empire Schools Insurance Group	Workers' Compensation	Statutory Limits
Redwood Empire Schools Insurance Group	Property	\$ 500,000,000
Redwood Empire Schools Insurance Group	Liability	\$ 15,000,000

### NOTE 12 - 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).

#### STRS

##### Plan Description

The District contributes to the California 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 and disability benefits and survivor benefits to 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 STRS, 7667 Folsom Blvd., Sacramento, CA 95826.



# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### **Funding Policy**

Active plan members are required to contribute 8.0 percent 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-2006 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$2,427,427, \$2,332,012 and \$2,159,791, respectively, and equal 100 percent of the required contributions for each year.

### **PERS**

#### **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 Laws. 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 percent 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 2005-2006 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$1,018,829, \$967,723, and \$666,595, respectively, and equal 100 percent of the required contributions for each year.

#### **Social Security/Tax Deferred Annuity**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2006**

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The District also has a 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The 403(b) plan is available for salary deferrals, however, no District contributions are made.

### **On Behalf Payments**

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,329,053 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

### **NOTE 13 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

#### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2006.

#### **Operating Leases**

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

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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### Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Valley Vista Elementary - modernization	\$ 903,328	Nov-06
Grant Elementary - modernization	1,204,224	Nov-06
Casa Grande High School - modular buildings project	471,695	Nov-06
Kenilworth Junior High School - new school	382,651	Jan-07
	\$ 2,961,898	

### NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Redwood Empire Schools Insurance Group, and the Schools Excess Liability Fund public entity risk pools and the School Project for Utility Rate Reduction joint powers authority JPA. The District pays an annual premium to the applicable entities for its workers' compensation, property and liability coverage, and for direct purchase of gas, electricity, and other utility services. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2006, the District made payments of \$230,133, and \$229,711 to Redwood Empire Schools Insurance Group, and School Project for Utility Rate Reduction, respectively for workers compensation, property and liability coverage and direct purchase of gas, electricity and other utility services.

### NOTE 15 - SUBSEQUENT EVENTS

The District issued \$7,285,270 of Tax and Revenue Anticipation Notes dated July 11, 2006. The notes mature on July 10, 2007, and yield 3 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent in January, and April 2007, until 100 percent of principal and interest due is on account in May, 2007.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PETALUMA CITY SCHOOLS**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 43,249,303	\$44,079,362	\$ 44,375,546	\$ 296,184
Federal sources	2,952,022	3,316,912	3,098,349	(218,563)
Other state sources	6,304,837	6,945,274	8,491,175	1,545,901
Other local sources	6,340,380	7,052,620	8,186,285	1,133,665
<b>Total Revenues<sup>1</sup></b>	<b>58,846,542</b>	<b>61,394,168</b>	<b>64,151,355</b>	<b>2,757,187</b>
<b>EXPENDITURES</b>				
Current				
Instruction	37,904,909	38,798,432	40,009,179	(1,210,747)
Instruction-related activities:				
Supervision of instruction	950,376	1,094,175	1,012,993	81,182
Instructional library, media, and technology	737,277	857,507	746,020	111,487
School site administration	4,387,032	4,369,303	4,547,939	(178,636)
Pupil services:				
Home-to-school transportation	1,158,659	2,421,909	2,389,263	32,646
All other pupil services	4,299,129	4,881,950	4,720,170	161,780
General administration:				
All other general administration	2,368,812	2,443,424	2,346,173	97,251
Plant services	5,229,600	5,282,187	5,295,989	(13,802)
Facility acquisition and construction	3,000	91,588	88,598	2,990
Ancillary services	326,816	335,193	334,849	344
Community services	398,818	395,978	367,131	28,847
Other outgo	392,856	1,765,834	1,793,978	(28,144)
Enterprise services	45,000	45,000	38,439	6,561
Debt service				
Principal	340,137	297,448	291,686	5,762
Interest	41,627	39,340	38,943	397
<b>Total Expenditures<sup>1</sup></b>	<b>58,584,048</b>	<b>63,119,268</b>	<b>64,021,350</b>	<b>(902,082)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>262,494</b>	<b>(1,725,100)</b>	<b>130,005</b>	<b>1,855,105</b>
<b>Other Financing Sources (Uses):</b>				
Transfers out	(315,000)	(177,191)	(177,191)	-
<b>Net Financing Sources (Uses)</b>	<b>(315,000)</b>	<b>(177,191)</b>	<b>(177,191)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(52,506)</b>	<b>(1,902,291)</b>	<b>(47,186)</b>	<b>1,855,105</b>
<b>Fund Balance - Beginning</b>	<b>7,431,204</b>	<b>7,431,204</b>	<b>7,431,204</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 7,378,698</b>	<b>\$ 5,528,913</b>	<b>\$ 7,384,018</b>	<b>\$ 1,855,105</b>

<sup>1</sup> On behalf payments of \$1,329,053 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

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***SUPPLEMENTARY INFORMATION***

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**PETALUMA CITY SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Education:			
Priority 1-3, ABE	84.002A	13973	\$ 40,275
Priority 5, ABE	84.002A	13978	4,500
English Literacy & Civics	84.002A	14109	39,375
Title I, NCLB	84.010	14329	575,686
Title II, Part A Prevention of LEA Intervention Program	84.010	14580	100,000
Title II, Enhancing Education Through Technology	84.318	14334	12,692
Title II - Improving Teacher Quality	84.367	14341	229,295
Title III - Language Acquisition	84.365	14346	27,071
Title III - Limited English Proficiency	84.365	10084	95,682
Title VI	84.298	14354	41,071
Title X - McKinney Homeless Assistance	84.196	14332	40,568
Title IV - Drug Free School	84.186	14347	37,643
Special Education - State Grants <sup>1</sup>			
Local Assistance	84.027	13379	1,410,971
Federal Preschool	84.027	13430	171,602
Vocational Educational Grants	84.048	13924	52,526
Smaller Learning Communities	84.215L	03555	271,397
Title V Charter School Grant	84.282	13150	25,562
Student Identification	<sup>2</sup>	<sup>3</sup>	6,583
Total U.S. Department of Education			<u>3,182,499</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education (CDE):			
National School Lunch <sup>1</sup>	10.555	13524	\$ 468,607
Basic School Breakfast Program <sup>1</sup>	10.553	13525	1,374
Especially Needy Breakfast <sup>1</sup>	10.553	13526	126,304
Summer Food Service Program for Children <sup>1</sup>	10.559	<sup>3</sup>	23,676
Meals Supplements - Snack <sup>1</sup>	10.555	13755	9,520
Total U.S. Department of Agriculture			<u>629,481</u>
Total Expenditures of Federal Awards			<u>\$ 3,811,980</u>

<sup>1</sup> Tested as a major program

<sup>2</sup> Catalog number not available

<sup>3</sup> Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.



**PETALUMA CITY SCHOOLS**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2006**

	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	318	319
First through third	943	940
Fourth through sixth	898	895
Seventh and eighth	39	40
Home and hospital	1	1
Special education	35	35
Total Elementary	2,234	2,230
<b>SECONDARY</b>		
Regular classes	4,972	4,937
Continuation education	176	177
Home and hospital	23	25
Special education	84	84
Community day school	22	21
Total Secondary	5,277	5,244
Total K-12	7,511	7,474
<b>CLASSES FOR ADULTS</b>		
Concurrently enrolled	1	2
Not concurrently enrolled	489	516
Total Classes for Adults	490	518
Grand Total	8,001	7,992
		<u>Hours of Attendance</u>
<b>SUMMER SCHOOL</b>		
Elementary		37,788
High school		139,844
Total Hours		177,632

The above schedule includes ADA for Petaluma Elementary School District, Petaluma High School District and the Mary Collins School at Cherry Valley (charter school).

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2006**

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Grade Level	1982-83	1986-87	2005-2006	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,000	180	N/A	In Compliance
Grades 1 - 3	42,000	50,400	50,400	180	N/A	In Compliance
Grades 4 - 6	49,875	54,000	54,040	180	N/A	In Compliance
Grades 7 - 8	49,875	54,000	54,102	180	N/A	In Compliance
Grades 9 - 12	56,525	64,800	66,720	180	N/A	In Compliance

See accompanying note to supplementary information.

# PETALUMA CITY SCHOOLS

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2006.

Summarized below are the Form Debt reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

### FORM DEBT

Total Liabilities, June 30, 2006, Unaudited Actuals	\$ 74,832,337
Increase in:	
General obligation bonds	5,212,642
Premiums, net of amortization	1,436
Decrease in:	
Capital leases	(341,672)
Total Liabilities, June 30, 2006, Audited Financial Statement	<u>\$ 79,704,743</u>

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

	(Budget) 2007 <sup>1</sup>	2006	2005	2004
<b>GENERAL FUND</b>				
Revenues	\$ 62,791,467	\$ 62,822,302	\$ 59,731,592	\$ 54,842,332
Total Revenues and Other Sources	62,791,467	62,822,302	59,731,592	54,842,332
Expenditures	61,666,998	62,692,297	57,687,581	54,772,146
Other uses and transfers out	-	177,191	294,914	266,487
Total Expenditures and Other Uses	61,666,998	62,869,488	57,982,495	55,038,633
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	\$ 1,124,469	\$ (47,186)	\$ 1,749,097	\$ (196,301)
<b>ENDING FUND BALANCE</b>	\$ 8,508,487	\$ 7,384,018	\$ 7,431,204	\$ 5,682,107
<b>AVAILABLE RESERVES<sup>2</sup></b>	\$ 5,777,885	\$ 4,382,685	\$ 4,024,789	\$ 3,928,679
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO<sup>3</sup></b>	9.37%	6.97%	6.94%	7.14%
<b>LONG-TERM DEBT</b>	\$ 76,134,085	\$ 79,704,743	\$ 81,454,800	\$ 73,804,772
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	7,476	7,511	7,530	7,549

The General Fund balance has increased by \$1,701,911 over the past two years. The fiscal year 2006-2007 budget projects a further increase of \$1,124,469 (15 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating surplus during the 2006-2007 fiscal year. Total long-term obligations have increased by \$5,899,571 over the past two years.

Average daily attendance has decreased by 38 over the past two years. Additional decline of 35 ADA is anticipated during fiscal year 2006-2007.

<sup>1</sup> Budget 2007 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund

<sup>3</sup> On-behalf payments of \$1,329,053 and \$1,272,988 have been excluded from the revenues and expenditures.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2006**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Live Oak Charter	No
Mary Collins School at Cherry Valley	Yes

See accompanying note to supplementary information.

# PETALUMA CITY SCHOOLS

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

#### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) 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.

#### **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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

#### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

#### **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.

#### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

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***SUPPLEMENTARY INFORMATION - UNAUDITED***

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**PETALUMA CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET - UNAUDITED  
JUNE 30, 2006**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>					
Deposits and investments	\$ 160,613	\$ 86,840	\$ 1,389,609	\$ 2,733,957	\$ 4,371,019
Receivables	85,187	213,013	-	6,788	304,988
Due from other funds	177,814	3,662	-	-	181,476
Stores inventories	-	21,480	-	-	21,480
<b>Total Assets</b>	<u>\$ 423,614</u>	<u>\$ 324,995</u>	<u>\$ 1,389,609</u>	<u>\$ 2,740,745</u>	<u>\$ 4,878,963</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 114,623	\$ 1,396	\$ 93,084	\$ 80,646	\$ 289,749
Due to other funds	77,524	157,073	-	-	234,597
<b>Total Liabilities</b>	<u>192,147</u>	<u>158,469</u>	<u>93,084</u>	<u>80,646</u>	<u>524,346</u>
<b>Fund Balances:</b>					
Reserved for:					
Stores inventories	-	21,480	-	-	21,480
Other reservations	300	-	-	-	300
Unreserved:					
Designated	81,556	101,625	-	-	183,181
Undesignated, reported in:					
Special revenue funds	149,611	43,421	1,296,525	-	1,489,557
Capital projects funds	-	-	-	2,660,099	2,660,099
<b>Total Fund Balance</b>	<u>231,467</u>	<u>166,526</u>	<u>1,296,525</u>	<u>2,660,099</u>	<u>4,354,617</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 423,614</u>	<u>\$ 324,995</u>	<u>\$ 1,389,609</u>	<u>\$ 2,740,745</u>	<u>\$ 4,878,963</u>

See accompanying note to supplementary information - unaudited.



**PETALUMA CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2006**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>					
Revenue limit sources	\$ 1,366,439	\$ 66,597	\$ -	\$ -	\$ 1,433,036
Federal sources	84,150	629,481	-	-	713,631
Other state sources	58,806	53,246	332,395	-	444,447
Other local sources	78,701	1,228,901	34,084	1,408,331	2,750,017
<b>Total Revenues</b>	<u>1,588,096</u>	<u>1,978,225</u>	<u>366,479</u>	<u>1,408,331</u>	<u>5,341,131</u>
<b>EXPENDITURES</b>					
Current					
Instruction	1,168,505	-	-	-	1,168,505
Instruction-related activities:					
School site administration	329,889	-	-	-	329,889
Pupil services:					
Food services	-	2,023,180	-	-	2,023,180
General administration:					
All other general administration	57,591	-	-	16,521	74,112
Plant services	54,803	6,607	738,115	196,354	995,879
Facility acquisition and construction	-	-	-	804,189	804,189
Principal	-	-	-	3,882	3,882
Interest and other	-	-	-	410	410
<b>Total Expenditures</b>	<u>1,610,788</u>	<u>2,029,787</u>	<u>738,115</u>	<u>1,021,356</u>	<u>5,400,046</u>
<b>Excess (Deficiency) of</b>					
<b>Revenues Over Expenditures</b>	<u>(22,692)</u>	<u>(51,562)</u>	<u>(371,636)</u>	<u>386,975</u>	<u>(58,915)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	177,191	365,000	-	542,191
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>177,191</u>	<u>365,000</u>	<u>-</u>	<u>542,191</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(22,692)</u>	<u>125,629</u>	<u>(6,636)</u>	<u>386,975</u>	<u>483,276</u>
<b>Fund Balance - Beginning</b>	254,159	40,897	1,303,161	2,273,124	3,871,341
<b>Fund Balance - Ending</b>	<u>\$ 231,467</u>	<u>\$ 166,526</u>	<u>\$ 1,296,525</u>	<u>\$ 2,660,099</u>	<u>\$ 4,354,617</u>

See accompanying note to supplementary information - unaudited.

**PETALUMA CITY SCHOOLS**

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED  
JUNE 30, 2006**

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**NOTE 1 - PURPOSE OF SCHEDULES**

**Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

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*INDEPENDENT AUDITORS' REPORTS*

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

Governing Board  
Petaluma City Schools  
Petaluma, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2006, which collectively comprise the Petaluma City Schools' basic financial statements and have issued our report thereon dated October 20, 2006. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Petaluma City Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 matters 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 Petaluma City Schools' 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 Financial Statement Findings section of the accompanying Schedule of Findings and Questioned Costs as items 2006-1 through 2006-2.

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 the risk that misstatements caused by error or fraud 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Petaluma City Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Financial Statement Findings as items 2006-3 through 2006-5.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

Vavinek, Ture, Day & Co LLP  
Pleasanton, California  
October 20, 2006



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

Governing Board  
Petaluma City Schools  
Petaluma, California

**Compliance**

We have audited the compliance of Petaluma City Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Petaluma City Schools' major Federal programs are identified in the summary of auditors' 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 Petaluma City Schools' 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 a reasonable basis for our opinion. Our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

As described in item 2006-3 in the accompanying Schedule of Federal Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs, Petaluma City Schools did not comply with requirements regarding allocation of costs that are applicable to its Special Education and Child Nutrition Programs. Compliance with such requirements is necessary, in our opinion, for Petaluma City Schools to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2006.

## Internal Control Over Compliance

The management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Petaluma City Schools' 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Petaluma City Schools' ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the Federal Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2006-3.

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 the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance 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 governing board, management, the California Department of Education, the State Controller's Office, 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.

*Vavinek, Trine, Day & Co LLP*

Pleasanton, California

October 20, 2006





**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Petaluma City Schools  
 Petaluma, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Petaluma City Schools' management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Petaluma City Schools' compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Yes
Morgan-Hart Class Size Reduction	7	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE)		
Program	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Additional Non classroom-based instruction	1	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

Based on our audit, we found that for the items tested, the Petaluma City Schools complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Petaluma City Schools had not complied with the laws and regulations, except as noted in the accompanying Schedule of Findings and Questioned Costs. Our audit does not provide a legal determination on Petaluma City Schools' compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, 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.

*Vavinek, Tine, Day & Co LLP*  
Pleasanton, California  
October 20, 2006

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PETALUMA CITY SCHOOLS**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>Yes</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Special Education Cluster</u>
<u>10.553-10.559</u>	<u>Child Nutrition Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

### 2006-1 Code 30000 Student Body – Cash Disbursements

**Criteria or Specific Requirements** 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 testing of student body funds:

#### *Valley Vista*

- Money for Hispanic Parents Dinner was being collected by site personnel. This money was not for ASB or PTA purposes. Cash was collected, tickets were sold, and cash was left in office unlocked.

#### *Petaluma Junior High*

- No revenue potentials/sales analyses are prepared.

#### *Casa Grande*

- Pre-numbered receipts not used properly. The cash receipt log on the computer skips receipt numbers without explanation; many of the receipts on file do not match the receipts on the computer records because of this. At the end of the month, to correct this discrepancy, more receipt numbers are skipped and there is no control over which receipt matches which payment received. The ASB clerk explained that this problem arises when a receipt sticks to another one while going through the printer.
- ASB Petty Cash not controlled. \$200 cash boxes are given to students with no count-out or count-in procedures. There is no cash control/count log for the ASB petty cash. None of the \$500 in ASB petty cash is or has cash counting controls or cash hand-off procedures.
- Baseball club (ASB) appears to have a separate bank account not controlled by ASB procedures and oversight.
- ASB bank reconciliation shows \$209.99 in stale dated checks.
- Payments were made after receiving faxed invoices in lieu of an original invoice. This finding was noted on last year's report and still exists this year.
- Invoices not marked as paid to prevent re-use.
- Refunds issued without proper controls to limit incorrect payouts. Refunds issued without verifying if the parent's original donation was received. There are no written requests for the refund signed by the parent, ASB club official that took donation, or other involved party. There is approximately \$2,000 in disbursements of this type in the 2005-2006 year.

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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### Questioned costs

None

**Context** The conditions were noted at Valley Vista and Casa Grande High Schools during fiscal year 2005-06.

**Effect** Internal controls for student body disbursement do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

**Cause** Site personnel are not following District policies and procedures.

**Recommendation** Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site.

**District Response** The District will require staff to attend the CASBO workshop for the Legal Aspects and Accounting for Student Body. The above audit issues will be addressed with the appropriate school personnel. Follow-up training will be provided by District Personnel.

### 2006-2 Code 30000 Cash Accounts

**Criteria or Specific Requirements** General accounting practices emphasize the importance of strong internal controls. Strong internal controls over revolving cash accounts are based on routine reconciliations of the bank accounts to the imprest balance in order to verify the accuracy of the records and related balances.

**Condition** The following conditions were noted during review of District and student body cash accounts: The cafeteria has a bank account that does not have the same account number as is listed on the District master list of approved bank accounts. Casa Grande High School has ASB bank accounts for graduated classes that are not included in the trial balance records.

### Questioned costs

None

**Context** The conditions were noted during the review of cash accounts during fiscal year 2005-06.

**Effect** List of approved bank accounts is outdated and may result in a loss of control over accounts tracked by the District. In addition, Casa Grande High School is not preparing complete financial statements when leaving out the graduated class bank accounts.

**Cause** District list of authorized accounts was not updated for a change in the Cafeteria account. Old bank accounts with funds remaining in them are not included and none of the authorized signatories on those accounts are still with the District.

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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**Recommendation** We recommend that the District update the listing of all District bank accounts to revise the cafeteria account number and that all Casa Grande ASB accounts be included in the Casa Grande student body financial records.

**District Response** The District will write a policy/procedure to ensure that signature cards are maintained at the District Office. A detailed list will be maintained and reviewed on a regular basis for changes in personnel and trigger the process for a new signature card. In addition, it will require the signatures of the Superintendent, Deputy Superintendent and the Director of Budget and Accounting to ensure the District has appropriate access and control over the accounts. The Casa Grande account was opened by former students who have signatory rights. The statements are erroneously sent to the school. There is no District or school oversight requirement for this account.

## PETALUMA CITY SCHOOLS

### FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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**2006-3 Code 50000 U.S. Department of Agriculture, Passed Through California Department of Education, Meal Supplements CFDA 10.555**

**Criteria or Specific Requirements** In accordance with federal regulations, meal supplements are reimbursed at a specified rate per supplement served.

**Condition** We noted that there appears to have been a typographical error on the March 2006 claim reimbursement form. The number of free meals was moved over one column too far and reported in paid meals box. This resulted in a difference of 65 cents per meal served in March 2006.

**Questioned Costs** Approximately \$2,000 of additional funds due to district.

**Context** Reimbursement claim for one month did not accurately report the number of meals served in the applicable categories.

**Effect** The District underclaimed the amount of funds it was entitled to.

**Cause** Personnel and system changes occurred around that time and no effective system of reviewing the forms for accuracy caught the error.

**Recommendation** The District should implement procedures to ensure that the cafeteria reimbursements are accurately reported.

**District Response** The District will ensure that proper controls are in place to prevent clerical errors of this nature. The Food Service Supervisor shall review the reimbursement form prepared by the Account Clerk prior to signing and sending. In addition, the amount remitted to the District will be reconciled to the reimbursement request to be sure there are no discrepancies.



# PETALUMA CITY SCHOOLS

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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### 2006-4 40000 Morgan Hart, Grade 9 Class Size Reduction

**Criteria or Specific Requirements** The Morgan Hart Grade 9 Class Size Reduction Program provides a means of annually funding the smaller class sizes for grade 9. In accordance with Education Code Sections 52081 through 52090 funding is provided for class size reduction in the 9<sup>th</sup> grade. Qualified fully year equivalent enrollment is multiplied by a standard funding rate per full year equivalent enrollment to arrive at the amount the District may claim.

**Condition** We noted that the copy of the annual report for the Morgan Hart program submitted to the California Department of Education used the prior year amount of \$184 per Full-Year Equivalent Enrollment. Per California Department of Education, the district should be reporting \$192 per Full-Year Equivalent Enrollment for the 2005-06 school year.

**Questioned Costs** The District was owed an additional \$16,783 above the amount claimed on the annual report of enrollment.

**Context** During the 2005-06 fiscal year, the District prepared a draft annual report using the correct rate for Full Year Equivalent Enrollment, however the retained, signed copy of the submitted form used the 2004-2005 rate.

**Effect** The District did not apply for all the funding it was entitled to.

**Cause** The use of a prior year rate.

**Recommendation** The District should determine if the rate was updated to the 2005-2006 rate immediately prior to submitting the form and a copy of the corrected form not retained or if the incorrect form was actually submitted and additional funds are due to the District .

**District Response** The District has verified the rate and the corrected report was submitted.

### 2006-5 40000 Attendance Procedures

**Criteria or Specific Requirements** In accordance with Education Code Sections 52081 through 52090 Districts should design and maintain a system for effective reporting of attendance information.

**Condition** The following conditions were noted during testing of attendance systems

- 1) Attendance software at all sites is accessible by individuals other than those requiring access to the information.
- 2) There appears to be confusion over whether the sites or the District office is responsible for comparing the SASI ATD 02 and SASI ATD 03 reports. The comparison is typically done as a method of reviewing the reasonableness of the reports.
- 3) Valley Vista and McNear do not consistently contact parents to determine reason for absences and state that since they do not have an auto-dialer the process is performed only when staff have available time.

## PETALUMA CITY SCHOOLS

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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**Questioned Costs** None. No errors were noted due to these conditions, however internal controls could be strengthened in these areas.

**Context** During the 2005-06 fiscal year, the attendance systems did not include some internal control processes that would assist the District in ensuring that accurate attendance data is reported.

**Effect** Internal controls for student body disbursement do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

**Cause** Site personnel are not following District policies and procedures

**Recommendation** The District should review the internal controls over attendance accounting, provide clarity as to who is responsible for the items noted above, and provide training to site personnel to emphasize the importance of these procedures.

**District Response** The District will remind staff of policies/procedures and training regarding attendance accounting. The District will also remind staff of existing policies regarding use of technology and inappropriate sharing of passwords/access to systems.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statement Findings*

#### 2005-1 Code 30000 Student Body – Cash Disbursements

**Criteria or Specific Requirements** 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 testing of student body distributions:

- Reimbursement to one teacher was for goods delivered directly to the teacher's residence
- Reimbursement claims are not being submitted to the school office within a reasonable period of time after incurring expenses. One employee submitted a reimbursement claim to the school office four months after incurring expenses.
- The total number of receipts attached to one reimbursement claim did not agree to the total amount reimbursed.
- Payments were issued after receiving faxes or photocopies of invoices, in lieu of original invoices.
- Receipts for meal reimbursements did not show detail of the meals purchased.

#### **Questioned costs**

None

**Context** The conditions were noted at Casa Grande High School during fiscal year 2004-05.

**Effect** Internal controls for student body disbursement do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

**Cause** Site personnel are not following District policies and procedures.

**Recommendation** Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site.

**District Response** The District has required respective site personnel to attend the CASBO workshop for Legal Aspects of Associated Student Body Accounting. The District will follow up on specifics of audit findings and have site implement corrective actions immediately.

**Status** Partially implemented, see current year.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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### 2005-2 Code 30000 Student Body

**Criteria or Specific Requirements** Education Code Section 48933 requires that every time student body funds are expended, approval is required by each of the following three persons: an employee or official of the district designated by the governing board, the certificated employee who is the designated advisor of the particular student body organization.

**Condition** The District was unable to provide evidence that student body expenditures were approved by a student body representative, an activity account advisor or the official of the district designated by the governing board, in a consistent manner during fiscal year 2004-05.

#### Questioned Costs

None

**Context** The conditions were noted at Casa Grande High School during fiscal year 2004-05.

**Effect** The District did not comply with the requirements of Education Code Section 48933.

**Cause** Payments were issued prior to obtaining approval for the expenditures from each of the three required individuals.

**Recommendation** Approval by the three required individuals should obtain and documented prior to issuing payments from the student body account.

**District Response** The District will investigate and require the student body to approve all purchases prior to payment. All ASB clubs will be required to submit a proposed budget to the student body leadership for review of reasonableness and approval.

**Status** Implemented.

### 2005-3 Code 30000 Student Body Cash Receipts

**Criteria or Specific Requirements** 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** Athletic ticket reports are not signed or completed by the individuals who submit cash and checks to the student body clerk for deposit.

#### Questioned Costs

None

**Context** The condition was noted at Casa Grande High School during fiscal year 2004-05.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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**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 for deposit.

**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 be submitted to the student body clerk for deposit. The student body clerk should verify the cash count 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 has required respective site personnel to attend the CASBO workshop for Legal Aspects of Associated Student Body Accounting. The District will follow up on specifics of audit findings and have site implement corrective actions immediately.

**Status** Not implemented, see current year.

### *Federal Award Findings*

2005-4 **Code 50000 U.S. Department of Education, Passed Through California Department of Education, Special Education Cluster CFDA 84.027 & 84.173 and NCLB Title I CFDA 84.010**

**Criteria or Specific Requirements** In accordance with state and federal regulations, if an employee is funded solely (100%) from a single federal categorical program or cost objective, the minimum requirement for documenting salary or wages in a semi-annual certification by the employee that he/she worked solely on that federal categorical program or cost objective. The certification must be signed by the employee and the supervisor having firsthand knowledge of the work performed

**Condition** Payroll charges to the Special Education cluster and NCLB: Title I programs, during fiscal year 2004-05, were not supported by semi-annual certifications.

**Questioned Costs** \$1,293,808 for Special Education cluster, and \$383,515 for the NCLB: Title I program employees during fiscal year 2004-05.

**Context** Semi-annual certifications were not prepared for the Special Education cluster and NCLB: Title I program employees during fiscal year 2004/05.

**Effect** There was improper documentation of federal program expenditures. In addition, the costs allocated to the Special Education cluster and NCLN: Title I programs could be disallowed due to lack of adequate documentation.

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

## PETALUMA CITY SCHOOLS

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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**Recommendation** The District should implement procedures to ensure that the required certifications are prepared on a semi-annual basis. The certifications should be assigned by the employee and the supervisor having firsthand knowledge of the work performed. These certificates should be completed and forwarded to the business office as soon as they are complete.

**District Response** The District will implement procedures to ensure that the required certifications are prepared on a semi-annual basis.

**District Response** The District will implement procedures to ensure that the required certifications are prepared on a semi-annual basis.

**Status** Implemented.

**2005-5 Code 50000 U.S. Department of Education, Passed Through California Department of Education, Special Education Cluster CFDA 84.027 & 84.173 and NCLB Title I CFDA 84.010**

**Criteria or Specific Requirements** In accordance with state and federal regulations, employees funded by more than one source should prepare personnel activity reports or use other methods to document the allocation of an employees salary and benefits. These personnel activity reports should be prepared on a monthly basis unless the District elects to use the approved substitute system beginning July 1, 1998. Under this substitute system, the personnel activity reports are required to be completed every fourth month (three times per year).

**Condition** Payroll charges to the Special Education cluster and NCLB Title I programs, during fiscal year 2004-05, were not supported by multi funded certifications.

**Questioned Costs** See Comment 2005-4.

**Context** Multi funded certifications were not prepared for the Special Education cluster and NCLB Title I program employees during fiscal year 2004/05.

**Effect** There was improper documentation of federal program expenditures. In addition, the costs allocated to the Special Education cluster and NCLB Title I programs could be disallowed due to lack of adequate documentation.

**Cause** Proper follow-up by the District office was not performed to ensure that multi-funded certifications were prepared.

**Recommendation** The District should implement procedures to ensure that the required certifications are prepared on a monthly basis. The certifications should be assigned by the employee and the supervisor having firsthand knowledge of the work performed. These certificates should be completed and forwarded to the business office as soon as they are complete.

**District Response** The District will implement procedures to ensure that the required certifications are prepared on a semi-annual basis.

**Status** Implemented.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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### *State Award Findings*

#### **2005-6 Code 40000 Instructional Time and Staff Development Reform (ITSDR Program)**

**Criteria or Specific Requirements** Instructional Time and Staff Development Reform (ITSDR) program provides \$306.50 per day, for up to three days, for each qualifying classroom teacher and \$158.92 per day for up to one day for each qualifying classroom instructional aide and certificated teaching assistant who participates in appropriate staff development activities. ITSDR program requires each eligible participant (certificated and classified) to be present for the full staff development day. Each of these staff development days must be at least as long as the fulltime instructional workday for certified or classified instructional employees. In other words, the staff development day must be commensurate in length with the contracted workday.

**Condition** The Final Statements of Activities for 2004-05 were understated by 229 classroom teachers.

**Questioned Costs** None. Total reimbursement claims were understated by \$70,189 (229 classroom teachers x \$306.50).

**Context** The District complied with all other compliance requirements of the ITSDR program.

**Effect** The District's applications were understated by \$70,189.

**Cause** Mathematical errors occurred in the accumulation of the data used to prepare the ITSDR Final Statements of Activities for 2004-05.

**PETALUMA CITY SCHOOLS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

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**Recommendation** The District should amend the ITSDR Financial Statements of Activities for 2004-05 as follows:

**Elementary District**

<u>Number of Teachers</u>	<u>Days</u>
11	1 Day
19	2 Days
85	3 Days

**Secondary District**

<u>Number of Teachers</u>	<u>Days</u>
21	1 Day
61	2 Days
202	3 Days

**Mary Collins School**

<u>Number of Teachers</u>	<u>Days</u>
3	1 Day
5	2 Days
13	3 Days

**District Response** The District will amend the ITSDR reports as presented in the audit.

**Status** Implemented.

**2005-7 40000 Instructional Materials Funding Realignment Program**

**Criteria or Specific Requirements** The State Instructional Materials Funding Realignment Program provides a means of annually funding the Instructional Materials Block Grant for the acquisition of standards-aligned textbooks and instructional materials, grades kindergarten through twelve. These funds are required to be expended in accordance with Education Code Sections 60240, 60242, 60242.5, and 60422. Accordingly, appropriate documentation should be maintained, which substantiates that program funds were properly expended in accordance with the Education Codes.

**Condition** The District purchased non-core instructional materials with State Instructional materials.

**Questioned Costs** \$12,034.12 The amount of funds expended on non-core instructional materials.

**Context** During the 2004-05 fiscal year, the District did not certify, as set forth in Education Code Section 60422, that each pupil had been provided with a standards aligned textbook or basic instructional materials in the core curriculum areas of reading/language arts, mathematics, science, and history or social science.



## PETALUMA CITY SCHOOLS

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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The condition was noted during a review of the expenditures list of all charges made to the State Instructional Materials Funding Realignment Program during fiscal year 2004-05.

**Effect** The District did not comply with all applicable Education Code Sections.

**Cause** The curriculum department experienced employee turnover in the position responsible for reviewing requests, by school sites, to expend State Instructional Materials Funding Realignment Program funds.

**Recommendation** The District should certify, as set forth in Education Code Section 60422, that each pupil has been provided with a standards aligned textbook or basic instructional materials in the core curriculum areas of reading/language arts, mathematics, science, and history or social science, prior to using the State Instructional Materials Funding Realignment Program funds on non-core instructional materials. In addition, the District should journal \$12,034.12 from unrestricted funds to the State Instructional Materials Funding Realignment Program, resource 7156, during fiscal year 2005-06, and should contact the California Department of Education to determine if any further action is required as a result of a finding.

**District Response** The costs will be transferred against the Restricted Lottery funds.

**Status** Implemented.

#### 2005-8 Code 40000 Cal-SAFE Program Attendance

**Criteria or Specific Requirements** School districts participating in the California Schools Age Families Education (Cal-SAFE) programs are eligible to receive state funding from funds appropriated for support services and child care. To claim Cal-SAFE funding, districts are required to complete various Cal-SAFE attendance and enrollment reports.

Auditable records must be maintained in accordance with Education Code Section 8208(e) and Title 5 of the California Code of Regulations, Sections 18065 through 18067.

**Condition** During our testing of Cal-SAFE attendance procedures we noted the following:

1. The District did not properly complete Cal-SAFE Form B, "Report of Attendance for Pupils Enrolled in District Cal-SAFE Programs" in accordance with the instructions. The average daily attendance (ADA) attributable to Cal-SAFE pupils reported in Section A of Cal-SAFE Form B, did not agree to the ADA reported for the same pupils on the Annual Report of School District Attendance.
2. The District did not adequately maintain records to document excused absences for the Cal-SAFE child care program.

#### **Questioned Costs**

1. The District overstated Cal-SAFE support services ADA by 0.13 ADA on the Annual Report.
2. We were unable to determine the fiscal impact since no documentation for excused absences was maintained.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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### Context

1. All Cal-SAFE students were enrolled in the District's continuation school. The ADA reported on Cal-SAFE Form B was calculated based on daily attendance, whereas continuation school ADA is based on hourly attendance for the Report of School District Attendance form.
2. The District automatically considered all absences as excused and therefore counted those days as attendance days. During the 2004-05 fiscal year, there were 1,473 absences considered excused that were counted as attendance days.

### Effect

1. The District claimed more support services funding than they earned based on the ADA attributable to Cal-SAFE pupils.
2. The District was not in compliance with Section 8208(e) and Title 5 of the California Code of Regulations, Sections 18065 through 18067 in documenting excused absences, and potentially claimed more child care funding than the District had earned.

### Cause

1. The District was unaware that the ADA reported on Cal-SAFE Form B should be the same as the ADA the District reports on the Report of School District Attendance attributable to Cal-SAFE pupils.
2. District personnel were misinformed and told that all absences were automatically considered excused, and therefore no documentation was maintained to support excused absences as defined under Education Code Section 8208(e).

### Recommendation

1. The District should revise the Annual Cal-SAFE Form B report to reflect 15.94 ADA on Line A-4. In the future, the District should make sure that they read and understand the instructions for attendance reporting for the Cal-SAFE program.
2. The District should contact the California Department of Education to determine how this matter should be resolved.

**District Response** District has confirmed process to be followed. Site has already implemented changes for 2005-06. Site is also reviewing 2004-05 data and will amend and resubmit any necessary reports for 2004-05.

**Status** Implemented