

**PETALUMA
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2008**

**PETALUMA CITY SCHOOLS
OF SONOMA COUNTY
PETALUMA, CALIFORNIA
JUNE 30, 2008**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Carolyn Tennyson	President	2010
Troy Sanderson	Clerk	2008
Mary Schafer	Member	2008
Christina Kauk	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, 2008, 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 2007-08*, 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, 2008, 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 15, 2008 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 pages 55 through 56, 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*, is presented for purposes of additional analysis and is 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, is 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 it.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2008

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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, 2008. 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, 2008

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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 \$56.7 million for the fiscal year ended June 30, 2008. Of this amount, \$7.6 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, 2008

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 35,306,390	\$ 34,548,023	\$ 22,676	\$ 18,057	\$ 35,329,066	\$ 34,566,080
Capital assets	99,715,969	102,658,682	46,890	52,573	99,762,859	102,711,255
Total Assets	135,022,359	137,206,705	69,566	70,630	135,091,925	137,277,335
Current liabilities	7,351,345	8,562,555	(431)	18,057	7,350,914	8,580,612
Long-term debt	70,995,268	74,297,655	-	-	70,995,268	74,297,655
Total Liabilities	78,346,613	82,860,210	(431)	18,057	78,346,182	82,878,267
Net assets						
Invested in capital assets, net of related debt	32,022,858	31,454,984	46,890	52,573	32,069,748	31,507,557
Restricted	17,024,223	15,202,665	-	-	17,024,223	15,202,665
Unrestricted	7,628,665	7,688,846	23,107	-	7,651,772	7,688,846
Total Net Assets	\$ 56,675,746	\$ 54,346,495	\$ 69,997	\$ 52,573	\$ 56,745,743	\$ 54,399,068

The \$7.6 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our non-capital liabilities (compensated absences as an example), we would have \$7.6 million left.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, and rearranges them slightly so you can see our total revenues and expenses for the year.

PETALUMA CITY SCHOOLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 1,216,798	\$ 1,375,866	\$ 40,179	\$ 31,748	\$ 1,256,977	\$ 1,407,614
Operating grants and contributions	16,226,236	16,368,750	-	-	16,226,236	16,368,750
Capital grants and contributions	2,228,459	2,047,296	-	-	2,228,459	2,047,296
General revenues:						
Federal and state aid	27,625,297	26,941,355	-	-	27,625,297	26,941,355
Property taxes	32,105,206	31,032,330	-	-	32,105,206	31,032,330
Other general revenues	4,893,920	6,278,318	24	-	4,893,944	6,278,318
Total Revenues	84,295,916	84,043,915	40,203	31,748	84,336,119	84,075,663
Expenses						
Instruction-related	55,664,937	52,833,535	-	-	55,664,937	52,833,535
Student support services	10,864,623	9,451,380	-	-	10,864,623	9,451,380
Administration	3,177,888	3,193,611	-	-	3,177,888	3,193,611
Maintenance and operations	7,526,039	7,605,559	-	-	7,526,039	7,605,559
Other	4,733,178	6,613,670	22,779	40,811	4,755,957	6,654,481
Total Expenses	81,966,665	79,697,755	22,779	40,811	81,989,444	79,738,566
Excess (Deficiency)	2,329,251	4,346,160	17,424	(9,063)	2,346,675	4,337,097
Special item: sale of land	-	250,000	-	-	-	250,000
Change in Net Assets	\$ 2,329,251	\$ 4,596,160	\$ 17,424	\$ (9,063)	\$ 2,346,675	\$ 4,587,097

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$82.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$32.1 million because the cost was paid by those who benefited from the programs (\$1.3 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$18.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$27.6 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, 2008

Table 3

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 55,664,937	\$ 52,833,535	\$ 41,982,460	\$ 38,662,100
Pupil services	10,864,623	9,451,380	5,944,714	4,794,370
School administration	3,177,888	3,193,611	2,878,990	2,938,653
Maintenance and operations	7,526,039	7,605,559	6,903,630	7,081,501
Other	4,733,178	6,613,670	4,585,376	6,429,219
Totals	\$ 81,966,665	\$ 79,697,755	\$ 62,295,170	\$ 59,905,843

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$30.6 million, which is an increase of \$2.4 million from last year (Table 4).

Table 4

	Fund Balance	
	June 30, 2008	June 30, 2007
General	\$ 12,370,535	\$ 10,554,110
Adult Education	572,491	459,821
Building	3,913,664	4,321,974
Bond Interest and Redemption	4,509,722	4,980,126
Cafeteria	158,629	222,288
Deferred Maintenance	499,137	587,662
Capital Facilities	2,841,550	2,950,857
County Schools Facilities	2,832,237	729,965
Capital Projects - Special Reserve	2,904,350	3,435,638
Totals	\$ 30,602,315	\$ 28,242,441

The primary reasons for these increases/decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased by approximately \$1.8 million to \$12.4 million. This increase is due to:
 1. 5.92% COLA.
 2. Increased State revenues, on going as well as one-time.
 3. The District is, by design, building a reserve so as not to impact students and programs as we experience declining enrollment in our Secondary District.
- b. Our Adult Education Fund increased by approximately \$113,000 due to a decrease in staff.
- c. Our Building Fund decreased by approximately \$400,000 from the prior year due to the progression of various projects in progress.
- d. The Bond Interest and Redemption Fund decreased by approximately \$500,000 from the prior year due to the net change between the collection of property taxes for debt payments and the payment of principal and interest on bond issuances.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- e. Our other funds including the Cafeteria Fund, Deferred Maintenance Fund, Capital Facilities Fund, County School Facilities Fund, and Special Reserve for Capital Outlay increased by \$1.3 million 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 30, 2008. 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 55.

- Budgeted expenditures increased by \$2.2 million primarily due to one-time, prior year (2006-07) carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$99.7 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 \$3.0 million, or 1 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2008	2007	2008	2007	2008	2007
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	131,156,384	97,539,897	-	-	131,156,384	97,539,897
Equipment	5,613,859	5,306,498	56,833	56,833	5,670,692	5,363,331
Construction in progress	1,284,360	33,684,675	-	-	1,284,360	33,684,675
Totals	142,321,489	140,797,956	56,833	56,833	142,378,322	140,854,789
Less Accumulated Depreciation	(42,605,520)	(38,139,275)	(9,943)	(4,260)	(42,615,463)	(38,143,535)
Capital Assets, net	\$ 99,715,969	\$ 102,658,681	\$ 46,890	\$ 52,573	\$ 99,762,859	\$ 102,711,254

This year's net increase of \$1.5 million included completion of the following major projects: 1) Kenilworth Junior High School 2) Casa Grande High School bleachers 3) Grant Elementary School modernization and 4) Valley Vista Elementary School modernization.

Several capital projects are planned for the 2008-09 year. We anticipate capital additions to include Petaluma High School Phase D, Art Building, Casa Grande High School Phase G, Library and Drama Buildings, and Mary Collins School at Cherry Valley modernization for the 2008-09 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, 2008

Long-Term Obligations

At the end of this year, the District had \$74.4 million in long term obligations outstanding versus \$77.2 million last year, a decrease of 3 percent. The debt consisted of:

Table 6

	Totals	
	2008	2007
General obligation bonds (financed with property taxes)	\$ 64,557,621	\$ 66,553,787
Bond premiums, net of amortization	29,804	1,355
Certifications of participation	8,035,000	8,245,000
Capitalized lease obligations	508,029	786,655
Accrued vacation	348,631	334,477
Other post employment benefits	874,154	1,247,209
Totals	\$ 74,353,239	\$ 77,168,483

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

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-08 ARE NOTED BELOW:

This years additions of \$1.5 million included the following: Casa Grande High School bleachers, Phase D grant modernization projects, Elementary School ovens, and Aeries student information system.

Projects still in progress include the Petaluma High School, art building, Phase D.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2008-09 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income increase due to 5.66% COLA, 0% funded.
2. Developer fee collections are based on approximate new housing units to be constructed.
3. Federal income is estimated to have minimal change.
4. State income will decrease by 6.99%.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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 NET ASSETS
JUNE 30, 2008**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 26,578,830	\$ 11,378	\$ 26,590,208
Receivables	6,893,178	11,298	6,904,476
Prepaid expenses	290,145	-	290,145
Deferred charges	1,476,789	-	1,476,789
Stores inventories	67,448	-	67,448
Capital assets not depreciated	5,551,246	-	5,551,246
Capital assets, net of accumulated depreciation	94,164,723	46,890	94,211,613
Total Assets	135,022,359	69,566	135,091,925
LIABILITIES			
Accounts payable	2,569,195	(431)	2,568,764
Interest payable	922,276	-	922,276
Deferred revenue	501,903	-	501,903
Current portion of long-term obligations	3,357,971	-	3,357,971
Noncurrent portion of long-term obligations	70,995,268	-	70,995,268
Total Liabilities	78,346,613	(431)	78,346,182
NET ASSETS			
Invested in capital assets, net of related debt	32,022,858	46,890	32,069,748
Restricted for:			
Debt service	4,509,722	-	4,509,722
Capital projects	8,578,137	-	8,578,137
Educational programs	2,547,457	-	2,547,457
Other activities	1,320,257	-	1,320,257
Self-insurance	68,650	-	68,650
Unrestricted	7,628,665	23,107	7,651,772
Total Net Assets	\$ 56,675,746	\$ 69,997	\$ 56,745,743

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

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PETALUMA CITY SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$48,233,668	\$ 35,654	\$ 10,266,146	\$ 2,228,459
Instruction-related activities:				
Supervision of instruction	1,156,757	-	463,516	-
Instructional library, media, and technology	989,814	-	98,465	-
School site administration	5,284,698	9,334	580,903	-
Pupil services:				
Home-to-school transportation	1,794,937	62,426	787,151	-
Food services	2,186,100	1,081,061	928,444	-
All other pupil services	6,883,584	254	2,060,573	-
General administration:				
All other general administration	3,177,892	1,709	297,189	-
Plant services	7,526,039	15,408	607,001	-
Ancillary services	404,350	-	-	-
Community services	441,914	-	-	-
Enterprise services	119,983	-	-	-
Interest on long-term debt	3,355,975	-	-	-
Other outgo	410,954	10,952	136,848	-
Total Governmental-Type Activities	81,966,665	1,216,798	16,226,236	2,228,459
Business-Type Activities				
Enterprise services	22,779	40,179	-	-
Total Business-Type Activities	\$ 22,779	\$ 40,179	\$ -	\$ -
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

**Net (Expenses) Revenues and
Changes in Net Assets**

Governmental Activities	Business- Type Activities	Total
\$ (35,703,409)	\$ -	\$ (35,703,409)
(693,241)	-	(693,241)
(891,349)	-	(891,349)
(4,694,461)	-	(4,694,461)
(945,360)	-	(945,360)
(176,595)	-	(176,595)
(4,822,757)	-	(4,822,757)
(2,878,994)	-	(2,878,994)
(6,903,630)	-	(6,903,630)
(404,350)	-	(404,350)
(441,914)	-	(441,914)
(119,983)	-	(119,983)
(3,355,975)	-	(3,355,975)
(263,154)	-	(263,154)
<u>(62,295,172)</u>	<u>-</u>	<u>(62,295,172)</u>
-	17,400	17,400
<u>-</u>	<u>17,400</u>	<u>17,400</u>
25,905,012	-	25,905,012
4,402,345	-	4,402,345
1,797,849	-	1,797,849
27,625,297	-	27,625,297
1,153,153	-	1,153,153
3,740,767	24	3,740,791
<u>64,624,423</u>	<u>24</u>	<u>64,624,447</u>
2,329,251	17,424	2,346,675
54,346,495	52,573	54,399,068
<u>\$ 56,675,746</u>	<u>\$ 69,997</u>	<u>\$ 56,745,743</u>

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PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	General Fund	Adult Education Fund	Building Fund
ASSETS			
Deposits and investments	\$ 8,509,785	\$ 533,315	\$ 3,932,038
Receivables	6,109,952	425,558	17,624
Due from other funds	610,620	10,056	-
Due from other governments	15,100	-	-
Prepaid expenses	-	-	-
Stores inventories	45,954	-	-
Total Assets	\$ 15,291,411	\$ 968,929	\$ 3,949,662
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,944,181	\$ 206,199	\$ 35,998
Due to other funds	474,792	190,239	-
Deferred revenue	501,903	-	-
Total Liabilities	2,920,876	396,438	35,998
Fund Balances:			
Reserved for:			
Legally restricted balances	2,547,457	-	-
Other reservations	65,954	300	-
Unreserved:			
Designated	3,357,889	-	-
Undesignated, reported in:			
General Fund	6,399,235	-	-
Special revenue funds	-	572,191	-
Debt service funds	-	-	-
Capital projects funds	-	-	3,913,664
Total Fund Balance	12,370,535	572,491	3,913,664
Total Liabilities and Fund Balances	\$ 15,291,411	\$ 968,929	\$ 3,949,662

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

Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 4,509,722	\$ 9,018,628	\$ 26,503,488
-	244,521	6,797,655
-	128,247	748,923
-	-	15,100
-	290,145	290,145
-	21,494	67,448
<u>\$ 4,509,722</u>	<u>\$ 9,703,035</u>	<u>\$ 34,422,759</u>
\$ -	\$ 382,817	\$ 2,569,195
-	84,315	749,346
-	-	501,903
<u>-</u>	<u>467,132</u>	<u>3,820,444</u>
-	-	2,547,457
-	21,644	87,898
-	-	3,357,889
-	-	6,399,235
-	636,122	1,208,313
4,509,722	-	4,509,722
-	8,578,137	12,491,801
<u>4,509,722</u>	<u>9,235,903</u>	<u>30,602,315</u>
<u>\$ 4,509,722</u>	<u>\$ 9,703,035</u>	<u>\$ 34,422,759</u>

PETALUMA CITY SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balance - Governmental Funds		\$ 30,602,315
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	\$ 142,310,128	
Accumulated depreciation is	<u>(42,594,159)</u>	
Net Capital Assets		99,715,969
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.		1,476,789
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.		87,538
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.		(922,276)
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.		68,650
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	64,557,621	
Certificates of participation	8,035,000	
Capital leases payable	508,029	
Other post employment benefits	874,154	
Bond premiums, net of amortization	29,804	
Compensated absences (vacations)	<u>348,631</u>	
Total Long-Term Liabilities		<u>(74,353,239)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 56,675,746</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, 2008**

	General Fund	Adult Education Fund	Building Fund
REVENUES			
Revenue limit sources	\$ 49,118,137	\$ -	\$ -
Federal sources	2,991,210	55,365	-
Other state sources	11,144,218	1,804,381	-
Other local sources	8,598,140	78,303	177,710
Total Revenues	71,851,705	1,938,049	177,710
EXPENDITURES			
Current			
Instruction	44,889,078	1,307,526	-
Instruction-related activities:			
Supervision of instruction	1,097,651	-	-
Instructional library, media and technology	846,306	-	-
School site administration	4,641,565	323,124	-
Pupil services:			
Home-to-school transportation	1,505,182	-	-
Food services	207	-	-
All other pupil services	6,450,930	-	-
General administration:			
All other general administration	2,818,981	58,999	-
Plant services	5,846,704	135,730	65,446
Facility acquisition and construction	11,050	-	520,574
Ancillary services	356,343	-	-
Community services	402,540	-	-
Other outgo	410,954	-	-
Enterprise services	119,983	-	-
Debt service			
Principal	210,863	-	-
Interest and other	22,236	-	-
Total Expenditures	69,630,573	1,825,379	586,020
Excess (Deficiency) of Revenues Over Expenditures	2,221,132	112,670	(408,310)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Other financing source - refunding bond	-	-	-
Transfers out	(404,707)	-	-
Net Financing Sources (Uses)	(404,707)	-	-
NET CHANGE IN FUND BALANCES	1,816,425	112,670	(408,310)
Fund Balance - Beginning	10,554,110	459,821	4,321,974
Fund Balance - Ending	\$ 12,370,535	\$ 572,491	\$ 3,913,664

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

Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 85,200	\$ 49,203,337
-	826,590	3,873,165
41,269	2,621,727	15,611,595
4,466,497	2,210,321	15,530,971
<u>4,507,766</u>	<u>5,743,838</u>	<u>84,219,068</u>
-	-	46,196,604
-	-	1,097,651
-	-	846,306
-	-	4,964,689
-	-	1,505,182
-	2,181,091	2,181,298
-	-	6,450,930
-	18,366	2,896,346
-	1,118,770	7,166,650
-	892,046	1,423,670
-	-	356,343
-	-	402,540
-	-	410,954
-	-	119,983
10,339,419	253,308	10,803,590
2,633,385	375,471	3,031,092
<u>12,972,804</u>	<u>4,839,052</u>	<u>89,853,828</u>
<u>(8,465,038)</u>	<u>904,786</u>	<u>(5,634,760)</u>
-	404,707	404,707
7,994,634	-	7,994,634
-	-	(404,707)
<u>7,994,634</u>	<u>404,707</u>	<u>7,994,634</u>
(470,404)	1,309,493	2,359,874
4,980,126	7,926,410	28,242,441
<u>\$ 4,509,722</u>	<u>\$ 9,235,903</u>	<u>\$ 30,602,315</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, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 2,359,874
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	\$(4,470,507)
Capital outlays	<u>1,527,793</u>
Net Expense Adjustment	(2,942,714)
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)
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.	35,994
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).	(14,154)
Proceeds received from bonds is a revenue in the governmental funds, but increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	(8,273,253)
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.	10,269,419
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.	210,000
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.	278,626
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.	373,055
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.	58,254
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.	7,180
Change in Net Assets of Governmental Activities	<u>\$ 2,329,251</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Business Type Activities Enterprise Fund Downtown Project Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 11,378	\$ 75,342
Receivables	11,298	-
Due from other funds	-	423
Total Current Assets	<u>22,676</u>	<u>75,765</u>
Noncurrent Assets		
Furniture and equipment (net)	46,890	-
Total Assets	<u>69,566</u>	<u>75,765</u>
LIABILITIES		
Current Liabilities		
Accounts payable	(431)	7,115
Total Current Liabilities	<u>(431)</u>	<u>7,115</u>
NET ASSETS		
Unrestricted	69,997	68,650
Total Net Assets	<u>\$ 69,997</u>	<u>\$ 68,650</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, 2008**

	Business Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 40,179	\$ 69,316
Total Operating Revenues	40,179	69,316
OPERATING EXPENSES		
Supplies and materials	13,642	-
Depreciation	5,683	-
Other operating cost	3,454	64,441
Total Operating Expenses	22,779	64,441
Operating Income	17,400	4,875
NONOPERATING REVENUES (EXPENSES)		
Interest income	24	2,305
Change in Net Assets	17,424	7,180
Total Net Assets - Beginning	52,573	61,470
Total Net Assets - Ending	\$ 69,997	\$ 68,650

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, 2008**

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Downtown Project Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 45,579	\$ 69,450
Cash payments to suppliers for goods and services	(39,793)	-
Cash payments for other operating expenses	(3,454)	(64,418)
Net Cash Provided (Used) for Operating Activities	<u>2,332</u>	<u>5,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	24	2,305
Net Cash Provided from Investing Activities	<u>24</u>	<u>2,305</u>
Net increase in Cash and Cash Equivalents	2,356	7,337
Cash and Cash Equivalents - Beginning	9,022	68,005
Cash and Cash Equivalents - Ending	<u>\$ 11,378</u>	<u>\$ 75,342</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 17,400	\$ 4,875
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,683	-
Changes in assets and liabilities:		
(Increase) Decrease receivables	(2,263)	557
(Increase) Decrease Due from other fund	7,663	(423)
Increase (Decrease) Accounts payable	(752)	23
Increase (Decrease) Due to other fund	(25,399)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,332</u>	<u>\$ 5,032</u>

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

PETALUMA CITY SCHOOLS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008**

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 110,696	\$ 301,415
Receivables	-	-
Total Assets	<u>110,696</u>	<u>\$ 301,415</u>
 LIABILITIES		
Due to student groups	-	\$ 301,415
Total Liabilities	<u>-</u>	<u>\$ 301,415</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, 2008**

	Scholarship Trust
ADDITIONS	
Private donations	\$ -
Interest	-
Total Additions	-
DEDUCTIONS	
Other expenditures	-
Total Deductions	-
Change in Net Assets	-
Net Assets - Beginning	110,696
Net Assets - Ending	\$ 110,696

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 Schools 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, two high schools, an adult school, a community day school, three continuation schools, and one independent study site.

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 Live Oak Charter School and the Mary Collins School at Cherry Valley Charter School pursuant to Education Code Section 47605. The Mary Collins 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. The District receives revenue on behalf of the Live Oak Charter School which it passes on to the Charter.

Public Entity Risk Pools and Joint Powers Authorities The District is associated with three joint powers authorities. 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, 2008

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 is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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.

Bond Interest and Redemption Fund The Board Interest and Redemption Fund is used to account for the accumulation of major governmental capital facilities and buildings.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

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. The District has the following proprietary funds:

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: private purpose trust funds, 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's trust funds are 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).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, and exclude fiduciary activity. 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. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Investments

Investments held at June 30, 2008, 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.

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 funds and expenses in the proprietary 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

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 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 balance designations have been established for economic uncertainties, unrealized gains of investments 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. The government-wide financial statements reports \$17.0 million of restricted net assets, of which \$12.4 is restricted by enabling legislation.

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 and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type activities.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

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.

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. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for*

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Postemployment Benefit Plans Other Than Pension Plans, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged. The District does not believe the implementation of this statement will have a significant effect on the financial statements.

In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. The District does not believe the implementation of this statement will have a significant effect on the financial statements.

In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. The District does not believe the implementation of this statement will have a significant effect on the financial statements.

In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The District does not believe the implementation of this statement will have a significant effect on the financial statements.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 26,578,830
Business-type activities	11,378
Fiduciary funds	412,111
Total Deposits and Investments	<u>\$ 27,002,319</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 314,329
Cash in revolving	20,450
Investments	26,667,540
Total Deposits and Investments	<u>\$ 27,002,319</u>

Policies and Practices

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

General Authorizations

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

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

Interest Rate Risk

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

Investment Type	Fair Value	Weighted Average Maturity in Days
Certificates of Deposit	\$ 99,782	365 days
U.S. Agencies	183,970	32 days
County Pool	26,383,788	394 days
Total	<u>\$ 26,667,540</u>	

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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	183,970	A	183,970	-	-
County Pool	26,383,788	n/a	-	-	26,383,788
Total	<u>\$26,667,540</u>		<u>\$ 183,970</u>	<u>\$ -</u>	<u>\$26,383,788</u>

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, approximately \$65,000 of the District's bank balance of \$486,000 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 \$183,970 the District has a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Adult Education Fund	Building Funds	Non-Major Governmental Funds	Total	Proprietary Funds
Federal Government						
Categorical aid	\$ 1,048,361	\$ 16,301	\$ -	\$ -	\$ 1,064,662	\$ -
State Government						
Apportionment	2,232,848	389,461	-	-	2,622,309	-
Categorical aid	1,552,873	19,796	-	169,474	1,742,143	-
Lottery	524,051	-	-	-	524,051	-
Other Local Sources	751,819	-	17,624	75,047	844,490	11,298
Total	<u>\$ 6,109,952</u>	<u>\$ 425,558</u>	<u>\$ 17,624</u>	<u>\$ 244,521</u>	<u>\$ 6,797,655</u>	<u>\$ 11,298</u>

Additional long term receivables include \$80,846 for a special education settlement with payments expected to be received annually over the next three years.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	33,684,675	980,579	33,380,894	1,284,360
Total Capital Assets Not Being Depreciated	37,951,561	980,579	33,380,894	5,551,246
Capital Assets Being Depreciated:				
Land Improvements	6,178,242	133,942	-	6,312,184
Buildings and Improvements	91,361,655	33,482,545	-	124,844,200
Furniture and Equipment	5,302,238	311,621	-	5,613,859
Total Capital Assets Being Depreciated	102,898,968	33,928,108	-	136,770,243
Total Capital Assets	140,850,529	34,908,687	33,380,894	142,321,489
Less Accumulated Depreciation:				
Land Improvements	3,795,527	305,879	-	4,101,406
Buildings and Improvements	30,917,945	3,770,861	-	34,688,806
Furniture and Equipment	3,421,541	393,767	-	3,815,308
Total Accumulated Depreciation	38,139,275	4,470,507	-	42,605,520
Governmental Activities Capital Assets, Net	<u>\$ 102,711,254</u>	<u>\$ 30,438,180</u>	<u>\$ 33,380,894</u>	<u>\$ 99,715,969</u>
Business-Type Activities				
Furniture and Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Less Accumulated Depreciation	4,260	5,683	-	9,943
Business-Type Activities Capital Assets, Net	<u>\$ 52,573</u>	<u>\$ (5,683)</u>	<u>\$ -</u>	<u>\$ 46,890</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

Governmental Activities

Instruction	\$ 2,410,033
Supervision of instruction	60,936
Instructional library, media, and technology	146,616
School site administration	318,789
Home-to-school transportation	284,691
Food services	54,087
All other pupil services	460,352
Ancillary services	48,007
Community services	39,909
All other general administration	270,713
Plant services	376,374
Total Depreciation Expenses Governmental Activities	<u>4,470,507</u>

Business-Type Activities

Downtown Enterprise	5,683
Total Depreciation Expenses All Activities	<u>\$ 4,476,190</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, 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	Adult Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ 355,066	\$ 10,056	\$ 109,247	\$ 423	\$ 474,792
Adult Fund	190,239	-	-	-	190,239
Non-Major Governmental funds	65,315	-	19,000	-	84,315
Total	<u>\$ 610,620</u>	<u>\$ 10,056</u>	<u>\$ 128,247</u>	<u>\$ 423</u>	<u>\$ 749,346</u>

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.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer To	Transfer From	
	Deferred Maintenance Fund	Total
General Fund	\$ 404,707	\$ 404,707

The General Fund transferred to the Deferred Maintenance Fund for District match.

Total	404,707
	\$ 404,707

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.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Adult Education Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Vendor payables	\$ 1,070,146	\$ 199,949	\$ 35,998	\$ 380,971	\$ 1,687,064	\$ 7,115
State apportionment	869,889	-	-	-	869,889	-
Salaries and benefits	4,146	6,250	-	1,846	12,242	(431)
Total	<u>\$ 1,944,181</u>	<u>\$ 206,199</u>	<u>\$ 35,998</u>	<u>\$ 382,817</u>	<u>\$ 2,569,195</u>	<u>\$ 6,684</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund
Federal financial assistance	\$ 370,333
State categorical aid	131,570
Total	<u>\$ 501,903</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 11, 2007, the District issued \$4,425,000 Tax and Revenue Anticipation Notes bearing interest at 3.595 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 10, 2008. By May, 2008, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$4,425,000 and related accrued interest and cash held in trust are not included in these financial statements.

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2008</u>
July 11, 2006	3.000%	July 1, 2007	\$ 7,285,000	\$ -	\$ 7,285,000	\$ -
July 11, 2007	3.595%	July 31, 2008	-	4,425,000	-	4,425,000
			<u>\$ 7,285,000</u>	<u>\$ 4,425,000</u>	<u>\$ 7,285,000</u>	<u>\$ 4,425,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Accretions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Due in One Year</u>
General obligation bonds	\$ 66,553,787	\$ 7,965,000	\$ 308,253	\$ 10,269,419	\$ 64,557,621	\$ 2,710,000
Premiums (discounts), net of amortization	1,355	29,634	-	1,185	29,804	-
Certificates of participation	8,245,000	-	-	210,000	8,035,000	220,000
Accumulated vacation	334,477	14,154	-	-	348,631	-
Capital leases	786,655	-	-	278,626	508,029	211,049
Other post employment benefits	1,247,209	-	-	373,055	874,154	216,922
	<u>\$ 77,168,483</u>	<u>\$ 8,008,788</u>	<u>\$ 308,253</u>	<u>\$ 11,132,285</u>	<u>\$ 74,353,239</u>	<u>\$ 3,357,971</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.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2007	Additions/ Accretions	Redeemed	Outstanding June 30, 2008
Elementary								
1991 J	4/6/2004	8/1/2028	4.00-8.00	\$ 2,700,000	\$ 2,565,000	\$ -	\$ 70,000	\$ 2,495,000
1991 G	5/25/1999	8/1/2023	4.20-7.20	\$ 1,500,000	1,245,000	-	1,195,000	50,000
1991 H	6/14/2000	8/1/2024	5.00-8.00	\$ 2,000,000	1,750,000	-	1,690,000	60,000
2002 I	7/1/2002	8/1/2027	1.70-5.00	\$ 3,500,000	3,235,000	-	95,000	3,140,000
1998 Refunding	7/7/1998	8/1/2021	4.00-4.60	\$ 7,530,000	5,675,000	-	5,285,000	390,000
2003 Refunding	4/17/2003	8/1/2021	2.75-4.30	\$ 5,895,000	5,120,000	-	285,000	4,835,000
2003 Series B Refunding	10/29/2003	8/1/2017	3.00-4.00	\$ 4,560,000	3,835,000	-	265,000	3,570,000
2008 Refunding	4/15/2008	8/1/2024	2.00-3.80	\$ 7,965,000	-	7,965,000	-	7,965,000
High School								
1995 Refunding	7/1/1995	8/1/2021	4.50-6.20	\$ 10,623,276	1,887,598	118,837	-	2,006,435
1995 Refunding	11/9/1995	8/1/2018	4.65-5.80	\$ 8,972,019	14,779,016	79,398	384,419	14,473,995
1992 D	7/7/1998	8/1/2021	4.25-7.25	\$ 3,900,000	170,000	-	140,000	30,000
1992 E	5/25/1999	8/1/2023	4.50-7.00	\$ 2,600,000	15,000	-	15,000	-
1992 F	6/14/2000	8/1/2024	5.00-8.00	\$ 9,400,000	335,000	-	260,000	75,000
2002 Refunding	7/1/2002	8/1/2020	2.00-4.75	\$ 11,943,021	11,117,173	110,018	585,000	10,642,191
2005 Refunding	7/13/2005	8/1/2024	3.125-7.00	\$ 14,825,000	14,825,000	-	-	14,825,000
					<u>\$66,553,787</u>	<u>\$8,273,253</u>	<u>\$10,269,419</u>	<u>\$64,557,621</u>

Debt Service Requirements to Maturity

The bonds mature through 2032 as follows:

Fiscal Year	Principal	Interest to Maturity	Accretion	Total
2009	\$ 1,933,141	\$ 2,094,402	\$ 416,859	\$ 4,444,402
2010	2,894,614	2,063,873	530,386	5,488,873
2011	3,048,298	1,938,447	646,702	5,633,447
2012	3,159,759	1,814,861	805,241	5,779,861
2013	3,279,211	1,695,750	950,789	5,925,750
2014-2018	17,479,554	6,077,678	8,205,446	31,762,678
2019-2023	20,072,105	2,576,932	8,532,895	31,181,932
2024-2028	3,550,000	355,346	-	3,905,346
2029-2033	175,000	4,025	-	179,025
Total	<u>55,591,682</u>	<u>\$ 18,621,314</u>	<u>\$ 20,088,318</u>	<u>\$ 94,301,314</u>
Accretions to date	<u>8,965,939</u>			<u>\$ 64,557,621</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008, the principal balance outstanding was \$8,035,000. The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
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	260,000	206,737	466,737
2014-2018	1,445,000	909,477	2,354,477
2019-2023	1,755,000	668,035	2,423,035
2024-2028	2,135,000	374,304	2,509,304
2029-2033	1,500,000	57,469	1,557,469
Total	<u>\$ 8,035,000</u>	<u>\$ 3,118,393</u>	<u>\$ 11,153,393</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$348,631.

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 \$419,273 at June 30, 2008. The District's liability on lease agreements with options to purchase are summarized below:

	Buses	Buildings and Equipment	Total
Balance, July 1, 2007	\$ 630,756	\$ 209,230	\$ 839,986
Payments	213,151	78,066	291,217
Balance, July 1, 2008	<u>\$ 417,605</u>	<u>\$ 131,164</u>	<u>\$ 548,769</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2009	\$ 227,459
2010	154,074
2011	107,808
2012	48,379
Total	<u>537,720</u>
Less: Amount Representing Interest	29,691
Present Value of Minimum Lease Payments	<u>\$ 508,029</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

<u>Year</u>	<u>Other Post-employment Benefits</u>
2009	\$ 216,922
2010	183,094
2011	153,265
2012	108,181
2013	70,159
2014-2018	142,533
	<u>\$ 874,154</u>

Defeasance of Debt Obligations

On April 15, 2008, General Obligation Bonds in the amount of \$7,965,000 were issued with interest rates ranging from 2.0 percent to 3.8 percent. The General Obligation Bonds were issued to defease and redeem \$8,190,000 of 1991 and 1998 bonds. As a result of the advance refunding, the District reduced its total debt service requirements by approximately \$500,000. The advance refunding resulted in a small economic gain (difference between the present value of the debt service payments on the old and new debt).

The District has defeased the bond issues by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U. S. government securities and placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2008, \$7,884,786 was placed in an irrevocable trust fund to defease debt outstanding but removed from the Long-Term Obligations, of \$8,190,000.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 10 - FUND BALANCES

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

	General Fund	Adult Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved						
Revolving cash	\$ 20,000	\$ 300	\$ -	\$ -	\$ 20,150	\$ 40,450
Stores inventory	45,954	-	-	-	67,448	113,402
Restricted programs	2,547,457	-	-	-	2,547,457	5,094,914
Total Reserved	2,613,411	\$ 300	-	-	2,635,055	5,248,766
Unreserved						
Designated						
Economic uncertainties	2,098,043	-	-	-	-	2,098,043
Other designation	1,259,846	-	-	-	-	1,259,846
Total Designated	3,357,889	-	-	-	-	3,357,889
Undesignated	6,399,235	572,191	3,913,664	4,509,722	9,214,259	24,609,071
Total Unreserved	9,757,124	572,191	3,913,664	4,509,722	9,214,259	27,966,960
Total	\$12,370,535	\$ 572,491	\$3,913,664	\$ 4,509,722	\$ 11,849,314	\$33,215,726

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, 2008, the District contracted with Redwood Empire 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 2008, the District participated in the Redwood Empire Schools 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, 2008

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

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Redwood Empire Schools Insurance Group	Workers' Compensation	Statutory Limits
Redwood Empire Schools Insurance Group	Property	\$ 500,000,000
Redwood Empire Schools Insurance Group	Liability	\$ 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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$2,647,620, \$2,510,873, and \$2,427,427, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

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 2007-2008 was 9.306 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, 2008, 2007, and 2006, were \$1,062,286, \$986,503, and \$1,018,829, 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 CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,476,548 (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008.

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, 2008.

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Petaluma High School - Arts, Media & Entertainment Building	\$ 3,891,600	Jul-09
Casa Grande High School - Drama, Liabrary, & Music Expansion Project	1,686,000	Jul-09
	<u>\$ 5,577,600</u>	

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, 2008, the District made payments of \$307,572, and \$223,542 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 15 - SUBSEQUENT EVENTS

The District issued \$3,370,000 of Tax and Revenue Anticipation Notes dated July 2, 2008. The notes mature on July 3, 2009, and 1.700 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 2009, until 100 percent of principal and interest due is on account in May, 2009.

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***REQUIRED SUPPLEMENTARY
INFORMATION***

PETALUMA CITY SCHOOLS

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 48,168,826	\$46,947,835	\$ 49,118,137	\$ 2,170,302
Federal sources	2,754,415	3,361,564	2,991,210	(370,354)
Other state sources	7,877,423	9,169,053	11,144,218	1,975,165
Other local sources	6,840,772	8,103,189	8,598,140	494,951
Total Revenues¹	65,641,436	67,581,641	71,851,705	4,270,064
EXPENDITURES				
Current				
Instruction	41,821,308	43,919,259	44,889,078	(969,819)
Instruction-related activities:				
Supervision of instruction	1,092,768	1,262,948	1,097,651	165,297
Instructional library, media, and technolo	835,646	882,611	846,306	36,305
School site administration	4,499,632	4,440,661	4,641,565	(200,904)
Pupil services:				
Home-to-school transportation	1,406,902	1,414,830	1,505,182	(90,352)
Food services	193	1,000	207	793
All other pupil services	5,997,845	6,515,259	6,450,930	64,329
General administration:				
All other general administration	2,780,045	2,797,687	2,818,981	(21,294)
Plant services	5,931,371	5,553,886	5,846,704	(292,818)
Facility acquisition and construction	-	11,050	11,050	-
Ancillary services	344,135	363,078	356,343	6,735
Community services	423,029	301,414	402,540	(101,126)
Other outgo	680,623	346,360	410,954	(64,594)
Enterprise services	45,000	45,000	119,983	(74,983)
Debt service				
Principal	-	232,581	210,863	21,718
Interest	-	-	22,236	(22,236)
Total Expenditures¹	65,858,497	68,087,624	69,630,573	(1,542,949)
Excess (Deficiency) of Revenues				
Over Expenditures	(217,061)	(505,983)	2,221,132	2,727,115
Other Financing Sources (Uses):				
Transfers out	(337,550)	(337,550)	(404,707)	(67,157)
Net Financing Sources (Use:	(337,550)	(337,550)	(404,707)	(67,157)
NET CHANGE IN FUND BALANCES	(554,611)	(843,533)	1,816,425	2,659,958
Fund Balance - Beginning	10,554,110	10,554,110	10,554,110	-
Fund Balance - Ending	\$ 9,999,499	\$ 9,710,577	\$ 12,370,535	\$ 2,659,958

¹ On behalf payments of \$1,476,548 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

PETALUMA CITY SCHOOLS

**ADULT EDUCATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Federal sources	\$ 46,598	\$ 55,365	\$ 55,365	\$ -
Other State sources	1,638,019	1,641,635	1,804,381	162,746
Other local sources	75,500	90,959	78,303	(12,656)
Total Revenues	1,760,117	1,787,959	1,938,049	150,090
EXPENDITURES				
Current				
Instruction	1,273,984	1,329,823	1,307,526	22,297
Instruction-related activities:				
School site administration	304,462	308,615	323,124	(14,509)
General administration:				
All other general administration	58,000	58,000	58,999	(999)
Plant services	129,713	141,008	135,730	5,278
Total Expenditures	1,766,159	1,837,446	1,825,379	12,067
NET CHANGE IN FUND BALANCES	(6,042)	(49,487)	112,670	162,157
Fund Balance - Beginning	459,821	459,821	459,821	-
Fund Balance - Ending	\$ 453,779	\$ 410,334	\$ 572,491	\$ 162,157

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SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

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	\$ 26,315
Adult Secondary Education	84.002	14354	6,020
English Literacy & Civics	84.002A	14109	23,030
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	562,438
NCLB: Title I, Part A, Program Improvement District Intervention	84.010	14796	84,925
Title II - Part D, Enhancing Education Through Technology	84.318	14334	4,511
Title II - Part A, Improving Teacher Quality	84.367	14341	180,589
Title II - Part A, Teacher Quality, Principal Training	84.367	14344	11,561
Title III - Language Acquisition	84.365	14346	21,303
Title III - Limited English Proficiency	84.365	10084	115,000
Title V - Part A, Innovative Education Strategies	84.298A	13340	2,283
Title X - McKinney Homeless Assistance	84.196	14332	23,849
Title IV - Part A, Drug Free School	84.186	14347	23,426
Special Education - State Grants			
Local Assistance	84.027	13379	1,436,317
Preschool Local Entitlement	84.027A	13682	251,691
Federal Preschool	84.173	13430	70,396
Vocational Educational Grants	84.048	13924	55,878
Carol White PE Grant	84.215F	1	126,955
Total U.S. Department of Education			<u>3,026,487</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	13396	\$ 634,371
Basic School Breakfast Program	10.553	13396	543
Especially Needy Breakfast	10.553	13526	183,786
Meals Supplements - Snack	10.555	1	7,891
FMV Commodities ³	10.555	2	73,393
Total U.S. Department of Agriculture			<u>899,984</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICE:			
Medi-Cal Billing Option	93.779	10060	\$ 17,381
Child Development, Quality Improvement	93.575	13979	2,706
Total Expenditures of Federal Awards			<u>20,087</u> <u>\$ 3,946,558</u>

¹ Pass-Through Entity Identifying Number not available

² Not included in financial statements, disclosure only

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

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

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

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	292	290
First through third	850	851
Fourth through sixth	807	807
Seventh and eighth	1,542	1,541
Home and hospital	27	28
Special education	4	4
Total Elementary	3,522	3,521
SECONDARY		
Regular classes	3,304	3,371
Continuation education	151	152
Home and hospital	13	15
Special education	82	83
Community day school	15	18
Total Secondary	3,565	3,639
Total K-12	7,087	7,160
CLASSES FOR ADULTS		
Concurrently enrolled	2	3
Not concurrently enrolled	501	553
Total Classes for Adults	503	556
Grand Total	7,590	7,716
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		20,867
High school		118,172
Total Hours		139,039

	Second Period Report		Annual Report	
	Average Daily Attendance	Classroom Based	Average Daily Attendance	Classroom Based
<u>Mary Collins School at Cherry Valley - Charter School</u>				
ELEMENTARY				
Kindergarten	38	38	38	38
First through third	122	122	122	122
Fourth through sixth	122	122	122	122
Seventh and eighth	50	50	51	51
Total K-12	332	332	333	333

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, 2008**

Grade Level	1982-83	1986-87	2007-2008	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	54,035	180	N/A	In Compliance
Grade 5	49,875	54,000	54,035	180	N/A	In Compliance
Grade 6	49,875	54,000	54,035	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	64,800	180	N/A	In Compliance
Grade 10	56,525	64,800	64,800	180	N/A	In Compliance
Grade 11	56,525	64,800	64,800	180	N/A	In Compliance
Grade 12	56,525	64,800	64,800	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, 2008**

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, 2008, Unaudited Actuals	\$ 23,107
Increase in:	
Equipment	46,890
Balance, June 30, 2008, Audited Financial Statement	<u>\$ 69,997</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, 2008, Unaudited Actuals	\$ 100,499,869
Increase (Decrease) in:	
Work in progress	(30,092,837)
Buildings	30,092,835
(Increase) Decrease in:	
Accumulated depreciation - buildings	(753,320)
Accumulated depreciation - equipment	(418)
Balance, June 30, 2008, Audited Financial Statement, Governmental Funds	<u>\$ 99,746,129</u>

FORM DEBT	
Total Liabilities, June 30, 2008, Unaudited Actuals	\$ 76,532,719
Increase in:	
General obligation bonds	(2,401,747)
Decrease in:	
Premiums, net of amortization	29,804
OPEB benefits	208,835
Total Liabilities, June 30, 2008, Audited Financial Statement	<u>\$ 74,369,611</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	(Budget) 2009 ¹	2008	2007	2006
GENERAL FUND				
Revenues	\$ 66,479,181	\$ 70,375,157	\$ 69,527,386	\$ 62,822,302
Total Revenues and Other Sources	66,479,181	70,375,157	69,527,386	62,822,302
Expenditures	67,081,052	68,154,026	66,034,372	62,692,297
Other uses and transfers out	337,550	404,707	322,922	177,191
Total Expenditures and Other Uses	67,418,602	68,558,733	66,357,294	62,869,488
INCREASE (DECREASE) IN FUND BALANCE	\$ (939,421)	\$ 1,816,424	\$ 3,170,092	\$ (47,186)
ENDING FUND BALANCE	\$ 11,431,113	\$ 12,370,534	\$ 10,554,110	\$ 7,384,018
AVAILABLE RESERVES²	\$ 2,022,558	\$ 2,098,043	\$ 6,545,683	\$ 4,382,685
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	3.00%	3.06%	9.86%	6.97%
LONG-TERM DEBT	\$ 71,498,783	\$ 74,369,611	\$ 77,161,193	\$ 79,704,743
K-12 AVERAGE DAILY ATTENDANCE AT P-2	7,089	7,087	7,160	7,511

The General Fund balance has increased by \$4,986,515 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$939,421 (8 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 2008-2009 fiscal year due to lack of funded COLA. Total long-term obligations have decreased by \$5,335,132 over the past two years.

Average daily attendance has decreased by 424 over the past two years. A minimal change is anticipated during fiscal year 2008-2009.

¹ Budget 2009 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 \$1,476,548, \$1,441,205, and \$1,329,053 have been excluded from the revenues and expenditures.

PETALUMA CITY SCHOOLS

EXCESS SICK LEAVE

JUNE 30, 2008

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, 2008**

<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, 2008

ASSETS	Elementary	High School
Cash and investments	\$ 371,658	\$ 243,244
Total Assets	<u>\$ 371,658</u>	<u>\$ 243,244</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	<u>\$ 6,085</u>	<u>\$ 2,691</u>
FUND EQUITY		
Fund balances		
Undesignated	365,573	240,553
Total Fund Equity	<u>365,573</u>	<u>240,553</u>
Total Liabilities and Fund Equity	<u>\$ 371,658</u>	<u>\$ 243,244</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, 2008**

	<u>Elementary</u>	<u>High School</u>
REVENUES		
Parcel tax revenue	<u>\$ 707,949</u>	<u>\$ 1,089,900</u>
EXPENDITURES		
Current Expenditures		
Certificated salaries	410,100	468,494
Classified salaries	95,709	89,299
Benefits	147,695	155,015
Books and supplies	17,510	295,851
Services and operating expenditures	4,416	97,220
Total Expenditures	<u>675,430</u>	<u>1,105,879</u>
EXCESS OF REVENUES OVER EXPENDITURES	32,519	(15,979)
FUND BALANCE, Beginning of Year	<u>333,054</u>	<u>256,532</u>
FUND BALANCE, End of Year	<u><u>\$ 365,573</u></u>	<u><u>\$ 240,553</u></u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**PARCEL TAX – FINANCIAL SUMMARY
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Elementary</u>	<u>High School</u>
Expenditures		
Certificated salaries	\$ 410,100	\$ 468,494
Classified salaries	95,709	89,299
Benefits	147,695	155,015
Books and supplies	17,510	295,851
Services and operating expenses	4,416	97,220
Total expenditures	<u>\$ 675,430</u>	<u>\$ 1,105,879</u>

	<u>Elementary</u>	<u>High School</u>
Parcel taxes collected	\$ 707,949	\$ 1,089,900
Total expenditures and commitments	<u>675,430</u>	<u>1,105,879</u>
Amount available from current year collections	<u>\$ 32,519</u>	<u>\$ (15,979)</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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, 2008

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, 2008**

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 8,095	\$ 580,367	\$ 3,024,212
Receivables	160,104	-	30,666
Due from other funds	85,467	-	-
Prepaid expenses	-	-	-
Stores inventories	21,494	-	-
Total Assets	\$ 275,160	\$ 580,367	\$ 3,054,878
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 37,227	\$ 80,619	\$ 213,328
Due to other funds	79,304	611	-
Total Liabilities	116,531	81,230	213,328
Fund Balances:			
Reserved for:			
Other reservations	21,644	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	136,985	499,137	-
Capital projects funds	-	-	2,841,550
Total Fund Balance	158,629	499,137	2,841,550
Total Liabilities and Fund Balances	\$ 275,160	\$ 580,367	\$ 3,054,878

See accompanying note to supplementary information - unaudited.

County School Facilities Fund	Special Reserve Capital Outlay Fund	Non Major Governmental Funds
\$ 2,832,237	\$ 2,573,717	\$ 9,018,628
-	53,751	244,521
-	42,780	128,247
-	290,145	290,145
-	-	21,494
<u>\$ 2,832,237</u>	<u>\$ 2,960,393</u>	<u>\$ 9,703,035</u>
\$ -	\$ 51,643	\$ 382,817
-	4,400	84,315
<u>-</u>	<u>56,043</u>	<u>467,132</u>
-	-	21,644
-	-	636,122
2,832,237	2,904,350	8,578,137
<u>2,832,237</u>	<u>2,904,350</u>	<u>9,235,903</u>
<u>\$ 2,832,237</u>	<u>\$ 2,960,393</u>	<u>\$ 9,703,035</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, 2008**

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Revenue limit sources	\$ 85,200	\$ -	\$ -
Federal sources	826,590	-	-
Other state sources	77,408	306,965	-
Other local sources	1,147,278	13,032	515,540
Total Revenues	2,136,476	319,997	515,540
EXPENDITURES			
Current			
Pupil services:			
Food services	2,181,091	-	-
General administration:			
All other general administration	-	-	18,366
Plant services	19,044	797,554	142,536
Facility acquisition and construction	-	15,675	463,945
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	2,200,135	813,229	624,847
Excess (Deficiency) of			
Revenues Over Expenditures	(63,659)	(493,232)	(109,307)
Other Financing Sources (Uses):			
Transfers in	-	404,707	-
Net Financing Sources (Uses)	-	404,707	-
NET CHANGE IN FUND BALANCES	(63,659)	(88,525)	(109,307)
Fund Balance - Beginning	222,288	587,662	2,950,857
Fund Balance - Ending	\$ 158,629	\$ 499,137	\$ 2,841,550

See accompanying note to supplementary information - unaudited.

County School Facilities Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ 85,200
-	-	826,590
2,194,594	42,760	2,621,727
42,863	491,608	2,210,321
<u>2,237,457</u>	<u>534,368</u>	<u>5,743,838</u>
-	-	2,181,091
-	-	18,366
-	159,636	1,118,770
135,185	277,241	892,046
-	253,308	253,308
-	375,471	375,471
<u>135,185</u>	<u>1,065,656</u>	<u>4,839,052</u>
<u>2,102,272</u>	<u>(531,288)</u>	<u>904,786</u>
-	-	404,707
-	-	404,707
<u>2,102,272</u>	<u>(531,288)</u>	<u>1,309,493</u>
<u>729,965</u>	<u>3,435,638</u>	<u>7,926,410</u>
<u>\$ 2,832,237</u>	<u>\$ 2,904,350</u>	<u>\$ 9,235,903</u>

PETALUMA CITY SCHOOLS

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED
JUNE 30, 2008**

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, 2008, which collectively comprise Petaluma City Schools' basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Petaluma City Schools' internal control over financial reporting 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 item 2008-1 to be a significant deficiency 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

VavineK, Trine, Day & Co LLP
Pleasanton, California
December 15, 2008



**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, 2008. 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, 2008.

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.

Vavinek, Trine, Day & Co LLP
Pleasanton, California
December 15, 2008



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, 2008, and have issued our report thereon dated December 15, 2008. 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 2007-08*, 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:

	Procedures in Audit Guide	Procedures Performed
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
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers		

	Procedures in Audit Guide	Procedures Performed
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement 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
Mathematics and Reading Professional Development	4	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	
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	No 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, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Our audit does not provide a legal determination on Petaluma City Schools compliance with the State laws and regulations referred to above.

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

Vavinek, Tine, Day & Co LLP
Pleasanton, California
December 15, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PETALUMA CITY SCHOOLS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

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)	<u>No</u>
Identification of major programs:	

<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>10.553, 10.555, 10.557</u>	<u>Child Nutrition Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>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

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

The following findings represent significant deficiencies, 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

2008-1 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 at the decentralized locations 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 review of student body funds:

Casa Grande High School

- No revenue potentials/sales analyses are prepared for significant fund raising events prior to the occurrence of the event.
- Ticket logs for dance events should contain an indication of the start and end ticket number for each separate dance event.

Questioned costs

None

Context

High School fundraisers frequently involve a significant amount of funds and formalized tracking of expected budgets are useful in planning events. In addition, comparison of budgeted amounts to actual results and knowing the number of tickets issued for a particular event would also assist those involved in monitoring the activity.

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

District policies and procedures as described in the ASB manual are not being followed.

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 is available on line and can be used as resource materials to supplement any ASB procedures and policies already provided to the sites.

PETALUMA CITY SCHOOLS

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

District Response

The site staff responsible for Associated Student Body has already attended the CASBO workshop. The site administration is actively engaged to ensure compliance.

PETALUMA CITY SCHOOLS

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None noted.

PETALUMA CITY SCHOOLS

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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
40000	State Compliance
41000	CalSTRS
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

2008-2 Kindergarten Retention (40000 State Compliance)

Criteria or Specific Requirements

When a student is retained at the Kindergarten level for more than one year, the District is required to have a signed parental agreement to continue form, approved in form and content by the California Department of Education, for each such pupil. The agreement should be signed prior to the start of the school year.

Condition

At Penngrove Elementary the Kindergarten retention form was not signed by the District representative.

Questioned Costs

Not applicable - The ADA generated by this student was less than 1.

Context

The parent had signed the form, however the district representative signature was overlooked.

Effect

A properly completed form documenting the agreement to retain the student was not on file.

Cause

The District representative signature was overlooked.

Recommendation

We recommend the District remind each of the school sites with Kindergarten students that if they are retained that completed agreements, which include both parent and District representative signatures, are required to be maintained on file.

District Response

The District will review the policy and procedures for handling the Kindergarten retention forms.

PETALUMA CITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

Financial Statement Findings

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.
- 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.

PETALUMA CITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Partially implemented, See 2008-1

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

PETALUMA CITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Implemented.

State Award Findings

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

PETALUMA CITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Implemented