

**PETALUMA
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2007**

PETALUMA CITY SCHOOLS

OF SONOMA COUNTY

PETALUMA, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mary Schafer	President	2008
Carolyn Tennyson	Clerk	2010
Christina Kauk	Member	2010
Troy Sanderson	Member	2010
Lou Steinberg	Member	2010

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

PETALUMA CITY SCHOOLS

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FINANCIAL SECTION



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, 2007, 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 2006-07* 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, 2007, 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 December 19, 2007, 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 12 and budgetary comparison information on page 50, is not a required part of the basic financial statements, but is supplementary information required by the 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.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 19, 2007

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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, 2007. 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, 2007

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 \$54.4 million for the fiscal year ended June 30, 2007. Of this amount, \$7.7 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.

PETALUMA CITY SCHOOLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 1,375,866	\$ 1,377,225	\$ 31,748	\$ 100,658	\$ 1,407,614	\$ 1,477,883
Operating grants and contributions	16,368,750	13,534,671	-	-	16,368,750	13,534,671
Capital grants and contributions	2,047,296	5,835,947	-	-	2,047,296	5,835,947
General revenues:						
Federal and state aid	26,941,355	23,059,138	-	-	26,941,355	23,059,138
Property taxes	31,032,330	30,890,747	-	-	31,032,330	30,890,747
Other general revenues	6,278,318	6,204,085	-	29,069	6,278,318	6,233,154
Total Revenues	84,043,915	80,901,813	31,748	129,727	84,075,663	81,031,540
Expenses						
Instruction-related	52,833,535	49,809,971	-	-	52,833,535	49,809,971
Student support services	9,451,380	8,415,945	-	-	9,451,380	8,415,945
Administration	3,193,611	2,349,981	-	-	3,193,611	2,349,981
Maintenance and operations	7,605,559	7,130,886	-	-	7,605,559	7,130,886
Other	6,613,670	8,087,832	40,811	89,143	6,654,481	8,176,975
Total Expenses	79,697,755	75,794,615	40,811	89,143	79,738,566	75,883,758
Excess (Deficiency)	4,346,160	5,107,198	(9,063)	40,584	4,337,097	5,147,782
Special item: sale of land	250,000	500,000	-	-	250,000	500,000
Change in Net Assets	\$ 4,596,160	\$ 5,607,198	\$ (9,063)	\$ 40,584	\$ 4,587,097	\$ 5,647,782

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$79.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$31.0 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 (\$18.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$26.9 million in Federal and state aid, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's 5 largest functions: instruction, pupil services, school administration, maintenance and operation, and other 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.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

- e. Our other funds including the Adult Education Fund, Cafeteria Fund, Deferred Maintenance Fund, Capital Facilities Fund and County School Facilities Fund increased by \$400,000 in the aggregate.

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, 2007. 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 2006-2007 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 2006-07.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$102.7 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of just under \$0.7 million, or 1 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2007	2006	2007	2006	2007	2006
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	97,539,897	94,997,056	-	-	97,539,897	94,997,056
Equipment	5,306,498	5,276,212	52,573	-	5,359,071	5,276,212
Construction in progress	33,684,675	33,444,348	-	-	33,684,675	33,444,348
Totals	140,797,956	137,984,502	52,573	-	140,850,529	137,984,502
Less Accumulated Depreciation	(38,139,275)	(34,614,053)	-	-	(38,139,275)	(34,614,053)
Capital Assets, net	\$ 102,658,681	\$ 103,370,449	\$ 52,573	\$ -	\$ 102,711,254	\$ 103,370,449

This year's additions of \$2.9 million included the following: 2 vehicles for technology support, Casa Grande High School field house, Petaluma Jr. High School fields and the Casa Grande Phase E growth project.

Several capital projects are planned for the 2007-08 year. We anticipate capital additions to be approximately \$33 million for the 2007-08 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

5. Approximately \$150K budgeted for purchase of new student data system (one time).

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	958
Grades seven through eight	24.78:1	1,671
Grades nine through twelve	26.67:1	3,748

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 ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

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
Governmental Activities:							
Instruction	\$45,827,895	\$ 65,344	\$ 11,029,075	\$ 2,047,296	\$ (32,686,180)	\$ -	\$ (32,686,180)
Instruction-related activities:							
Supervision of instruction	1,129,623	-	510,647	-	(618,976)	-	(618,976)
Instructional library, media, and technology	907,913	-	105,010	-	(802,903)	-	(802,903)
School site administration	4,968,104	8,300	405,763	-	(4,554,041)	-	(4,554,041)
Pupil services:							
Home-to-school transportation	1,525,655	58,279	734,442	-	(732,934)	-	(732,934)
Food services	2,131,824	1,207,892	812,703	-	(111,229)	-	(111,229)
All other pupil services	5,793,901	4,168	1,839,526	-	(3,950,207)	-	(3,950,207)
General administration:							
All other general administration	3,193,611	1,739	253,219	-	(2,938,653)	-	(2,938,653)
Plant services	7,605,559	15,592	508,466	-	(7,081,501)	-	(7,081,501)
Ancillary services	373,188	-	-	-	(373,188)	-	(373,188)
Community services	492,925	-	-	-	(492,925)	-	(492,925)
Enterprise services	61,893	-	-	-	(61,893)	-	(61,893)
Interest on long-term debt	3,486,461	-	-	-	(3,486,461)	-	(3,486,461)
Other outgo	2,199,203	14,552	169,899	-	(2,014,752)	-	(2,014,752)
Total Governmental-Type Activities	79,697,755	1,375,866	16,368,750	2,047,296	(59,905,843)	-	(59,905,843)
Business-Type Activities							
Enterprise services	40,811	31,748	-	-	-	(9,063)	(9,063)
Total Business-Type Activities	\$ 40,811	\$ 31,748	\$ -	\$ -	-	(9,063)	(9,063)
General revenues and subventions:							
Property taxes, levied for general purposes					24,478,463	-	24,478,463
Property taxes, levied for debt service					4,328,857	-	4,328,857
Taxes levied for other specific purposes					2,225,010	-	2,225,010
Federal and State aid not restricted to specific purposes					26,941,355	-	26,941,355
Interest and investment earnings					1,550,598	-	1,550,598
Miscellaneous					4,727,720	-	4,727,720
Subtotal, General Revenues					64,252,003	-	64,252,003
Special item							
Proceeds from option on land sale					250,000	-	250,000
Change in Net Assets					4,596,160	(9,063)	4,587,097
Net Assets - Beginning					49,750,335	61,636	49,811,971
Net Assets - Ending					\$ 54,346,495	\$ 52,573	\$ 54,399,068

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

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PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 8,594,186	\$ 4,369,590	\$ 3,406,558
Receivables	6,351,443	-	-
Due from other funds	417,368	-	43,187
Stores inventories	75,054	-	-
Total Assets	\$ 15,438,051	\$ 4,369,590	\$ 3,449,745
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,639,452	\$ 47,616	\$ 14,107
Due to other funds	679,657	-	-
Deferred revenue	564,832	-	-
Total Liabilities	4,883,941	47,616	14,107
Fund Balances:			
Reserved for:			
Legally restricted balances	2,792,044	-	-
Other reservations	95,054	-	-
Unreserved:			
Designated	3,112,048	-	-
Undesignated, reported in:			
General Fund	4,554,964	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	4,321,974	3,435,638
Total Fund Balance	10,554,110	4,321,974	3,435,638
Total Liabilities and Fund Balances	\$ 15,438,051	\$ 4,369,590	\$ 3,449,745

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

Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 4,980,126	\$ 4,690,818	\$ 26,041,278
-	328,825	6,680,268
-	306,355	766,910
-	42,823	117,877
<u>\$ 4,980,126</u>	<u>\$ 5,368,821</u>	<u>\$ 33,606,333</u>
\$ -	\$ 348,709	\$ 4,049,884
-	69,519	749,176
-	-	564,832
<u>-</u>	<u>418,228</u>	<u>5,363,892</u>
-	-	2,792,044
-	43,273	138,327
-	184,446	3,296,494
-	-	4,554,964
-	1,042,052	1,042,052
4,980,126	-	4,980,126
-	3,680,822	11,438,434
<u>4,980,126</u>	<u>4,950,593</u>	<u>28,242,441</u>
<u>\$ 4,980,126</u>	<u>\$ 5,368,821</u>	<u>\$ 33,606,333</u>

PETALUMA CITY SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total Fund Balance - Governmental Funds		\$ 28,242,441
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
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	\$ 140,797,956	
Accumulated depreciation is	<u>(38,139,274)</u>	
Net Capital Assets		102,658,682
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.		1,440,795
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.		166,449
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.		(1,054,859)
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.		61,470
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	66,553,787	
Certificates of participation	8,245,000	
Capital leases payable	786,655	
Other post employment benefits	1,247,209	
Bond premiums, net of amortization	1,355	
Compensated absences (vacations)	<u>334,477</u>	
Total Long-Term Liabilities		<u>(77,168,483)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 54,346,495</u></u>

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

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PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Building Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	\$ 47,569,474	\$ -	\$ -
Federal sources	3,167,099	-	-
Other state sources	11,576,413	-	-
Other local sources	8,655,605	205,713	998,966
Total Revenues	70,968,591	205,713	998,966
EXPENDITURES			
Current			
Instruction	42,686,809	-	-
Instruction-related activities:			
Supervision of instruction	1,079,131	-	-
Instructional library, media and technology	771,621	-	-
School site administration	4,452,423	-	-
Pupil services:			
Home-to-school transportation	1,236,525	-	-
Food services	-	-	-
All other pupil services	5,529,218	-	-
General administration:			
All other general administration	2,921,681	-	-
Plant services	5,668,138	89,616	114,792
Facility acquisition and construction	11,050	772,194	159,784
Ancillary services	349,706	-	-
Community services	415,257	-	-
Other outgo	1,991,327	-	-
Enterprise services	61,898	-	-
Debt service			
Principal	283,942	-	285,176
Interest and other	16,851	-	489,919
Total Expenditures	67,475,577	861,810	1,049,671
Excess (Deficiency) of			
Revenues Over Expenditures	3,493,014	(656,097)	(50,705)
Other Financing Sources (Uses):			
Transfers in	-	207,876	-
Other financing sources	-	-	250,000
Transfers out	(322,922)	-	-
Net Financing Sources (Uses)	(322,922)	207,876	250,000
NET CHANGE IN FUND BALANCES	3,170,092	(448,221)	199,295
Fund Balance - Beginning	7,384,018	4,770,195	3,236,343
Fund Balance - Ending	\$ 10,554,110	\$ 4,321,974	\$ 3,435,638

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

Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,755,993	\$ 49,325,467
-	807,786	3,974,885
41,959	2,494,427	14,112,799
4,433,024	2,277,278	16,570,586
<u>4,474,983</u>	<u>7,335,484</u>	<u>83,983,737</u>
-	1,314,401	44,001,210
-	-	1,079,131
-	-	771,621
-	249,956	4,702,379
-	-	1,236,525
-	2,074,566	2,074,566
-	-	5,529,218
-	70,509	2,992,190
-	1,442,867	7,315,413
-	1,888,331	2,831,359
-	-	349,706
-	-	415,257
-	-	1,991,327
-	-	61,898
2,507,118	4,082	3,080,318
2,345,768	210	2,852,748
<u>4,852,886</u>	<u>7,044,922</u>	<u>81,284,866</u>
<u>(377,903)</u>	<u>290,562</u>	<u>2,698,871</u>
-	115,046	322,922
-	-	250,000
-	-	(322,922)
-	115,046	250,000
<u>(377,903)</u>	<u>405,608</u>	<u>2,948,871</u>
5,358,029	4,544,985	25,293,570
<u>\$ 4,980,126</u>	<u>\$ 4,950,593</u>	<u>\$ 28,242,441</u>

PETALUMA CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds	\$ 2,948,871
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
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 depreciation exceeds capital outlays in the period.	
Depreciation expense	\$(3,525,222)
Capital outlays	<u>2,813,454</u>
Net Expense Adjustment	(711,768)
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.	(33,030)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	(114,668)
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.	(69,488)
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).	43,212
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.	2,507,118
Payment of principal on certificates of participation 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.	205,000
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.	368,200
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.	16,305
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.	(569,866)
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.	6,274
Change in Net Assets of Governmental Activities	<u>\$ 4,596,160</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Type Activities Enterprise Fund</u>	<u>Governmental Activities -</u>
	<u>Downtown Project Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current Assets		
Deposits and investments	\$ 9,022	\$ 68,005
Receivables	9,035	557
Due from other funds	7,663	-
Total Current Assets	<u>25,720</u>	<u>68,562</u>
Noncurrent Assets		
Furniture and equipment (net)	52,573	-
Total Assets	<u>78,293</u>	<u>68,562</u>
LIABILITIES		
Current Liabilities		
Accounts payable	321	7,092
Due to other funds	25,399	-
Total Current Liabilities	<u>25,720</u>	<u>7,092</u>
NET ASSETS		
Invested in capital assets, net of related debt	52,573	-
Unrestricted	-	61,470
Total Net Assets	<u>\$ 52,573</u>	<u>\$ 61,470</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, 2007**

	Business Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 31,748	\$ 79,706
Total Operating Revenues	31,748	79,706
OPERATING EXPENSES		
Payroll costs	27,337	-
Supplies and materials	8,555	-
Other operating cost	4,919	75,346
Total Operating Expenses	40,811	75,346
Operating Income (Loss)	(9,063)	4,360
NONOPERATING REVENUES (EXPENSES)		
Interest income	-	1,914
Change in Net Assets	(9,063)	6,274
Total Net Assets - Beginning	61,636	55,196
Total Net Assets - Ending	\$ 52,573	\$ 61,470

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, 2007**

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Downtown Project Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 85,881	\$ 87,996
Cash payments to employees for services	(27,337)	-
Cash payments to suppliers for goods and services	15,580	-
Cash payments for other operating expenses	(12,919)	(82,743)
Net Cash Provided (Used) for Operating Activities	<u>61,205</u>	<u>5,253</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(52,573)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(52,573)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	-	1,914
Net Cash Provided from Investing Activities	<u>-</u>	<u>1,914</u>
Net increase in Cash and Cash Equivalents	8,632	7,167
Cash and Cash Equivalents - Beginning	390	60,838
Cash and Cash Equivalents - Ending	<u>\$ 9,022</u>	<u>\$ 68,005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (9,063)	\$ 4,360
Changes in assets and liabilities:		
(Increase) Decrease receivables	61,796	(481)
(Increase) Decrease Due from other fund	(7,663)	8,771
Increase (Decrease) Accounts payable	(1,264)	(7,397)
Increase (Decrease) Due to other fund	17,399	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 61,205</u>	<u>\$ 5,253</u>

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

PETALUMA CITY SCHOOLS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 108,789	\$ 291,122
Receivables	1,907	-
Total Assets	<u>110,696</u>	<u>\$ 291,122</u>
 LIABILITIES		
Due to student groups	-	\$ 291,122
Total Liabilities	<u>-</u>	<u>\$ 291,122</u>
 NET ASSETS		
Unreserved	110,696	
Total Net Assets	<u>\$ 110,696</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, 2007**

	Scholarship Trust
ADDITIONS	
Private donations	\$ 245
Interest	3,709
Total Additions	<u>3,954</u>
DEDUCTIONS	
Other expenditures	606
Total Deductions	<u>606</u>
Change in Net Assets	3,348
Net Assets - Beginning	<u>107,348</u>
Net Assets - Ending	<u><u>\$ 110,696</u></u>

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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, one independent study site serving grades K-12, 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, 2007

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.

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.

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

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.

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.

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).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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)

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 Trust 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.

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. 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.

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, 2007

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, 2007, 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, 2007

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, 2007

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.

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 are 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. Interfund transfers are eliminated in the governmental column of the statement of activities.

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 1st 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.

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

New Accounting Pronouncements

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.

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 26,109,283
Business-type activities	9,022
Fiduciary funds	399,911
Total Deposits and Investments	<u>\$ 26,518,216</u>

Deposits and investments as of June 30, 2007, consist of the following:

Cash on hand and in banks	\$ 302,129
Cash in revolving	20,450
Investments	26,195,637
Total Deposits and Investments	<u>\$ 26,518,216</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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.

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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	\$ 99,782	227 days
U.S. Agencies	197,005	4 days
County Pool	25,898,850	414 days
Total	<u>\$ 26,195,637</u>	

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	\$ 99,782	1	\$ -	\$ -	\$ -
U.S. Agencies	197,005	A	197,005	-	-
County Pool	25,898,850	n/a	-	-	25,898,850
Total	<u>\$26,195,637</u>		<u>\$ 197,005</u>	<u>\$ -</u>	<u>\$25,898,850</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).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2007, \$41,451 of the District's bank balance of \$421,321 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 \$197,005 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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Federal Government					
Categorical aid	\$ 1,499,280	\$ 132,901	\$1,632,181	\$ -	\$ -
State Government					
Apportionment	1,833,048	106,097	1,939,145	-	-
Categorical aid	1,814,208	29,521	1,843,729	-	-
Lottery	614,331	-	614,331	-	-
Other State	89,563	-	89,563	-	-
Other Local Sources	501,013	60,306	561,319	9,592	1,907
Total	<u>\$ 6,351,443</u>	<u>\$ 328,825</u>	<u>\$6,680,268</u>	<u>\$ 9,592</u>	<u>\$ 1,907</u>

Additional long term receivables include \$113,876 for a special education settlement with payments expected to be received annually over the next four years.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	33,444,348	2,367,971	2,127,644	33,684,675
Total Capital Assets Not Being Depreciated	37,711,234	2,367,971	2,127,644	37,951,561
Capital Assets Being Depreciated:				
Land Improvements	6,036,259	141,983	-	6,178,242
Buildings and Improvements	88,960,797	2,400,858	-	91,361,655
Furniture and Equipment	5,276,212	82,859	-	5,359,071
Total Capital Assets Being Depreciated	100,273,268	2,625,700	-	102,898,968
Total Capital Assets	137,984,502	4,993,671	2,127,644	140,850,529
Less Accumulated Depreciation:				
Land Improvements	3,504,924	290,603	-	3,795,527
Buildings and Improvements	28,077,507	2,840,438	-	30,917,945
Furniture and Equipment	3,031,622	394,181	-	3,425,803
Total Accumulated Depreciation	34,614,053	3,525,222	-	38,139,275
Governmental Activities Capital Assets, Net	<u>\$ 103,370,449</u>	<u>\$ 1,468,449</u>	<u>\$ 2,127,644</u>	<u>\$ 102,711,254</u>

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

Governmental Activities	
Instruction	\$ 1,862,321
Supervision of instruction	48,725
Instructional library, media, and technology	134,474
School site administration	264,364
Home-to-school transportation	293,772
Food services	55,826
All other pupil services	268,314
Ancillary services	23,546
Community services	37,763
All other general administration	220,704
Plant services	315,413
Total Depreciation Expenses Governmental Activities	<u>\$ 3,525,222</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2007, 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	Special Reserve Capital Outlay	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ 322,452	\$ 43,187	\$ 306,355	\$ 7,663	\$ 679,657
Non-Major Governmental funds	69,519	-	-	-	69,519
Proprietary funds	25,397	-	-	-	25,397
Total	\$ 417,368	\$ 43,187	\$ 306,355	\$ 7,663	\$ 774,573

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, 2007, consisted of the following:

Transfer To	Transfer From		Total
	Building Fund	Deferred Maintenance Fund	
General Fund	\$ 207,876	\$ 115,046	\$ 322,922

The General Fund transferred to the Building Fund to cover expenditures on various projects.	\$ 207,876
The General Fund transferred to the Deferred Maintenance Fund for District match.	115,046
Total	\$ 322,922

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, 2007**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Vendor payables	\$ 2,052,267	\$ 47,616	\$ 14,107	\$ 341,551	\$2,455,541	\$ 7,413
State apportionment	795,107	-	-	-	795,107	-
Salaries and benefits	618,354	-	-	7,158	625,512	-
Other	173,724	-	-	-	173,724	-
Total	<u>\$ 3,639,452</u>	<u>\$ 47,616</u>	<u>\$ 14,107</u>	<u>\$ 348,709</u>	<u>\$4,049,884</u>	<u>\$ 7,413</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund
Federal financial assistance	\$ 318,469
State categorical aid	246,363
Total	<u>\$ 564,832</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 11, 2006, the District issued \$7,285,270 Tax and Revenue Anticipation Notes bearing interest at 3.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 10, 2007. By May, 2007, 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 \$7,285,270 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, 2007

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance			Deductions	Balance	
	July 1, 2006	Additions	Accretions		June 30, 2007	Due in One Year
General obligation bonds	\$68,579,207	\$ -	\$ 481,698	\$ 2,507,118	\$ 66,553,787	\$2,159,419
Premiums (discounts), net of amortization	1,436	-	-	81	1,355	81
Certificates of participation	8,450,000	-	-	205,000	8,245,000	210,000
Accumulated vacation	377,689	-	-	43,212	334,477	-
Capital leases	1,032,897	114,668	-	360,910	786,655	213,151
Other post employment benefits	1,263,514	278,244	-	294,549	1,247,209	288,177
	<u>\$79,704,743</u>	<u>\$ 392,912</u>	<u>\$ 481,698</u>	<u>\$ 3,410,870</u>	<u>\$ 77,168,483</u>	<u>\$2,870,828</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			Bonds Outstanding June 30, 2007
				Outstanding July 1, 2006	Accretions	Redeemed	
Elementary							
1991 J	8/1/2028	4.00-8.00	\$ 2,700,000	\$ 2,635,000	\$ -	\$ 70,000	\$ 2,565,000
1999 G	8/1/2023	4.20-7.20	\$ 1,500,000	1,290,000	-	45,000	1,245,000
2000 H	8/1/2024	5.00-8.00	\$ 2,000,000	1,800,000	-	50,000	1,750,000
2002 I	8/1/2027	1.70-5.00	\$ 3,500,000	3,325,000	-	90,000	3,235,000
1998 Refunding	8/1/2021	4.00-4.60	\$ 7,530,000	6,030,000	-	355,000	5,675,000
2003 Refunding	8/1/2021	2.75-4.30	\$ 5,895,000	5,400,000	-	280,000	5,120,000
2003 Series B Refunding	8/1/2017	3.00-4.00	\$ 4,560,000	4,090,000	-	255,000	3,835,000
High School							
1995 Refunding	8/1/2021	4.50-6.20	\$10,623,276	1,775,771	111,827	-	1,887,598
1997 C	8/1/2018	4.65-5.80	\$ 8,972,019	14,840,329	265,805	327,118	14,779,016
1998 D	8/1/2021	4.25-7.25	\$ 3,900,000	305,000	-	135,000	170,000
1999 E	8/1/2023	4.50-7.00	\$ 2,600,000	95,000	-	80,000	15,000
2000 F	8/1/2024	5.00-8.00	\$ 9,400,000	575,000	-	240,000	335,000
2002 Refunding	8/1/2020	2.00-4.75	\$11,943,021	11,593,107	104,066	580,000	11,117,173
2005 Refunding	8/1/2024	3.125-7.00	\$14,825,000	14,825,000	-	-	14,825,000
				<u>\$68,579,207</u>	<u>\$ 481,698</u>	<u>\$ 2,507,118</u>	<u>\$ 66,553,787</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	3,099,759	1,602,293	4,702,052
2013-2017	17,253,181	6,157,998	23,411,179
2018-2022	22,252,689	2,966,153	25,218,842
2023-2027	4,540,000	533,994	5,073,994
2028-2032	575,000	21,745	596,745
Total	<u>57,981,101</u>	<u>\$ 18,672,966</u>	<u>\$ 76,654,067</u>
Accretions to date	<u>8,572,686</u>		
	<u>\$ 66,553,787</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, 2007, the principal balance outstanding was \$8,245,000. The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
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	250,000	215,293	465,293
2013-2017	1,395,000	952,169	2,347,169
2018-2022	1,685,000	720,156	2,405,156
2023-2027	2,055,000	437,656	2,492,656
2028-2032	1,960,000	106,041	2,066,041
Total	<u>\$ 8,245,000</u>	<u>\$ 3,361,530</u>	<u>\$ 11,606,530</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$334,477.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$1,385,348 with corresponding accumulated depreciation of \$266,259 at June 30, 2007. The District's liability on lease agreements with options to purchase are summarized below:

	Buses	Buildings and Equipment	Total
Balance, July 1, 2006	\$ 875,890	\$ 253,268	\$ 1,129,158
Additions	55,659	59,009	114,668
Payments	300,793	103,047	403,840
Balance, July 1, 2007	<u>\$ 630,756</u>	<u>\$ 209,230</u>	<u>\$ 839,986</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2008	\$ 291,216
2009	227,459
2010	154,074
2011	107,808
2012	59,429
Total	<u>839,986</u>
Less: Amount Representing Interest	53,331
Present Value of Minimum Lease Payments	<u>\$ 786,655</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, 2007, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post-employment Benefits
2008	\$ 288,177
2009	239,619
2010	199,836
2011	167,933
2012	120,425
2013-2017	231,219
	<u>\$ 1,247,209</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10 - FUND BALANCES

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

Reserved	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 450	\$ 20,450
Stores inventory	75,054	-	-	-	42,823	117,877
Prepaid expenditures	-	-	-	-	-	-
Restricted programs	2,792,044	-	-	-	-	2,792,044
Total Reserved	<u>2,887,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,273</u>	<u>2,930,371</u>
Unreserved						
Designated						
Economic uncertainties	1,990,719	-	-	-	184,446	2,175,165
Other designation	1,121,329	-	-	-	-	1,121,329
Total Designated	<u>3,112,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,446</u>	<u>3,296,494</u>
Undesignated	4,554,964	4,321,974	3,435,638	4,980,126	4,722,874	22,015,576
Total Unreserved	<u>7,667,012</u>	<u>4,321,974</u>	<u>3,435,638</u>	<u>4,980,126</u>	<u>4,907,320</u>	<u>25,312,070</u>
Total	<u>\$10,554,110</u>	<u>\$ 4,321,974</u>	<u>\$ 3,435,638</u>	<u>\$ 4,980,126</u>	<u>\$ 4,950,593</u>	<u>\$28,242,441</u>

NOTE 11 – 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, 2007, 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 2007, 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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	\$ 350,000,000
Redwood Empire Schools Insurance Group	Liability	\$ 20,000,000

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.

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 2006-2007 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, 2007, 2006, and 2005, were \$2,510,873, \$2,427,427, and \$2,332,012, 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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 2006-2007 was 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, 2007, 2006, and 2005, were \$986,503, \$1,018,829, and \$967,723, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

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

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 \$1,441,205 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2007. 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, 2007.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2007.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Casa Grande High School - football bleachers foundation and sitework	\$ 82,095	Sep-07
Petaluma High School - replace roof and entry way canopy beams	177,850	Aug-07
Casa Grande High School - multi-purpose and administrative room sitting	213,500	Oct-07
Valley Vista Elementary - Modernization	50,000	Oct-07
Grant Elementary - Modernization	66,000	Oct-07
	\$ 589,445	

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 JPA 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, 2007, the District made payments of \$259,813, and \$214,383 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 \$4,425,000 of Tax and Revenue Anticipation Notes dated July 17, 2007. The notes mature on July 31, 2008, and yield 3.595 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 2008, until 100 percent of principal and interest due is on account in May, 2008.

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***REQUIRED SUPPLEMENTARY
INFORMATION***

PETALUMA CITY SCHOOLS

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts			Variances - Positive (Negative)
	(GAAP Basis)		Actual (GAAP Basis)	
	Original	Final		
REVENUES				
Revenue limit sources	\$ 46,583,532	\$48,464,659	\$ 47,569,474	\$ (895,185)
Federal sources	2,862,968	3,484,125	3,167,099	(317,026)
Other state sources	6,912,897	10,383,069	11,576,413	1,193,344
Other local sources	6,432,070	8,019,355	8,655,605	636,250
Total Revenues¹	62,791,467	70,351,208	70,968,591	617,383
EXPENDITURES				
Current				
Instruction	39,254,693	43,728,574	42,686,809	1,041,765
Instruction-related activities:				
Supervision of instruction	1,015,234	1,249,858	1,079,131	170,727
Instructional library, media, and technology	778,796	844,909	771,621	73,288
School site administration	4,588,637	4,580,294	4,452,423	127,871
Pupil services:				
Home-to-school transportation	1,280,013	1,398,777	1,236,525	162,252
All other pupil services	5,030,398	5,808,702	5,529,218	279,484
General administration:				
All other general administration	2,586,532	2,898,035	2,921,681	(23,646)
Plant services	5,628,205	5,771,193	5,668,138	103,055
Facility acquisition and construction	41,544	51,073	11,050	40,023
Ancillary services	314,976	358,617	349,706	8,911
Community services	401,352	419,396	415,257	4,139
Other outgo	400,825	1,981,134	1,991,327	(10,193)
Enterprise services	45,000	45,000	61,898	(16,898)
Debt service				
Principal	300,793	300,793	283,942	16,851
Interest	-	-	16,851	(16,851)
Total Expenditures¹	61,666,998	69,436,355	67,475,577	1,960,778
Excess (Deficiency) of Revenues Over Expenditures	1,124,469	914,853	3,493,014	2,578,161
Other Financing Sources (Uses):				
Transfers out	-	(375,712)	(322,922)	52,790
Net Financing Sources (Uses)	-	(375,712)	(322,922)	52,790
NET CHANGE IN FUND BALANCES	1,124,469	539,141	3,170,092	2,630,951
Fund Balance - Beginning	7,384,018	7,384,018	7,384,018	-
Fund Balance - Ending	\$ 8,508,487	\$ 7,923,159	\$ 10,554,110	\$ 2,630,951

¹ On behalf payments of \$1,441,205 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education:			
Adult Basic Education & ESL	84.002A	14508	\$ 24,975
Adult Secondary Education	84.002	13978	4,050
English Literacy & Civics	84.002A	14109	21,924
NCLB: Title I, Part A, Basic Grants Low Income and Neglected ¹	84.010	14329	586,718
NCLB: Title I, Part A, Program Improvement District Intervention ¹	84.010	14581	106,396
Title II - Part D, Enhancing Education Through Technology	84.318	14334	3,554
Title II - Part A, Improving Teacher Quality	84.367	14341	199,933
Title II - Part A, Teacher Quality, Principal Training	84.367	14344	22,154
Title III - Language Acquisition	84.365	14346	33,924
Title III - Limited English Proficiency	84.365	10084	105,087
Title V - Part A, Innovative Education Strategies	84.298A	14354	15,094
Title X - McKinney Homeless Assistance	84.196	14332	24,322
Title IV - Part A, Drug Free School	84.186	14347	24,416
Special Education - State Grants ¹			
Local Assistance	84.027	13379	1,419,843
Preschool Local Entitlement	84.027A	13682	191,807
Federal Preschool	84.173	13430	81,877
Vocational Educational Grants	84.048	13924	53,637
Smaller Learning Communities	84.215L	³	253,674
Title V Charter School Grant	84.282	14531	15,181
Student Identification	²	³	29,482
Total U.S. Department of Education			<u>3,218,048</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 559,412
Basic School Breakfast Program	10.553	13525	737
Especially Needy Breakfast	10.553	13526	166,089
Summer Food Service Program for Children	10.559	³	21,501
Meals Supplements - Snack	10.555	13755	9,098
FMV Commodities ⁴	10.555	³	71,956
Total U.S. Department of Agriculture			<u>828,793</u>
Total Expenditures of Federal Awards			<u>\$ 4,046,841</u>

¹ Tested as a major program

² Catalog number not available

³ Pass-Through Entity Identifying Number not available

⁴ Not included in financial statements, disclosure only

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2007

ORGANIZATION

The Petaluma City Schools was established 1857 under the laws of the State of California. The District operates six elementary schools, two middle, a community day school, two high schools, three continuation schools, one independent study site serving grades K-12, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mary Schafer	President	2008
Carolyn Tennyson	Clerk	2010
Christina Kauk	Member	2010
Troy Sanderson	Member	2010
Lou Steinberg	Member	2010

ADMINISTRATION

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

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	325	327
First through third	944	945
Fourth through sixth	904	907
Seventh and eighth	39	40
Home and hospital	1	1
Special education	31	31
Total Elementary	2,244	2,251
SECONDARY		
Regular classes	4,942	4,917
Continuation education	179	179
Home and hospital	15	17
Special education	79	78
Community day school	17	18
Total Secondary	5,232	5,209
Total K-12	7,476	7,460
CLASSES FOR ADULTS		
Concurrently enrolled	2	2
Not concurrently enrolled	476	522
Total Classes for Adults	478	524
Grand Total	7,954	7,984
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		37,788
High school		106,692
Total Hours		144,480

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, 2007**

Grade Level	1982-83	1986-87	2006-2007	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
Grade 1	42,000	50,400	50,405	180	N/A	In Compliance
Grade 2	42,000	50,400	50,405	180	N/A	In Compliance
Grade 3	42,000	50,400	50,405	180	N/A	In Compliance
Grade 4	49,875	54,000	54,058	180	N/A	In Compliance
Grade 5	49,875	54,000	54,058	180	N/A	In Compliance
Grade 6	49,875	54,000	54,058	180	N/A	In Compliance
Grade 7	49,875	54,000	54,014	180	N/A	In Compliance
Grade 8	49,875	54,000	54,014	180	N/A	In Compliance
Grade 9	56,525	64,800	66,375	180	N/A	In Compliance
Grade 10	56,525	64,800	66,375	180	N/A	In Compliance
Grade 11	56,525	64,800	66,375	180	N/A	In Compliance
Grade 12	56,525	64,800	66,375	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, 2007**

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

	<u>Downtown Project Fund</u>
FUND BALANCE	
Balance, June 30, 2007, Unaudited Actuals	\$ -
Increase in:	
Equipment	52,573
Balance, June 30, 2007, Audited Financial Statement	<u>\$ 52,573</u>

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

FORM ASSET	
Balance, June 30, 2007, Unaudited Actuals	\$ 103,370,448
Increase (Decrease) in:	
Work in progress	240,327
Land improvements	141,983
Buildings	2,400,858
Equipment	30,287
(Increase) Decrease in:	
Accumulated depreciation - land improvements	(290,603)
Accumulated depreciation - buildings	(2,840,438)
Accumulated depreciation - equipment	(394,180)
Balance, June 30, 2007, Audited Financial Statement, Governmental Funds	<u>\$ 102,658,682</u>

FORM DEBT	
Total Liabilities, June 30, 2007, Unaudited Actuals	\$ 74,339,661
Increase in:	
General obligation bonds	2,827,466
Premiums, net of amortization	1,356
Total Liabilities, June 30, 2007, Audited Financial Statement	<u>\$ 77,168,483</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 65,641,436	\$ 69,527,386	\$ 62,822,302	\$ 59,731,592
Total Revenues and Other Sources	65,641,436	69,527,386	62,822,302	59,731,592
Expenditures	65,858,303	66,034,372	62,692,297	57,687,581
Other uses and transfers out	337,550	322,922	177,191	294,914
Total Expenditures and Other Uses	66,195,853	66,357,294	62,869,488	57,982,495
INCREASE (DECREASE) IN FUND BALANCE	\$ (554,417)	\$ 3,170,092	\$ (47,186)	\$ 1,749,097
ENDING FUND BALANCE	\$ 9,999,694	\$ 10,554,110	\$ 7,384,018	\$ 7,431,204
AVAILABLE RESERVES ²	\$ 9,067,943	\$ 6,545,683	\$ 4,382,685	\$ 4,024,789
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	13.70%	9.86%	6.97%	6.94%
LONG-TERM DEBT	\$ 74,290,365	\$ 77,161,193	\$ 79,704,743	\$ 81,454,800
K-12 AVERAGE DAILY ATTENDANCE AT P-2	7,423	7,476	7,511	7,530

The General Fund balance has increased by \$3,122,906 over the past two years. The fiscal year 2007-2008 budget projects a slight decrease of \$554,417 (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 one of the past three years and anticipates incurring an operating deficit again during the 2007-2008 fiscal year. Total long-term obligations have decreased by \$4,393,607 over the past two years.

Average daily attendance has decreased by 54 over the past two years. Additional decline of 53 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$1,441,205, \$1,329,053, and \$1,272,988 have been excluded from the revenues and expenditures.

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Petaluma City Schools does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2007**

<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

**PARCEL TAX – BALANCE SHEET
JUNE 30, 2007**

	<u>Elementary</u>	<u>High School</u>
ASSETS		
Cash and investments	\$ 190,339	\$ 256,532
Total Assets	<u>\$ 190,339</u>	<u>\$ 256,532</u>
LIABILITIES AND FUND EQUITY		
FUND EQUITY		
Fund balances		
Undesignated	\$ 190,339	\$ 256,532
Total Fund Equity	<u>190,339</u>	<u>256,532</u>
Total Liabilities and Fund Equity	<u>\$ 190,339</u>	<u>\$ 256,532</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**PARCEL TAX – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Elementary</u>	<u>High School</u>
REVENUES		
Parcel tax revenue	\$ 729,655	\$ 1,126,195
EXPENDITURES		
Current Expenditures		
Certificated salaries	387,343	459,114
Classified salaries	102,141	97,432
Benefits	151,524	146,715
Books and supplies	5,830	299,866
Services and operating expenditures	3,033	23,217
Total Expenditures	<u>649,871</u>	<u>1,026,344</u>
EXCESS OF REVENUES OVER EXPENDITURES	79,784	99,851
FUND BALANCE, Beginning of Year	<u>110,555</u>	<u>156,681</u>
FUND BALANCE, End of Year	<u>\$ 190,339</u>	<u>\$ 256,532</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

PARCEL TAX – FINANCIAL SUMMARY FOR THE YEAR ENDED JUNE 30, 2007

Expenditures	Elementary	High School
Certificated salaries	\$ 387,343	\$ 459,114
Classified salaries	102,141	97,432
Benefits	151,524	146,715
Books and supplies	5,830	299,866
Services and operating expenses	3,033	23,217
Total expenditures	<u>\$ 649,871</u>	<u>\$ 1,026,344</u>

	Elementary	High School
Parcel taxes collected	\$ 729,655	\$ 1,126,195
Total expenditures and commitments	<u>649,871</u>	<u>1,026,344</u>
Amount available from current year collections	<u>\$ 79,784</u>	<u>\$ 99,851</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

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.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

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.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION (Continued) JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

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.

Parcel Tax – Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balance, and Financial Summary

These statements provide information regarding the receipt and use of funds related to the Measure C and Measure K parcel taxes, and the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax.

The Measure C and Measure K parcel tax measures were approved by the voters on November 2, 2004 for the Petaluma Elementary School District and the Petaluma High School District, respectively. On May 8 2007, revisions to the measures, known as the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax, were approved by the voters. These revisions retained the same purposes and other terms of the measures but extending the time frame from four years to indefinite.

The Elementary School parcel tax is used for the following: keeping libraries open; continuing to provide reading specialists; continuing smaller class sizes, music and art programs; computer and technology programs; providing necessary educational programs and materials; and attracting and retaining qualified teachers.

The High School parcel tax is used for the following: keeping libraries open; continuing smaller class sizes; computer and technology programs; music and fine art programs; and attracting and retaining qualified teachers.

SUPPLEMENTARY INFORMATION - UNAUDITED

PETALUMA CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET - UNAUDITED
 JUNE 30, 2007

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 291,430	\$ 51,673	\$ 674,224
Receivables	153,541	166,795	-
Due from other funds	302,262	4,093	-
Stores inventories	-	42,823	-
Total Assets	<u>\$ 747,233</u>	<u>\$ 265,384</u>	<u>\$ 674,224</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 227,463	\$ 34,755	\$ 85,333
Due to other funds	59,949	8,341	1,229
Total Liabilities	<u>287,412</u>	<u>43,096</u>	<u>86,562</u>
Fund Balances:			
Reserved for:			
Other reservations	300	42,973	-
Unreserved:			
Designated	80,676	103,770	-
Undesignated, reported in:			
Special revenue funds	378,845	75,545	587,662
Capital projects funds	-	-	-
Total Fund Balance	<u>459,821</u>	<u>222,288</u>	<u>587,662</u>
Total Liabilities and Fund Balances	<u>\$ 747,233</u>	<u>\$ 265,384</u>	<u>\$ 674,224</u>

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ 2,943,526	\$ 729,965	\$ 4,690,818
8,489	-	328,825
-	-	306,355
-	-	42,823
<u>\$ 2,952,015</u>	<u>\$ 729,965</u>	<u>\$ 5,368,821</u>
\$ 1,158	\$ -	\$ 348,709
-	-	69,519
<u>1,158</u>	<u>-</u>	<u>418,228</u>
-	-	43,273
-	-	184,446
-	-	1,042,052
2,950,857	729,965	3,680,822
<u>2,950,857</u>	<u>729,965</u>	<u>4,950,593</u>
<u>\$ 2,952,015</u>	<u>\$ 729,965</u>	<u>\$ 5,368,821</u>

PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES						
Revenue limit sources	\$ 1,680,874	\$ 75,119	\$ -	\$ -	\$ -	\$ 1,755,993
Federal sources	50,949	756,837	-	-	-	807,786
Other state sources	93,390	61,240	316,076	-	2,023,721	2,494,427
Other local sources	80,303	1,256,783	34,250	882,366	23,576	2,277,278
Total Revenues	1,905,516	2,149,979	350,326	882,366	2,047,297	7,335,484
EXPENDITURES						
Current						
Instruction	1,314,401	-	-	-	-	1,314,401
Instruction-related activities:						
School site administration	249,956	-	-	-	-	249,956
Pupil services:						
Food services	-	2,074,566	-	-	-	2,074,566
General administration:						
All other general administration	52,541	-	-	17,968	-	70,509
Plant services	60,264	19,651	1,174,235	188,717	-	1,442,867
Facility acquisition and construction	-	-	-	380,631	1,507,700	1,888,331
Principal	-	-	-	4,082	-	4,082
Interest and other	-	-	-	210	-	210
Total Expenditures	1,677,162	2,094,217	1,174,235	591,608	1,507,700	7,044,922
Excess (Deficiency) of						
Revenues Over Expenditures	228,354	55,762	(823,909)	290,758	539,597	290,562
Other Financing Sources (Uses):						
Transfers in	-	-	115,046	-	-	115,046
Net Financing Sources (Uses)	-	-	115,046	-	-	115,046
NET CHANGE IN FUND BALANCES	228,354	55,762	(708,863)	290,758	539,597	405,608
Fund Balance - Beginning	231,467	166,526	1,296,525	2,660,099	190,368	4,544,985
Fund Balance - Ending	\$ 459,821	\$ 222,288	\$ 587,662	\$ 2,950,857	\$ 729,965	\$ 4,950,593

See accompanying note to supplementary information - unaudited.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

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.

INDEPENDENT AUDITORS' REPORTS



**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, 2007, which collectively comprise Petaluma City Schools' basic financial statements and have issued our report thereon dated December 19, 2007. 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 2007 Petaluma City Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Petaluma City Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Petaluma City Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2007-3.

Petaluma City Schools response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Petaluma City Schools response and, accordingly, express no opinion on it.

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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California

December 19, 2007



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 2007. 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.

In our opinion, Petaluma City Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Petaluma City Schools internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined 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, 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.

Vaurinek, Tine, Day & Co LLP
Pleasanton, California
December 19, 2007



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, 2007, and have issued our report thereon dated December 19, 2007. 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 2006-07*, 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	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	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		
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
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership		
System (CalSTRS) membership	1	Yes
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
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	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, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. 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. 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.

Vavrinek, Trine, Day & Co LLP
Pleasanton, California
December 19, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PETALUMA CITY SCHOOLS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</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>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027-84.173</u>	<u>Special Education Cluster</u>
<u>84.010</u>	<u>Title I</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>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINANCIAL STATEMENT FINDINGS

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

2007-1 Code 30000 Student Body

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 fundraising ventures
- Promote reliable financial information
- Reduce the risk of fraud and abuse

Condition The following conditions were noted during our testing of student body funds:
Kenilworth Middle School

- Site doesn't maintain a ticket inventory, and does not utilize a ticket log or ticket sales report to reconcile the collections to the actual number of tickets sold.
- Goods ordered and received at the site were not supported by receiving documents such as packing slips or were not otherwise noted as received on the invoices or other supporting documents.
- No revenue potentials/sales analyses are prepared for significant fund raising events prior to the occurrence of the event.

Sonoma Mountain High School

- No pre-numbered receipts are issued for cash collections.
- No requests for disbursement forms are used and disbursements weren't adequately supported with invoices and receiving documentation.
- Approvals were missing on some of the disbursements.

Petaluma High School

- Student council minutes were not maintained or were incomplete.
- Expenditure requisitions were not signed by the club's student officer to indicate the expenditure had been approved by the club.
- Goods ordered and received at the site were not supported by receiving documents such as packing slips or receipt of the item was not otherwise noted on the invoices or other supporting documents.
- Site prints its own tickets that aren't pre-numbered and does not maintain a ticket log or ticket sales report to reconcile collections to the actual number of tickets sold.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

- Records were not maintained of the reconciliation between the daily student store sales and the cash register.
- No controls over the concession sales during the ball game events. Sales aren't reconciled to the inventory or cash collections.
- No revenue potentials or sales analyses are prepared for significant fundraising events prior to the occurrence of the fundraising event.

Questioned costs

None

Context

The conditions were noted at Kenilworth Jr. High School, Sonoma Mountain High School, and Petaluma High School.

Effect

Internal controls over student body activities are not operating at optimum levels to assist in safeguarding the organizations assets and reducing the risks of fraud, abuse or errors.

Cause

Personnel are not following District policies and procedures.

Recommendation

Periodic training should be provided to all individuals who are assigned responsibility for maintaining and supervising student body accounts and activities at each school site. FCMAT's student body accounting manual should be provided to all site student body accountants as a general guide or supplement to any ASB procedures and policies already provided to the sites.

District Response

The District will have respective staff attend CASBO's student body workshop. In addition, the District will work with Staff and students to be sure they are implementing proper procedures.

2007-2 30000 Code Cash Accounts

Criteria or Specific Requirements General accounting practices emphasize the importance of strong internal controls over revolving accounts and site cash collections. Strong internal controls over revolving accounts are based on accurate reconciliations of the book balance to the bank balance and District oversight of cash accounts. Strong internal controls over site cash collections are based on issuance of pre-numbered receipts and timely transmittals of cash collections.

Condition The following conditions were noted during our review of District and site cash accounts:
Grant Elementary School

- Pre-numbered receipts are not being issued for site cash collections.

Kenilworth Middle School

- Cash collections are not being submitted to the District office in a timely manner.

Cafeteria Revolving Account

- As noted in prior year, the cafeteria bank account does not have the same account number as is listed on the District's master list of approved bank accounts.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

- No board approval was noted for the opening and closing of the cafeteria revolving account.

Questioned Costs

None

Context

The conditions were noted during our review of cash accounts during the fiscal year 2006-07.

Effect

Internal controls over site cash collections do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse. The list of approved accounts is outdated and may result in a loss of control over accounts tracked by the District. The District could be unaware of accounts opened and closed under the District's federal identification number exposing the District to risk if any of these accounts became overdrawn or are inappropriately used.

Cause

District has not updated their master list of bank accounts for the change in the Cafeteria account. Personnel preparing the bank reconciliations have not been adequately trained and sites aren't using District issued pre-numbered receipt books. The District does not have a policy requiring sites to send in cash collections at regular intervals throughout the school year.

Recommendation

We recommend the District update the master list of accounts to include all accounts maintained by departments and sites. Training should be provided to site personnel over proper reconciliation and cash collection procedures. The District should adopt a policy to require sites to turn in cash collections at regular intervals throughout the school year.

District Response

The District will confirm the Board approval of opening the Cafeteria account (existing) as it is not likely it was opened without it. The District will provide appropriate notification and approval for the account that was closed. The District will remind sites of proper procedures ensuring internal controls of cash collections and timely submissions.

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

STATE AWARDS FINDINGS AND QUESTIONED COSTS

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
72000	School Accountability Report Card

2007-3 10000 Code – Apprenticeship Attendance

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

During our review of the Annual Attendance Report, an error was found in the number of apprenticeship hours being reported.

Questioned Costs

\$213,840

Context

The District reported the correct amount of apprenticeship hours on their supporting worksheets and schedules, however, the hours were not included on the appropriate line of the Annual Attendance Report submitted to the State.

Effect

If the error was not corrected by either the County or State upon receipt of the report, the district may receive a correction on their apportionment related to apprenticeship hours. In the current year, the District received an advanced apportionment amount of \$159,214 for apprenticeship hours based on their P2 numbers.

Cause

The processes of monitoring and reviewing the annual attendance report did not operate effectively.

Recommendation

The District should review their monitoring system that reviews attendance and other forms prior to submission to oversight agencies. Reconciling to supporting schedules by someone other than the person preparing the report would provide additional assurance that errors are detected in a timely manner.

District Response

The District will review and implement changes to be sure all program information is submitted. The District has already submitted corrected information to the State so as to receive the appropriate funding for the Apprentice Program.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

Financial Statement Findings

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.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

- 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.

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.

Current Status

Implemented

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

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.

Current Status Partially implemented, see current year finding in regards to the Cafeteria account.

Federal Award Findings

2006-3 **Code 50000 U.S. Department of Education, Passed Through California Department of Education, Special Education Cluster CFDA 84.027 & 84.173**

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 programs, during fiscal year 2005-06, were not supported by multi funded certifications.

Questioned Costs \$1,188,403 for Special Education cluster program employees during fiscal year 2005-06.

Context Multi funded certifications were not prepared for the Special Education cluster program employees during fiscal year 2005/06.

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

Cause Oversight to ensure that that multi-funded certifications were prepared did not occur.

Recommendation The District should implement procedures to ensure that the required certifications are prepared on a monthly basis. The certifications should be

- 1) Be prepared at least monthly and coincide with a pay period.
- 2) Account for the total activity of the employee.
- 3) Be signed by the employee.
- 4) Be signed by a supervisor having firsthand knowledge of the work performed.

Current Status Implemented

2006-4 **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.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

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.

Current Status Implemented

State Award Findings

2006-5 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 9th 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.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

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 .

Current Status Implemented

2006-6 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.

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.

Current Status Implemented