

**PETALUMA CITY SCHOOLS  
OF SONOMA COUNTY  
PETALUMA, CALIFORNIA  
JUNE 30, 2009**

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**GOVERNING BOARD**

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Greta Viguie	Superintendent
Steve Bolman	Deputy Superintendent, Business and Administration

# PETALUMA CITY SCHOOLS

## TABLE OF CONTENTS JUNE 30, 2009

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### **FINANCIAL SECTION**

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Proprietary Funds - Statement of Net Assets	22
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets	23
Proprietary Funds - Statement of Cash Flows	24
Fiduciary Funds - Statement of Net Assets	25
Fiduciary Funds - Statement of Changes in Net Assets	26
Notes to Financial Statements	27

### **REQUIRED SUPPLEMENTARY INFORMATION**

General Fund - Budgetary Comparison Schedule	55
Schedule of Other Post-Employment Benefits (OPEB) Funding Progress	56

### **SUPPLEMENTARY INFORMATION**

Schedule of Expenditures of Federal Awards	58
Local Education Agency Organization Structure	59
Schedule of Average Daily Attendance	60
Schedule of Instructional Time	61
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	62
Schedule of Financial Trends and Analysis	63
Schedule of Charter Schools	64
Parcel Tax – Balance Sheet	65
Parcel Tax – Statement of Revenues, Expenditures, and Changes in Fund Balance	66
Parcel Tax – Financial Summary	67
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	70
Note to Supplementary Information	72

### **INDEPENDENT AUDITORS' REPORTS**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	77
Report on State Compliance	79

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

Summary of Auditors' Results	82
Financial Statement Findings	83
Federal Award Findings and Questioned Costs	87
State Award Findings and Questioned Costs	88
Summary Schedule of Prior Audit Findings	89

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***FINANCIAL SECTION***

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## 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, 2009, 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 2008-09*, 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, 2009, 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.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of implementation of GASB Statement No. 45 for the year ended June 30, 2009.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2010, 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, budgetary comparison, and other postemployment information as listed in the table of contents, are not a required part of the basic financial statements, but are 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.

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*, 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 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California  
February 1, 2010

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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This section of Petaluma City Schools (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. 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, 2009

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

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

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

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

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

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

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

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

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

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

### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets were \$54.3 million for the fiscal year ended June 30, 2009. Of this amount, \$8.2 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, 2009**

**Table 1**

	Governmental Activities		Business-Type Activities		School District Activities	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 27,756,059	\$ 35,306,390	\$ 20,748	\$ 22,676	\$ 27,776,807	\$ 35,329,066
Capital assets	103,204,808	99,715,969	41,207	46,890	103,246,015	99,762,859
<b>Total Assets</b>	<b>130,960,867</b>	<b>135,022,359</b>	<b>61,955</b>	<b>69,566</b>	<b>131,022,822</b>	<b>135,091,925</b>
Current liabilities	8,163,021	7,351,345	222	(431)	8,163,243	7,350,914
Long-term debt	68,464,596	70,995,268	-	-	68,464,596	70,995,268
<b>Total Liabilities</b>	<b>76,627,617</b>	<b>78,346,613</b>	<b>222</b>	<b>(431)</b>	<b>76,627,839</b>	<b>78,346,182</b>
Net assets						
Invested in capital assets, net of related debt	36,844,993	32,022,858	41,207	46,890	36,886,200	32,069,748
Restricted	9,324,632	17,024,223	-	-	9,324,632	17,024,223
Unrestricted	8,163,625	7,628,665	20,526	23,107	8,184,151	7,651,772
<b>Total Net Assets</b>	<b>\$ 54,333,250</b>	<b>\$ 56,675,746</b>	<b>\$ 61,733</b>	<b>\$ 69,997</b>	<b>\$ 54,394,983</b>	<b>\$ 56,745,743</b>

The \$8.2 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 \$8.2 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, 2009**

**Table 2**

	Governmental Activities		Business-Type Activities		School District Activities	
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,507,414	\$ 1,216,798	\$ 8,245	\$ 40,179	\$ 1,515,659	\$ 1,256,977
Operating grants and contributions	16,652,742	16,226,236	-	-	16,652,742	16,226,236
Capital grants and contributions	28,869	2,228,459	-	-	28,869	2,228,459
General revenues:						
Federal and state aid	24,488,443	27,625,297	-	-	24,488,443	27,625,297
Property taxes	33,107,914	32,105,206	-	-	33,107,914	32,105,206
Other general revenues	4,739,012	4,893,920	402	24	4,739,414	4,893,944
<b>Total Revenues</b>	<b>80,524,394</b>	<b>84,295,916</b>	<b>8,647</b>	<b>40,203</b>	<b>80,533,041</b>	<b>84,336,119</b>
<b>Expenses</b>						
Instruction-related	57,163,220	55,664,937	-	-	57,163,220	55,664,937
Student support services	11,592,149	10,864,623	-	-	11,592,149	10,864,623
Administration	2,868,334	3,177,888	-	-	2,868,334	3,177,888
Maintenance and operations	6,971,881	7,526,039	-	-	6,971,881	7,526,039
Other	4,338,109	4,733,178	16,911	22,779	4,355,020	4,755,957
<b>Total Expenses</b>	<b>82,933,693</b>	<b>81,966,665</b>	<b>16,911</b>	<b>22,779</b>	<b>82,950,604</b>	<b>81,989,444</b>
<b>Change in Net Assets</b>	<b>\$ (2,409,299)</b>	<b>\$ 2,329,251</b>	<b>\$ (8,264)</b>	<b>\$ 17,424</b>	<b>\$ (2,417,563)</b>	<b>\$ 2,346,675</b>

**Governmental Activities**

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$82.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$33.1 million because the cost was paid by those who benefited from the programs (\$1.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$16.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$24.5 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 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, 2009**

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 57,163,220	\$ 55,664,937	\$ 45,434,833	\$ 41,982,460
Pupil services	11,592,149	10,864,623	5,892,607	5,944,714
School administration	2,868,334	3,177,888	2,600,951	2,878,990
Maintenance and operations	6,971,881	7,526,039	6,574,284	6,903,630
Other	4,338,109	4,733,178	4,241,993	4,585,376
<b>Totals</b>	<b>\$ 82,933,693</b>	<b>\$ 81,966,665</b>	<b>\$ 64,744,668</b>	<b>\$ 62,295,170</b>

**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$22.3 million, which is a decrease of \$8.3 million from last year (Table 4).

**Table 4**

	Fund Balance	
	June 30, 2009	June 30, 2008
General	\$ 10,811,736	\$ 12,370,535
Adult Education	516,314	572,491
Building	3,032,253	3,913,664
Bond Interest and Redemption	5,043,405	4,509,722
Cafeteria	111,031	158,629
Deferred Maintenance	566,078	499,137
Capital Facilities	27,397	2,841,550
County Schools Facilities	47,167	2,832,237
Capital Projects - Special Reserve	2,118,927	2,904,350
<b>Totals</b>	<b>\$ 22,274,308</b>	<b>\$ 30,602,315</b>

The primary reasons for these increases/decreases are:

- 1) Our General Fund is our principal operating fund. The fund balance in the General Fund decreased by approximately \$1.6 million to \$10.8 million. This decrease is due to:
  - a. Shift of categorical receivables from 2008-09 to 2009-10.
  - b. Unfunded COLA of 5.66%
  - c. Revenue Limit and categorical program cuts of 7.844% and 15%, respectively.
- 2) The Building Fund decreased by approximately \$881,000 from the prior year due to the projects funded from prior year carryover amounts.
- 3) The Capital Facilities Fund decreased by approximately \$2.8 million due to the continued progression of capital projects at Petaluma High School, Casa Grande High School, Petaluma Jr. High School and Cherry Valley Charter School.

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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- 4) Our other funds including the Adult Fund, Cafeteria Fund, Deferred Maintenance Fund, County School Facilities Fund, and Special Reserve for Capital Outlay decreased by \$3.6 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, 2009. 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.

Actual expenditures were \$832,000 below final budget and \$5.2 million over original budget due to mid-year spending freezes that occurred and unexpended grants/donations. In addition, the District budgeted \$3million and received \$2 million of the Federal American Recovery and Reinvestment Act (ARRA) and State Fiscal Stabilization Funds (SFSF) contributing to the \$5.2 million as well as local grants and donations received throughout the year.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2009, the District had \$103.2 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of just under \$3.5 million, or 3.5 percent, from last year (Table 5).

**Table 5**

	Governmental Activities		Business-Type Activities		School District Activities	
	2009	2008	2009	2008	2009	2008
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	131,337,570	131,156,384	-	-	131,337,570	131,156,384
Equipment	5,902,155	5,613,859	56,833	56,833	5,958,988	5,670,692
Construction in progress	8,736,245	1,284,360	-	-	8,736,245	1,284,360
<b>Totals</b>	<b>150,242,856</b>	<b>142,321,489</b>	<b>56,833</b>	<b>56,833</b>	<b>150,299,689</b>	<b>142,378,322</b>
Less Accumulated Depreciation	(47,038,048)	(42,605,520)	(15,626)	(9,943)	(47,053,674)	(42,615,463)
<b>Capital Assets, net</b>	<b>\$ 103,204,808</b>	<b>\$ 99,715,969</b>	<b>\$ 41,207</b>	<b>\$ 46,890</b>	<b>\$ 103,246,015</b>	<b>\$ 99,762,859</b>

This year's primary net increase of \$3.5 million included work in progress of the following major projects: 1) Casa Grande High School Phase G, Library/Drama Buildings 2) Petaluma High School Phase D, Art Building; 3) Cherry Valley Charter School Phase D, modernization and 4) Petaluma Jr. High School Phase E modernization. In addition, roofing and paving at Petaluma High School and roofing at McDowell and Valley Vista Elementary Schools, a van for the Fish Hatchery, and various equipment purchases are included.

The above named capital projects in progress are planned for completion during the 2009-10 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, 2009

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### Long-Term Obligations

At the end of this year, the District had \$72.0 million in long term obligations outstanding versus \$74.4 million last year, a decrease of 3.2 percent. The debt consisted of:

**Table 6**

	Totals	
	2009	2008
General obligation bonds (financed with property taxes)	\$ 62,686,446	\$ 64,557,621
Bond premiums, net of amortization	28,537	29,804
Certifications of participation	7,815,000	8,035,000
Capitalized lease obligations	414,387	508,029
Accrued vacation	367,135	348,631
Other post employment benefits	646,486	874,154
<b>Totals</b>	<b>\$ 71,957,991</b>	<b>\$ 74,353,239</b>

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 2008-09 ARE NOTED BELOW:**

No major projects were completed during 2008-09. Projects still in progress are mentioned above and are anticipated to be completed during 2009-10.

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

In considering the District Budget for the 2009-10 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 4.25% COLA, 0% funded; in addition the Revenue Limit is being cut an additional 6% and a one-time decrease of \$252.83/ADA.
- 2) Developer fee collections are based on approximate new housing units to be constructed.
- 3) Federal income is estimated to have minimal change. Any Federal stimulus funds are accounted for on a cash basis only.
- 4) State income will decrease by another 5%.

# PETALUMA CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	22:1	1,409
Grades four through six	28:1	1,037
Grades seven through eight	25.78:1	1,734
Grades nine through twelve	27.67:1	3,492

### 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, 2009**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 18,436,170	\$ 16,193	\$ 18,452,363
Receivables	7,564,140	4,555	7,568,695
Prepaid expenses	280,545	-	280,545
Deferred charges	1,402,905	-	1,402,905
Stores inventories	72,299	-	72,299
Capital assets not depreciated	13,003,132	-	13,003,132
Capital assets, net of accumulated depreciation	90,201,676	41,207	90,242,883
<b>Total Assets</b>	<b>130,960,867</b>	<b>61,955</b>	<b>131,022,822</b>
<b>LIABILITIES</b>			
Accounts payable	2,898,339	222	2,898,561
Interest payable	783,261	-	783,261
Deferred revenue	988,027	-	988,027
Current portion of long-term obligations	3,493,394	-	3,493,394
Noncurrent portion of long-term obligations	68,464,596	-	68,464,596
<b>Total Liabilities</b>	<b>76,627,617</b>	<b>222</b>	<b>76,627,839</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	36,844,993	41,207	36,886,200
Restricted for:			
Debt service	5,043,405	-	5,043,405
Educational programs	3,018,059	-	3,018,059
Other activities	1,193,423	-	1,193,423
Self-insurance	69,745	-	69,745
Unrestricted	8,163,625	20,526	8,184,151
<b>Total Net Assets</b>	<b>\$ 54,333,250</b>	<b>\$ 61,733</b>	<b>\$ 54,394,983</b>

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

**PETALUMA CITY SCHOOLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$49,415,542	\$ 46,516	\$ 10,194,000	\$ 28,869
Instruction-related activities:				
Supervision of instruction	1,671,086	-	826,502	-
Instructional library, media, and technology	741,392	-	40,585	-
School site administration	5,335,200	12,808	579,107	-
Pupil services:				
Home-to-school transportation	3,059,369	481,659	1,273,782	-
Food services	2,005,882	941,721	1,039,253	-
All other pupil services	6,526,898	275	1,962,852	-
General administration:				
All other general administration	2,868,334	2,224	265,159	-
Plant services	6,971,881	12,477	385,120	-
Ancillary services	369,597	-	-	-
Community services	434,912	-	-	-
Enterprise services	112,163	-	-	-
Interest on long-term debt	3,316,955	-	-	-
Other outgo	104,482	9,734	86,382	-
<b>Total Governmental-Type Activities</b>	<b>82,933,693</b>	<b>1,507,414</b>	<b>16,652,742</b>	<b>28,869</b>
<b>Business-Type Activities</b>				
Enterprise services	16,911	8,245	-	-
<b>Total Business-Type Activities</b>	<b>\$ 16,911</b>	<b>\$ 8,245</b>	<b>\$ -</b>	<b>\$ -</b>
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				
<b>Subtotal, General Revenues</b>				
<b>Change in Net Assets</b>				
Net Assets - Beginning				
Net Assets - Ending				

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



<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (39,146,157)	\$ -	\$ (39,146,157)
(844,584)	-	(844,584)
(700,807)	-	(700,807)
(4,743,285)	-	(4,743,285)
(1,303,928)	-	(1,303,928)
(24,908)	-	(24,908)
(4,563,771)	-	(4,563,771)
(2,600,951)	-	(2,600,951)
(6,574,284)	-	(6,574,284)
(369,597)	-	(369,597)
(434,912)	-	(434,912)
(112,163)	-	(112,163)
(3,316,955)	-	(3,316,955)
(8,366)	-	(8,366)
<u>(64,744,668)</u>	<u>-</u>	<u>(64,744,668)</u>
-	(8,666)	(8,666)
<u>-</u>	<u>(8,666)</u>	<u>(8,666)</u>
25,803,136	-	25,803,136
5,458,838	-	5,458,838
1,845,940	-	1,845,940
24,488,443	-	24,488,443
570,619	-	570,619
4,168,393	402	4,168,795
<u>62,335,369</u>	<u>402</u>	<u>62,335,771</u>
(2,409,299)	(8,264)	(2,417,563)
56,742,549	69,997	56,812,546
<u>\$ 54,333,250</u>	<u>\$ 61,733</u>	<u>\$ 54,394,983</u>

**PETALUMA CITY SCHOOLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2009**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Capital Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 6,590,981	\$ 3,140,442	\$ 517,377
Receivables	6,819,975	-	4,895
Due from other funds	627,415	5,072	-
Prepaid expenses	-	-	-
Stores inventories	50,805	-	-
<b>Total Assets</b>	<b>\$ 14,089,176</b>	<b>\$ 3,145,514</b>	<b>\$ 522,272</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,792,535	\$ 113,261	\$ 492,863
Due to other funds	497,441	-	2,012
Deferred revenue	987,464	-	-
<b>Total Liabilities</b>	<b>3,277,440</b>	<b>113,261</b>	<b>494,875</b>
<b>Fund Balances:</b>			
Reserved for:			
Legally restricted balances	3,018,059	-	-
Other reservations	70,805	-	-
Unreserved:			
Designated	3,102,887	-	-
Undesignated, reported in:			
General Fund	4,619,985	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	3,032,253	27,397
<b>Total Fund Balance</b>	<b>10,811,736</b>	<b>3,032,253</b>	<b>27,397</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,089,176</b>	<b>\$ 3,145,514</b>	<b>\$ 522,272</b>

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

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<b>Bond Interest and Redemption Fund</b>	<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 5,043,405	\$ 3,005,812	\$ 18,298,017
-	690,872	7,515,742
-	8,968	641,455
-	280,545	280,545
-	21,494	72,299
<u>\$ 5,043,405</u>	<u>\$ 4,007,691</u>	<u>\$ 26,808,058</u>

\$ -	\$ 496,380	\$ 2,895,039
-	151,231	650,684
-	563	988,027
<u>-</u>	<u>648,174</u>	<u>4,533,750</u>

-	-	3,018,059
-	302,489	373,294
-	-	3,102,887
-	-	4,619,985
-	1,171,479	1,171,479
5,043,405	-	5,043,405
-	1,885,549	4,945,199
<u>5,043,405</u>	<u>3,359,517</u>	<u>22,274,308</u>
<u>\$ 5,043,405</u>	<u>\$ 4,007,691</u>	<u>\$ 26,808,058</u>

**PETALUMA CITY SCHOOLS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

<b>Total Fund Balance - Governmental Funds</b>	\$ 22,274,308
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 150,235,757
Accumulated depreciation is	<u>(47,030,949)</u>
Net Capital Assets	103,204,808
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.	1,402,905
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.	122,735
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.	(783,261)
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.	69,745
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	62,686,445
Certificates of participation	7,815,000
Capital leases payable	414,387
Other post employment benefits	646,486
Bond premiums, net of amortization	28,537
Compensated absences (vacations)	<u>367,135</u>
Total Long-Term Liabilities	(71,957,990)
<b>Total Net Assets - Governmental Activities</b>	<u><u>\$ 54,333,250</u></u>

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

**PETALUMA CITY SCHOOLS**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Capital Facilities Fund</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 46,831,827	\$ -	\$ -
Federal sources	5,828,482	-	-
Other state sources	8,654,343	-	-
Other local sources	8,847,776	80,446	240,387
<b>Total Revenues</b>	<b>70,162,428</b>	<b>80,446</b>	<b>240,387</b>
<b>EXPENDITURES</b>			
Current			
Instruction	45,527,153	-	-
Instruction-related activities:			
Supervision of instruction	1,573,570	-	-
Instructional library, media and technology	693,695	-	-
School site administration	4,700,143	-	-
Pupil services:			
Home-to-school transportation	2,875,217	-	-
Food services	-	-	-
All other pupil services	6,148,030	-	-
General administration:			
All other general administration	2,606,682	-	19,290
Plant services	5,986,841	28,712	124,993
Facility acquisition and construction	-	933,145	2,910,257
Ancillary services	347,350	-	-
Community services	408,733	-	-
Other outgo	104,482	-	-
Enterprise services	112,163	-	-
Debt service			
Principal	162,037	-	-
Interest and other	19,233	-	-
<b>Total Expenditures</b>	<b>71,265,329</b>	<b>961,857</b>	<b>3,054,540</b>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<b>(1,102,901)</b>	<b>(881,411)</b>	<b>(2,814,153)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Other financing sources	-	-	-
Transfers out	(455,898)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(455,898)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,558,799)</b>	<b>(881,411)</b>	<b>(2,814,153)</b>
<b>Fund Balance - Beginning</b>	<b>12,370,535</b>	<b>3,913,664</b>	<b>2,841,550</b>
<b>Fund Balance - Ending</b>	<b>\$ 10,811,736</b>	<b>\$ 3,032,253</b>	<b>\$ 27,397</b>

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

<b>Bond Interest and Redemption Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 46,831,827
-	990,945	6,819,427
52,127	1,966,943	10,673,413
5,505,381	1,552,732	16,226,722
<u>5,557,508</u>	<u>4,510,620</u>	<u>80,551,389</u>
-	1,397,411	46,924,564
-	-	1,573,570
-	-	693,695
-	334,022	5,034,165
-	-	2,875,217
-	2,035,552	2,035,552
-	-	6,148,030
-	58,000	2,683,972
-	1,282,979	7,423,525
-	3,107,416	6,950,818
-	-	347,350
-	-	408,733
-	-	104,482
-	-	112,163
2,850,000	265,895	3,277,932
2,173,825	211,471	2,404,529
<u>5,023,825</u>	<u>8,692,746</u>	<u>88,998,297</u>
<u>533,683</u>	<u>(4,182,126)</u>	<u>(8,446,908)</u>
-	455,898	455,898
-	118,901	118,901
-	-	(455,898)
-	574,799	118,901
<u>533,683</u>	<u>(3,607,327)</u>	<u>(8,328,007)</u>
4,509,722	6,966,844	30,602,315
<u>\$ 5,043,405</u>	<u>\$ 3,359,517</u>	<u>\$ 22,274,308</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, 2009**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (8,328,007)**  
**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	\$ (4,425,429)	
Capital outlays	<u>7,914,268</u>	
Net Expense Adjustment		3,488,839

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. (73,884)

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). (18,504)

Proceeds received from capital leases are 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. (118,901)

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 2,955,000

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. 220,000

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. 212,543

Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets. 227,668

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. (942,118)

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. 1,095

**Change in Net Assets of Governmental Activities** **\$ (2,409,299)**

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

**PETALUMA CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<b>Business Type Activities Enterprise Fund Downtown Project Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 16,193	\$ 62,811
Receivables	4,555	1,005
Due from other funds	-	9,229
<b>Total Current Assets</b>	<b>20,748</b>	<b>73,045</b>
<b>Noncurrent Assets</b>		
Furniture and equipment (net)	41,207	-
<b>Total Assets</b>	<b>\$ 61,955</b>	<b>\$ 73,045</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 222	\$ 3,300
<b>Total Current Liabilities</b>	<b>222</b>	<b>3,300</b>
<b>NET ASSETS</b>		
Unrestricted	61,733	69,745
<b>Total Net Assets</b>	<b>\$ 61,733</b>	<b>\$ 69,745</b>

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, 2009**

	<b>Business Type Activities Enterprise Funds Downtown Project Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>		
Local and intermediate sources	\$ 8,245	\$ 39,873
<b>Total Operating Revenues</b>	<b>8,245</b>	<b>39,873</b>
<b>OPERATING EXPENSES</b>		
Supplies and materials	10,067	-
Depreciation	5,683	-
Other operating cost	1,161	40,202
<b>Total Operating Expenses</b>	<b>16,911</b>	<b>40,202</b>
<b>Operating Income</b>	<b>(8,666)</b>	<b>(329)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	402	1,424
<b>Change in Net Assets</b>	<b>(8,264)</b>	<b>1,095</b>
<b>Total Net Assets - Beginning</b>	<b>69,997</b>	<b>68,650</b>
<b>Total Net Assets - Ending</b>	<b>\$ 61,733</b>	<b>\$ 69,745</b>

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

**PETALUMA CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities -</b>
	<b>Downtown Project Fund</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 14,988	\$ 30,062
Cash payments to suppliers for goods and services	(9,414)	-
Cash payments for other operating expenses	(1,161)	(44,017)
Net Cash Provided (Used) for Operating Activities	4,413	(13,955)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	402	1,424
Net Cash Provided from Investing Activities	402	1,424
Net Increase (Decrease) in Cash and Cash Equivalents	4,815	(12,531)
Cash and Cash Equivalents - Beginning	11,378	75,342
Cash and Cash Equivalents - Ending	\$ 16,193	\$ 62,811
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ (8,666)	\$ (329)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,683	-
Changes in assets and liabilities:		
(Increase) Decrease receivables	6,743	(1,005)
(Increase) Decrease Due from other fund	-	(8,806)
Increase (Decrease) Accounts payable	653	(3,815)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 4,413</b>	<b>\$ (13,955)</b>

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

**PETALUMA CITY SCHOOLS**

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2009**

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	<u>Scholarship Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 110,696	\$ 328,837
<b>Total Assets</b>	<u>\$ 110,696</u>	<u>\$ 328,837</u>
<b>LIABILITIES</b>		
Due to student groups	\$ -	\$ 328,837
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 328,837</u>
<b>NET ASSETS</b>		
Unreserved	110,696	
<b>Total Net Assets</b>	<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, 2009**

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	<b>Scholarship Trust</b>
<b>ADDITIONS</b>	
<b>Total Additions</b>	<u>\$ -</u>
<b>DEDUCTIONS</b>	
<b>Total Deductions</b>	<u>-</u>
<b>Change in Net Assets</b>	-
<b>Net Assets - Beginning</b>	<u>110,696</u>
<b>Net Assets - Ending</b>	<u><u>\$ 110,696</u></u>

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

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### 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.

#### 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.

#### 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.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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**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.

**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).

**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:

**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.

**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).

**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.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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**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 services are provided to other funds of the District on a cost reimbursement basis. 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. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

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

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function, 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.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

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

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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



# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

---

**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, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### Cash and Cash Equivalents

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

### Investments

Investments held at June 30, 2009, 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.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### **Capital Assets and Depreciation**

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

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

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

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

### **Interfund Balances**

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

### **Compensated Absences**

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

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. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year if employed full-time.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### **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.

### **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 \$9.3 million of restricted net assets, of which \$7.9 is restricted by enabling legislation.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### **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.

### **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.

### **Budgetary Data**

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

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

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### Property Tax

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

### Changes in Accounting Principles

In July 2004, the GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires 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 established 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.

The Statement provided 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 has implemented the provisions of this Statement for the fiscal year ended June 30, 2009. The District had an OPEB obligation of \$646,486.

### New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 18,436,170
Business-type activities	16,193
Proprietary activities	62,811
Fiduciary funds	439,533
Total Deposits and Investments	<u><u>\$ 18,954,707</u></u>

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 341,751
Cash in revolving	20,450
Investments	<u>18,592,506</u>
Total Deposits and Investments	<u><u>\$ 18,954,707</u></u>

### Policies and Practices

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

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

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**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	227 days
U.S. Agencies	183,970	32 days
County Pool	18,308,754	265 days
Total	<u>\$ 18,592,506</u>	

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**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	<sup>1</sup>	\$ -	\$ -	\$ -
U.S. Agencies	183,970	AAA	183,970	-	-
County Pool	18,308,754	n/a	-	-	18,308,754
Total	<u>\$18,592,506</u>		<u>\$ 183,970</u>	<u>\$ -</u>	<u>\$18,308,754</u>

<sup>1</sup> The certificates of deposit account is maintained at Bank of America, and is insured up to \$250,000, 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, 2009, none of the District's bank balance of \$427,960 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Dreyfus Treasury Cash Management of \$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, 2009**

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**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Internal Service Fund
Federal Government						
Categorical aid	\$ 1,591,994	\$ -	\$ 157,908	\$ 1,749,902	\$ -	\$ -
State Government						
Apportionment	2,366,836	-	473,009	2,839,845	-	-
Categorical aid	215,445	-	18,680	234,125	-	-
Lottery	494,416	-	-	494,416	-	-
Other State	-	-	13,522	13,522	-	-
Other Local Sources	2,151,284	4,895	27,753	2,183,932	4,555	1,005
Total	<u>\$ 6,819,975</u>	<u>\$ 4,895</u>	<u>\$ 690,872</u>	<u>\$ 7,515,742</u>	<u>\$ 4,555</u>	<u>\$ 1,005</u>

Additional long term receivables include \$47,393 for a special education settlement with payments expected to be received annually over the next two years.

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	1,284,360	7,474,481	22,596	8,736,245
Total Capital Assets Not Being Depreciated	5,551,246	7,474,481	22,596	13,003,131
Capital Assets Being Depreciated:				
Land Improvements	6,312,184	181,186	-	6,493,370
Buildings and Improvements	124,844,200	-	-	124,844,200
Furniture and Equipment	5,613,859	288,296	-	5,902,155
Total Capital Assets Being Depreciated	136,770,243	469,482	-	137,239,725
Total Capital Assets	142,321,489	7,943,963	22,596	150,242,856
Less Accumulated Depreciation:				
Land Improvements	4,101,406	318,177	-	4,419,583
Buildings and Improvements	34,688,806	3,752,841	-	38,441,647
Furniture and Equipment	3,815,308	361,510	-	4,176,818
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	42,605,520	4,432,528	-	47,038,048
	<u>\$ 99,715,969</u>	<u>\$ 3,511,435</u>	<u>\$ 22,596</u>	<u>\$ 103,204,808</u>
<b>Business-Type Activities</b>				
Furniture and Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Less Accumulated Depreciation	9,943	5,683	-	15,626
Business-Type Activities Capital Assets, Net	<u>\$ 46,890</u>	<u>\$ (5,683)</u>	<u>\$ -</u>	<u>\$ 41,207</u>

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

**Governmental Activities**

Instruction	\$ 2,822,317
Supervision of instruction	97,516
Instructional library, media, and technology	47,697
School site administration	301,035
Home-to-school transportation	184,152
Food services	-
All other pupil services	393,769
Ancillary services	22,247
Community services	26,179
All other general administration	166,953
Plant services	<u>370,663</u>
Total Depreciation Expenses Governmental Activities	<u>4,432,528</u>

**Business-Type Activities**

Downtown Enterprise	5,683
Total Depreciation Expenses All Activities	<u><u>\$ 4,438,211</u></u>

**NOTE 5 – INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transaction are executed. Interfund receivable and payable balances at June 30, 2009, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ 474,172	\$ 5,072	\$ 8,968	\$ 9,229	\$ 497,441
Capital Facilities Fund	2,012	-	-	-	2,012
Non-Major Governmental funds	151,231	-	-	-	151,231
Total	<u>\$ 627,415</u>	<u>\$ 5,072</u>	<u>\$ 8,968</u>	<u>\$ 9,229</u>	<u>\$ 650,684</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, 2009**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2009, consisted of the following:

	Transfer To	Transfer From	
		General Fund	Total
Deferred Maintenance Fund		\$ 455,898	\$ 455,898

The General Fund transferred to the Deferred Maintenance Fund for District match.	455,898
Total	<u>\$ 455,898</u>

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, 2009, consisted of the following:

	General Fund	Building Fund	Capital Facilities	Non-Major Governmental Funds	Total	Proprietary Funds	Internal Service Fund
Vendor payables	\$ 1,185,289	\$ 113,261	\$ 492,863	\$ 487,565	\$2,278,978	\$ 222	\$ 3,300
State apportionment	577,198	-	-	-	577,198	-	-
Salaries and benefits	30,048	-	-	8,815	38,863	-	-
Total	<u>\$ 1,792,535</u>	<u>\$ 113,261</u>	<u>\$ 492,863</u>	<u>\$ 496,380</u>	<u>\$2,895,039</u>	<u>\$ 222</u>	<u>\$ 3,300</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2009, consists of the following:

	General Fund	Non-Major Governmental Funds
Federal financial assistance	\$ 773,859	\$ -
State categorical aid	213,605	563
Total	<u>\$ 987,464</u>	<u>\$ 563</u>

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

On July 3, 2008, the District issued \$3,370,000 Tax and Revenue Anticipation Notes bearing interest at 1.7 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 3, 2009. By May, 2009, 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 \$3,370,000 and related accrued interest and cash held in trust are not included in these financial statements.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2008	Additions	Payments	Outstanding June 30, 2009
July 11, 2007	3.595%	July 31, 2008	\$ 4,425,000	\$ -	\$ 4,425,000	\$ -
July 3, 2008	1.700%	July 3, 2009	-	3,370,000	-	3,370,000
			<u>\$ 4,425,000</u>	<u>\$ 3,370,000</u>	<u>\$ 4,425,000</u>	<u>\$ 3,370,000</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2008	Additions	Accretions	Deductions	Balance June 30, 2009	Due in One Year
General obligation bonds	\$ 64,557,621	\$ -	\$ 1,083,825	\$ 2,955,000	\$ 62,686,446	\$ 2,894,614
Premiums (discounts), net of amortization	29,804	-	-	1,267	28,537	1,267
Certificates of participation	8,035,000	-	-	220,000	7,815,000	230,000
Accumulated vacation	348,631	18,503	-	-	367,134	-
Capital leases	508,029	118,901	-	212,543	414,387	191,263
Other post employment benefits	874,154	-	-	227,668	646,486	176,250
	<u>\$ 74,353,239</u>	<u>\$ 137,404</u>	<u>\$ 1,083,825</u>	<u>\$ 3,616,478</u>	<u>\$ 71,957,990</u>	<u>\$ 3,493,394</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, 2009**

**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, 2008	Additions/ Accretions	Redeemed	Outstanding June 30, 2009
<b>Elementary</b>								
1991 G	05/25/99	8/1/2023	4.20-7.20	\$ 1,500,000	\$ 50,000	\$ -	\$ 50,000	\$ -
1991 H	06/14/00	8/1/2024	5.00-8.00	\$ 2,000,000	60,000	-	60,000	-
1991 I	07/01/02	8/1/2027	1.70-5.00	\$ 3,500,000	3,140,000	-	100,000	3,040,000
1991 J	04/06/04	8/1/2028	4.00-8.00	\$ 2,700,000	2,495,000	-	75,000	2,420,000
1998 Refunding	07/07/98	8/1/2021	4.00-4.60	\$ 7,530,000	390,000	-	390,000	-
2003 Refunding	04/17/03	8/1/2021	2.75-4.30	\$ 5,895,000	4,835,000	-	295,000	4,540,000
2003 Series B Refunding	10/29/03	8/1/2017	3.00-4.00	\$ 4,560,000	3,570,000	-	275,000	3,295,000
2008 Refunding	04/15/08	8/1/2024	2.00-3.80	\$ 7,965,000	7,965,000	-	140,000	7,825,000
<b>High School</b>								
1992 C	07/01/95	8/1/2021	4.50-6.20	\$10,623,276	2,006,435	126,200	-	2,132,635
1992 D	07/07/98	8/1/2021	4.25-7.25	\$ 3,900,000	30,000	-	30,000	-
1992 F	06/14/00	8/1/2024	5.00-8.00	\$ 9,400,000	75,000	-	75,000	-
1995 Refunding	11/09/95	8/1/2018	4.65-5.80	\$ 8,972,019	14,473,995	841,369	860,000	14,455,364
2002 Refunding	07/01/02	8/1/2020	2.00-4.75	\$11,943,021	10,642,191	116,256	575,000	10,183,447
2005 Refunding	07/13/05	8/1/2024	3.125-7.00	\$14,825,000	14,825,000	-	30,000	14,795,000
					<u>\$64,557,621</u>	<u>\$1,083,825</u>	<u>\$ 2,955,000</u>	<u>\$ 62,686,446</u>

**Debt Service Requirements to Maturity**

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Accretion	Total
2010	\$ 2,894,614	\$ 1,702,093	\$ 530,386	\$ 5,127,093
2011	3,048,298	1,602,149	646,702	5,297,149
2012	3,159,759	1,505,619	805,241	5,470,619
2013	3,279,211	1,415,006	950,789	5,645,006
2014	3,393,838	1,321,036	1,116,162	5,831,036
2015-2019	17,062,832	5,070,402	9,697,168	31,830,402
2020-2024	18,409,989	1,843,937	5,925,011	26,178,937
2025-2029	2,410,000	200,897	-	2,610,897
Total	<u>53,658,541</u>	<u>\$14,661,139</u>	<u>\$19,671,459</u>	<u>\$ 87,991,139</u>
Accretions to date	<u>9,027,905</u>			
	<u>\$ 62,686,446</u>			

**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**Certificates of Participation**

In June, 2005, the District issued certificates of participation in the amount of \$8,450,000 with a variable interest rates ranging from 0.18 percent to 0.45 percent. As of June 30, 2009, the principal balance outstanding was \$7,815,000. The certificates mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 230,000	\$ 229,289	\$ 459,289
2011	240,000	222,165	462,165
2012	245,000	215,293	460,293
2013	260,000	206,737	466,737
2014	270,000	199,142	469,142
2015-2019	1,505,000	864,743	2,369,743
2020-2024	1,825,000	614,015	2,439,015
2025-2029	2,220,000	308,073	2,528,073
2030-2034	1,020,000	23,313	1,043,313
Total	<u>\$ 7,815,000</u>	<u>\$ 2,882,770</u>	<u>\$ 10,697,770</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$367,135.

**Capital Leases**

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Buses	Buildings and Equipment	Total
Balance, July 1, 2008	\$ 417,605	\$ 131,164	\$ 548,769
Additions	79,954	52,690	132,644
Payments	189,905	50,361	240,266
Balance, July 1, 2009	<u>\$ 307,654</u>	<u>\$ 133,493</u>	<u>\$ 441,147</u>

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 191,263
2011	144,997
2012	85,568
2013	10,537
2014	8,782
Total	441,147
Less: Amount Representing Interest	26,760
Present Value of Minimum Lease Payments	<u>\$ 414,387</u>

### Other Post Employment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65. For the year ended June 30, 2009, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post-employment Benefits
2010	\$ 176,250
2011	153,868
2012	109,428
2013	71,822
2014	39,160
2015-2017	95,958
	<u>\$ 646,486</u>

### Defeasance of Debt Obligations

The District has defeased the 1991 and 1998 bond issues by creating a separate irrevocable trust fund. New debt was issued in the prior years 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



**PETALUMA CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 10 - FUND BALANCES**

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

	General Fund	Building Fund	Capital Facilities	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved						
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 450	\$ 20,450
Stores inventory	50,805	-	-	-	21,494	72,299
Restricted programs	3,018,059	-	-	-	-	3,018,059
Total Reserved	<u>3,088,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>302,489</u>	<u>3,391,353</u>
Unreserved						
Designated						
Economic uncertainties	2,104,133	-	-	-	-	2,104,133
Other designation	998,754	-	-	-	-	998,754
Total Designated	<u>3,102,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,102,887</u>
Undesignated	4,619,985	3,032,253	27,397	5,043,405	3,057,028	15,780,068
Total Unreserved	<u>7,722,872</u>	<u>3,032,253</u>	<u>27,397</u>	<u>5,043,405</u>	<u>3,057,028</u>	<u>18,882,955</u>
Total	<u>\$10,811,736</u>	<u>\$3,032,253</u>	<u>\$ 27,397</u>	<u>\$ 5,043,405</u>	<u>\$ 3,359,517</u>	<u>\$22,274,308</u>

**NOTE 14 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

**Plan Description**

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Petaluma City Schools. The Plan provides medical insurance benefits to eligible retirees and their spouses. Eligible employees are those 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 and are capped at negotiated amounts. As of June 30, 2009, membership of the Plan consists of 53 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no active plan members.

**Contribution Information**

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008-09, the District contributed \$227,668 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums).

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### **Funded Status and Funding Progress**

The District uses the Alternative Measurement Method for valuations of the ongoing plan and the measurement methods involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

### **Valuation Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009, valuation measurement, the alternative measure method was used. Healthcare cost trend rates ranged from current actual amounts up to the agreed upon caps. Mortality estimates were not included as the District pays the healthcare benefits only to age 65. The UAAL was fully amortized and no phase in is being applied. There were no assets set aside to fund future amounts.

## **NOTE 12 – RISK MANAGEMENT**

### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, 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.

# **PETALUMA CITY SCHOOLS**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

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### **Workers' Compensation**

For fiscal year 2009, 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.

### **Employee Dental Benefits**

The District has contracted through Redwood Empire Schools Insurance Group (RESIG) JPA, an insurance purchasing pool for dental benefits for their employees. Premiums are calculated at the beginning of each year and are paid monthly by the participating District.

### **NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer 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, annual cost of living adjustments 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, California 95826.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### **Funding Policy**

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 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, 2009, 2008, and 2007, were \$2,651,108, \$2,647,620, and \$2,510,873, 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 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 2008-2009 was 9.428 percent of covered 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, 2009, 2008, and 2007, were \$1,108,460, \$1,062,286, and \$986,503, 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 (CalSTRS or CalPERS) 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.

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,583,441 (4.517 percent of annual payroll). 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 Comparison Schedule.

### NOTE 14 - 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, 2009.

#### 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, 2009.

#### Construction Commitments

As of June 30, 2009, 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	\$ 4,183,844	Nov-09
Mary Collins at Cherry Valley Charter School - Modernization, Phase I	175,824	Nov-09
Petaluma High School - Paving & Roofing Project	1,113,958	Oct-10
Casa Grande High School - Drama, Liabrary, & Music Expansion Project	1,788,896	Jul-09
	<u>\$ 7,262,522</u>	

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **NOTE 15 - 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, dental 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, 2009, the District made payments of \$1,364,595, and \$208,699 to Redwood Empire Schools Insurance Group, and School Project for Utility Rate Reduction, respectively for workers compensation, property and liability coverage, dental insurance and direct purchase of gas, electricity and other utility services.

### **NOTE 16 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS**

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

### **NOTE 17 - SUBSEQUENT EVENTS**

#### **Tax Revenue and Anticipation Notes**

The District issued \$5,300,000 of Tax and Revenue Anticipation Notes dated November 17, 2009. The notes mature on November 23, 2010, and yield a .7 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 2010, until 100 percent of principal and interest due is on account in May, 2010.

#### **ABX4 3 State Funding Shift**

On July 28, 2009, Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs

# PETALUMA CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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and required the amounts associated with these programs that were “unallocated, unexpended, or not liquidated as of June 30, 2009” to revert to the State’s General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivables associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification of by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivable has been included in these financial statements.

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***REQUIRED SUPPLEMENTARY  
INFORMATION***

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**PETALUMA CITY SCHOOLS**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 48,168,826	\$46,947,835	\$ 46,831,827	\$ (116,008)
Federal sources	2,858,510	7,355,777	5,828,482	(1,527,295)
Other state sources	8,207,073	8,859,262	8,654,343	(204,919)
Other local sources	6,880,221	8,572,656	8,847,776	275,120
<b>Total Revenues<sup>1</sup></b>	<b>66,114,630</b>	<b>71,735,530</b>	<b>70,162,428</b>	<b>(1,573,102)</b>
<b>EXPENDITURES</b>				
Current				
Instruction	42,806,103	45,729,645	45,527,153	202,492
Instruction-related activities:				
Supervision of instruction	1,084,047	1,774,682	1,573,570	201,112
Instructional library, media, and technology	772,700	769,224	693,695	75,529
School site administration	4,663,685	4,786,266	4,700,143	86,123
Pupil services:				
Home-to-school transportation	920,919	2,265,617	2,875,217	(609,600)
Food services	1,000	1,000	-	1,000
All other pupil services	5,962,117	6,360,557	6,148,030	212,527
General administration:				
All other general administration	2,886,285	3,121,516	2,606,682	514,834
Plant services	5,913,407	6,075,035	5,986,841	88,194
Ancillary services	310,901	354,663	347,350	7,313
Community services	534,553	523,026	408,733	114,293
Other outgo	100,848	191,460	104,482	86,978
Enterprise services	100,000	144,744	112,163	32,581
Debt service				
Principal	-	-	162,037	(162,037)
Interest	-	-	19,233	(19,233)
<b>Total Expenditures<sup>1</sup></b>	<b>66,056,565</b>	<b>72,097,435</b>	<b>71,265,329</b>	<b>832,106</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>58,065</b>	<b>(361,905)</b>	<b>(1,102,901)</b>	<b>(740,996)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers out	(337,550)	(337,550)	(455,898)	(118,348)
<b>Net Financing Sources (Uses)</b>	<b>(337,550)</b>	<b>(337,550)</b>	<b>(455,898)</b>	<b>(118,348)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(279,485)</b>	<b>(699,455)</b>	<b>(1,558,799)</b>	<b>(859,344)</b>
<b>Fund Balance - Beginning</b>	<b>12,370,535</b>	<b>12,370,535</b>	<b>12,370,535</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 12,091,050</b>	<b>\$11,671,080</b>	<b>\$ 10,811,736</b>	<b>\$ (859,344)</b>

<sup>1</sup> On behalf payments of \$1,583,441 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Schedule of Funding Progress</b>						
<b>Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ([b - a] / c)</b>
June 30, 2009	\$ -	\$ 646,486	\$ 646,486	\$ -	\$ -	0%

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*SUPPLEMENTARY INFORMATION*

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**PETALUMA CITY SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Education:			
Adult Basic Education & ESL	84.002A	14508	\$ 25,912
English Literacy & Civics	84.002A	14109	38,546
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	526,321
Title II - Part D, Enhancing Education Through Technology	84.318	14334	5,837
Title II - Part A, Improving Teacher Quality	84.367	14341	177,637
Title III - Language Acquisition	84.365	14346	28,903
Title III - Limited English Proficiency	84.365	10084	133,969
Title V - Part A, Innovative Education Strategies	84.298A	14354	2,902
Title X - McKinney Homeless Assistance	84.196	14332	18,987
Title IV - Part A, Drug Free School	84.186	14347	19,585
Special Education - State Grants			
Local Assistance	84.027	13379	1,478,920
ARRA: Basic Local Assistance	84.391	15003	22,269
Preschool Local Entitlement	84.027A	13682	176,110
Federal Preschool	84.173	13430	164,200
Special Education Leads (CPIN)	84.173	14530	2,346
Vocational Educational Grants	84.048	13924	53,807
Elementary & Secondary School Counseling Demonstration	84.215E	NA	300,091
Carol White PE Grant	84.215F	NA	99,816
Traditional Teaching American History Project	84.215X	NA	124,126
Smaller Learning Communities Grant	84.215L	NA	287,826
Total U.S. Department of Education			<u>3,688,110</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	13396	\$ 688,170
Basic School Breakfast Program	10.553	13525	14,115
Especially Needy Breakfast	10.553	13526	207,007
Summer Food Service Program for Children	10.559	13004	16,077
Meals Supplements - Snack	10.555	13528	1,117
FMV Commodities	10.555	<sup>1</sup>	90,574
Total U.S. Department of Agriculture			<u>1,017,060</u>
<b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICE:</b>			
Medical Administrative Activities	93.778	10060	\$ 25,690
Total Expenditures of Federal Awards			<u>4,730,860</u>

<sup>1</sup> Not included in financial statements, disclosure only

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
JUNE 30, 2009**

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**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>OFFICE</u>	<u>TERM EXPIRES</u>
<u>MEMBER</u>		
Troy Sanderson	President	2012
Christina Kauk	Clerk	2010
Mary Schafer	Member	2012
Lou Steinberg	Member	2010
Carolyn Tennyson	Member	2010

**ADMINISTRATION**

Greta Viguie	Superintendent
Steve Bowman	Deputy Superintendent, Business and Administration

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	306	307
First through third	885	882
Fourth through sixth	776	775
Seventh and eighth	1,541	1,538
Home and hospital	1	1
Special education	33	35
Total Elementary	<u>3,543</u>	<u>3,538</u>
<b>SECONDARY</b>		
Regular classes	3,220	3,193
Continuation education	159	158
Home and hospital	16	18
Special education	95	96
Community day school	23	23
Total Secondary	<u>3,512</u>	<u>3,489</u>
Total K-12	<u>7,055</u>	<u>7,027</u>
<b>CLASSES FOR ADULTS</b>		
Concurrently enrolled	2	6
Not concurrently enrolled	580	590
Total Classes for Adults	<u>582</u>	<u>596</u>
Grand Total	<u>7,637</u>	<u>7,622</u>

	Classroom Based	Non-Classroom Based	P2 Total	Annual Total
<b>CHARTER SCHOOL</b>				
Kindergarten	35.15	0.16	35.31	36.01
First through third	119.44	0.31	119.75	120.13
Fourth through sixth	112.67	0.31	112.98	113.44
Seventh and eighth	58.24	0.11	58.35	58.32
Total	<u>325.50</u>	<u>0.89</u>	<u>326.39</u>	<u>327.90</u>

	Hours of Attendance
<b>CHARTER SCHOOL SUPPLEMENTAL INSTRUCTIONAL HOURS</b>	
Grades K-12 At Risk	2,240
Total Hours	<u>2,240</u>

	Hours of Attendance
<b>SUMMER SCHOOL</b>	
Elementary	14,060
High school	112,953
Total Hours	<u>127,013</u>

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, 2009**

Grade Level	1982-83	1986-87	2008-2009	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	50,445	180	N/A	In Compliance
Grade 2	42,000	50,400	50,445	180	N/A	In Compliance
Grade 3	42,000	50,400	50,445	180	N/A	In Compliance
Grade 4	49,875	54,000	54,025	180	N/A	In Compliance
Grade 5	49,875	54,000	54,025	180	N/A	In Compliance
Grade 6	49,875	54,000	54,025	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	68,525	180	N/A	In Compliance
Grade 10	56,525	64,800	68,855	180	N/A	In Compliance
Grade 11	56,525	64,800	68,525	180	N/A	In Compliance
Grade 12	56,525	64,800	68,525	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, 2009**

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

FUND BALANCE	General Fund	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Downtown Enterprise Fund
Balance, June 30, 2009, Unaudited Actuals	\$ 12,786,318	\$ 618,679	\$ 114,648	\$ 65,557	\$ 21,346
Decrease in:					
Accounts receivable	(1,974,582)	(102,365)	(3,617)	-	-
Capital assets	-	-	-	-	56,833
Accumulated depreciation	-	-	-	-	(15,626)
Accounts payable	-	-	-	(38,160)	(820)
Balance, June 30, 2009, Audited Financial Statement	<u>\$ 10,811,736</u>	<u>\$ 516,314</u>	<u>\$ 111,031</u>	<u>\$ 27,397</u>	<u>\$ 61,733</u>

The District recorded the revenue and related receivable associated with its portion of the 2008-09 reverted unallocated, unexpended or un-liquidated categorical program balances identified in the 2009-10 re-appropriation in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No .33, an adjustment to reduce revenues and the related receivables have been included in these financial statements. See Note 17 regarding the subsequent events.

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

Balance, June 30, 2009, Unaudited Actuals	\$100,499,869
Increase (Decrease) in:	
Work in progress	(22,629,902)
Land improvements	181,184
Buildings	30,092,835
Equipment	242,825
(Increase) Decrease in:	
Accumulated depreciation - land improvements	(318,177)
Accumulated depreciation - buildings	(4,505,160)
Accumulated depreciation - equipment	(358,666)
Balance, June 30, 2009, Audited Financial Statement, Governmental Funds	<u>\$103,204,808</u>
<b>FORM DEBT</b>	
Total Liabilities, June 30, 2009, Unaudited Actuals	\$ 70,986,090
Increase in:	
General obligation bonds	750,901
Decrease in:	
Premiums, net of amortization	28,536
OPEB benefits	192,463
Total Liabilities, June 30, 2009, Audited Financial Statement	<u>\$ 71,957,990</u>

See accompanying note to supplementary information.



**PETALUMA CITY SCHOOLS**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

	(Budget) 2010 <sup>1</sup>	2009	2008	2007
<b>GENERAL FUND</b>				
Revenues	\$ 64,168,845	\$ 70,162,428	\$ 70,375,158	\$ 69,527,386
Total Revenues and Other Sources	64,168,845	70,162,428	70,375,158	69,527,386
Expenditures	65,403,764	71,265,329	68,154,026	66,034,372
Other uses and transfers out	337,550	455,898	404,707	322,922
Total Expenditures and Other Uses	65,741,314	71,721,227	68,558,733	66,357,294
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	\$ (1,572,469)	\$ (1,558,799)	\$ 1,816,425	\$ 3,170,092
<b>ENDING FUND BALANCE</b>	\$ 9,239,267	\$ 10,811,736	\$ 12,370,535	\$ 10,554,110
<b>AVAILABLE RESERVES <sup>2</sup></b>	\$ 6,145,568	\$ 8,687,866	\$ 8,497,278	\$ 6,545,683
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO<sup>3</sup></b>	9.35%	12.39%	12.67%	9.86%
<b>LONG-TERM DEBT</b>	\$ 64,971,202	\$ 71,957,990	\$ 74,369,611	\$ 77,161,193
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	6,884	7,055	7,087	7,160

The General Fund balance has increased by \$257,626 over the past two years. The fiscal year 2009-2010 budget projects a decrease of \$1,572,469 (15 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in one of the past three years and anticipates incurring an operating deficit again during the 2009-2010 fiscal year due to lack of funded COLA. Total long-term obligations have decreased by \$5,203,202 over the past two years.

Average daily attendance has decreased by 105 over the past two years. An additional decrease of 171 is anticipated during fiscal year 2009-2010.

<sup>1</sup> Budget 2010 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On-behalf payments of \$1,583,441, \$1,476,548, and \$1,441,205 have been excluded from the revenues and expenditures.

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2009**

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

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**PARCEL TAX – BALANCE SHEET  
JUNE 30, 2009**

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ASSETS	Elementary	High School
Cash and investments	\$ 423,251	\$ 346,992
Total Assets	<u>\$ 423,251</u>	<u>\$ 346,992</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	<u>\$ 3,052</u>	<u>\$ 12,697</u>
FUND EQUITY		
Fund balances		
Undesignated	<u>420,199</u>	<u>334,295</u>
Total Fund Equity	<u>420,199</u>	<u>334,295</u>
Total Liabilities	<u>-</u>	<u>-</u>
and Fund Equity	<u>\$ 423,251</u>	<u>\$ 346,992</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, 2009**

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	<u>Elementary</u>	<u>High School</u>
REVENUES		
Parcel tax revenue	<u>\$ 721,850</u>	<u>\$ 1,124,090</u>
EXPENDITURES		
Current Expenditures		
Certificated salaries	368,493	438,434
Classified salaries	124,976	108,300
Benefits	160,515	165,212
Books and supplies	8,796	266,480
Services and operating expenditures	4,444	51,922
Total Expenditures	<u>667,224</u>	<u>1,030,348</u>
EXCESS OF REVENUES OVER EXPENDITURES	54,626	93,742
FUND BALANCE, Beginning of Year	<u>365,573</u>	<u>240,553</u>
FUND BALANCE, End of Year	<u>\$ 420,199</u>	<u>\$ 334,295</u>

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**PARCEL TAX – FINANCIAL SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2009**

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	<u>Elementary</u>	<u>High School</u>
Expenditures		
Certificated salaries	\$ 368,493	\$ 438,434
Classified salaries	124,976	108,300
Benefits	160,515	165,212
Books and supplies	8,796	266,480
Services and operating expenses	4,444	51,922
Total expenditures	<u>\$ 667,224</u>	<u>\$ 1,030,348</u>

	<u>Elementary</u>	<u>High School</u>
Parcel taxes collected	\$ 721,850	\$ 1,124,090
Total expenditures and commitments	<u>667,224</u>	<u>1,030,348</u>
Amount available from current year collections	<u>\$ 54,626</u>	<u>\$ 93,742</u>

See accompanying note to supplementary information.

**PETALUMA CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2009**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 271,301	\$ 43,708	\$ 777,667
Receivables	529,204	136,760	-
Due from other funds	-	119	8,849
Prepaid expenses	-	-	-
Stores inventories	-	21,494	-
<b>Total Assets</b>	<b>\$ 800,505</b>	<b>\$ 202,081</b>	<b>\$ 786,516</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 210,427	\$ 18,902	\$ 219,039
Due to other funds	73,764	72,148	1,399
Deferred revenue	-	-	-
<b>Total Liabilities</b>	<b>284,191</b>	<b>91,050</b>	<b>220,438</b>
<b>Fund Balances:</b>			
Reserved for:			
Other reservations	300	21,644	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	516,014	89,387	566,078
Capital projects funds	-	-	-
<b>Total Fund Balance</b>	<b>516,314</b>	<b>111,031</b>	<b>566,078</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 800,505</b>	<b>\$ 202,081</b>	<b>\$ 786,516</b>

See accompanying note to supplementary information.

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<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Non Major Governmental Funds</b>
\$ 80,708	\$ 1,832,428	\$ 3,005,812
-	24,908	690,872
-	-	8,968
-	280,545	280,545
-	-	21,494
<u>\$ 80,708</u>	<u>\$ 2,137,881</u>	<u>\$ 4,007,691</u>

\$ 30,481	\$ 17,531	\$ 496,380
3,060	860	151,231
-	563	563
<u>33,541</u>	<u>18,954</u>	<u>648,174</u>

-	280,545	302,489
-	-	1,171,479
47,167	1,838,382	1,885,549
<u>47,167</u>	<u>2,118,927</u>	<u>3,359,517</u>
<u>\$ 80,708</u>	<u>\$ 2,137,881</u>	<u>\$ 4,007,691</u>

**PETALUMA CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 64,458	\$ 926,487	\$ -
Other state sources	1,604,033	75,271	262,297
Other local sources	82,137	1,006,544	5,689
<b>Total Revenues</b>	<b>1,750,628</b>	<b>2,008,302</b>	<b>267,986</b>
<b>EXPENDITURES</b>			
Current			
Instruction	1,397,411	-	-
Instruction-related activities:			
School site administration	334,022	-	-
Pupil services:			
Food services	-	2,035,552	-
General administration:			
All other general administration	58,000	-	-
Plant services	17,372	19,470	656,943
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	746	-
Interest and other	-	132	-
<b>Total Expenditures</b>	<b>1,806,805</b>	<b>2,055,900</b>	<b>656,943</b>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<b>(56,177)</b>	<b>(47,598)</b>	<b>(388,957)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	455,898
Other financing sources			
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>455,898</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(56,177)</b>	<b>(47,598)</b>	<b>66,941</b>
<b>Fund Balance - Beginning</b>	<b>572,491</b>	<b>158,629</b>	<b>499,137</b>
<b>Fund Balance - Ending</b>	<b>\$ 516,314</b>	<b>\$ 111,031</b>	<b>\$ 566,078</b>

See accompanying note to supplementary information.



<b>County School Facilities Fund</b>	<b>Special Reserve Capital Fund</b>	<b>Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ 990,945
-	25,342	1,966,943
31,369	426,993	1,552,732
<u>31,369</u>	<u>452,335</u>	<u>4,510,620</u>
-	-	1,397,411
-	-	334,022
-	-	2,035,552
-	-	58,000
-	589,194	1,282,979
2,816,439	290,977	3,107,416
-	265,149	265,895
-	211,339	211,471
<u>2,816,439</u>	<u>1,356,659</u>	<u>8,692,746</u>
<u>(2,785,070)</u>	<u>(904,324)</u>	<u>(4,182,126)</u>
-	-	455,898
-	118,901	118,901
-	118,901	574,799
<u>(2,785,070)</u>	<u>(785,423)</u>	<u>(3,607,327)</u>
<u>2,832,237</u>	<u>2,904,350</u>	<u>6,966,844</u>
<u>\$ 47,167</u>	<u>\$ 2,118,927</u>	<u>\$ 3,359,517</u>

# PETALUMA CITY SCHOOLS

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 6,819,427
Commodities	10.555	90,574
ARRA State Stabilization Fund	84.394	(2,179,141)
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,730,860</u>

#### 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.

# PETALUMA CITY SCHOOLS

## NOTE TO SUPPLEMENTARY INFORMATION (Continued) JUNE 30, 2009

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### NOTE 1 - PURPOSE OF SCHEDULES

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

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

#### **Schedule of Financial Trends and Analysis**

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

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

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

#### **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.

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

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

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*INDEPENDENT AUDITORS' REPORTS*

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

Governing Board  
Petaluma City Schools  
Petaluma, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2009, which collectively comprise Petaluma City Schools' basic financial statements and have issued our report thereon dated February 1 2009. 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 questioned costs as items 2009-1 to 2009-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Petaluma City Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
February 1, 2009



**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, 2009. 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, 2009.

**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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California  
February 1, 2010





**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, 2009, and have issued our report thereon dated February 1, 2010. 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 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	3	No, see below
Instructional Materials:		
General requirements	8	Yes, see below
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Safety and Education program		
General requirements	4	Yes
After School	4	Yes
Before School	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	No, see below
Determination of funding for non classroom-based instruction	3	No, see below
Annual instruction minutes classroom based	3	Yes

We performed testing of procedure (a) only for Instructional Materials general requirements, as additional procedures were not determined to be required. We did not perform testing for Community Day School or for Charter Schools non classroom based instruction because the ADA threshold was not met.

Based on our audit, we found that for the items tested, the Petaluma City Schools complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Petaluma City Schools had not complied with the laws and regulations. Our audit does not provide a legal determination on Petaluma City Schools compliance with the State laws and regulations referred to above.

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

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
February 1, 2010

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

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**PETALUMA CITY SCHOOLS**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
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, 84.027A 84.173, 84.391</u>	<u>Special Education Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>
<u>84.215E</u>	<u>Elementary and Secondary School Counseling Program</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>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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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

### 2009-1 Student Body Funds- Code 30000 *Significant Deficiency*

**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:  
*Kenilworth Middle School*

- Receiving documentation not evident in 4 of 8 instances reviewed.
- No revenue potentials/sales analyses are prepared for significant fund raising events prior to the occurrence of the event.
- Lack of segregation of duties appears to exist in that most functions of the student body funds, including making deposits, preparing checks, issuing invoices and receipts, preparing financial records, and reconciling bank accounts are performed by the school secretary.

*Carpe Diem*

- Lack of segregation of duties appears to exist in that most functions of the student body funds, including making deposits, preparing checks, issuing invoices and receipts, preparing financial records, and reconciling bank accounts are performed by the school secretary.

### **Questioned costs**

None

### **Context**

Accounting for associated student body funds is typically done by various individuals in decentralized locations and may not include optimal internal controls. Fundraisers frequently involve a significant amount of funds and formalized tracking of expected budgets (revenue potentials) 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.

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **District Response:**

The District has required ASB personnel to attend training that occurred in October 19, 2009 to address these issues. The District will meet with site personnel to review audit findings and address any additional training needs.

### **2009-2 Site Cash - Code 30000**

*Significant Deficiency*

**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:

*Kenilworth Middle School*

- Student workers assisting with book fee collections may be providing unauthorized forgiveness of fines. In addition, the book fines collected were kept in an unsecured drawer and are subject to the risk of misappropriation prior to deposit.
- We noted that funds collected in January remained on hand in May and had not been deposited to the bank account. In addition, we noted that cash on hand was used to pay for purchases and/or to reimburse individuals who purchased items on personal credit cards.

*McNear and Valley Vista Elementary School*

- We noted that book fine collections appear to have been deposited into the PTA accounts rather than the District site cash accounts.

### **Questioned Costs**

None

### **Context**

The conditions were noted during our review of site cash collections during the fiscal year 2008-09.

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **Effect**

Internal controls over site cash collections do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

### **Cause**

District policies regarding safeguarding of funds, segregation of duties, and prohibiting paying for expenditures out of cash collections were not adhered to. .

### **Recommendation**

We recommend the District remind all sites that they are responsible for ensuring that all cash collections must be stored in secure locations cash until it is deposited, require periodically deposits funds collected based on a time period or level of funds received, and remind staff that payment of expenses out of cash collections is prohibited. In addition, we recommend that management at each site review their location's procedures over the common types of site cash activity to ensure that District procedures are followed and that a process for an independent review by a second person exists.

### **District Response**

The District has required ASB/site personnel to attend training that occurred in October 19, 2009 to address these issues. The District will meet with site personnel to review audit findings and address any additional training needs.

## **2009-3 Journal Entries – Code 30000**

*Significant Deficiency*

### **Criteria or Specific Requirements**

Strong internal controls include the concepts of segregation of duties that ensure that all transactions are reviewed by someone other than the person originating the transaction.

### **Condition**

During our audit, we noted that journal entries prepared were not consistently reviewed and/or indicated as such on the journal entry forms.

### **Questioned Costs**

None.

### **Context**

We reviewed 15 journal entries and noted that 10 of the 15 journal entry transactions posting transactions totaling over \$750,000, did not contain evidence of independent review.

# PETALUMA CITY SCHOOLS

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **Effect**

Without a properly operating internal control system checks and balances are not operating effectively and errors or other potential irregularities might occur and not be detected.

### **Cause**

The designed duties within the District office were not operating as intended by the operational procedures.

### **Recommendation**

In order to strengthen the internal controls, we recommend the district review the design of the workload to ensure that all transactions are subject to a review by someone other than the person initiating the entry.

### **District Response**

The District will review and re-assign duties as necessary to implement required internal controls.



**PETALUMA CITY SCHOOLS**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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None noted.

**PETALUMA CITY SCHOOLS**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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None noted.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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

### *Financial Statement Findings*

#### **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.

#### **Current Status:**

Not implemented, see 2009-1.

# PETALUMA CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

#### **Current Status:**

Implemented.