

**PETALUMA
CITY SCHOOLS**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2010**

PETALUMA CITY SCHOOLS

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FINANCIAL SECTION



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, 2010, 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 2009-10*, 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, 2010, 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 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 December 15, 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, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

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

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2010

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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, 2010. 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, 2010

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, 2010

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 \$51.4 million for the fiscal year ended June 30, 2010. Of this amount, \$11 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, 2010**

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 28,489,959	\$ 27,756,059	\$ 18,655	\$ 20,748	\$ 28,508,614	\$ 27,776,807
Capital assets	105,797,389	103,204,808	35,524	41,207	105,832,913	103,246,015
Total Assets	134,287,348	130,960,867	54,179	61,955	134,341,527	131,022,822
Current liabilities	8,660,134	8,163,021	-	222	8,660,134	8,163,243
Long-term debt	74,225,359	68,464,596	-	-	74,225,359	68,464,596
Total Liabilities	82,885,493	76,627,617	-	222	82,885,493	76,627,839
Net assets						
Invested in capital assets, net of related debt	31,188,954	36,844,993	35,524	41,207	31,224,478	36,886,200
Restricted	9,271,520	9,324,632	-	-	9,271,520	9,324,632
Unrestricted	10,941,381	8,163,625	18,655	20,526	10,960,036	8,184,151
Total Net Assets	\$ 51,401,855	\$ 54,333,250	\$ 54,179	\$ 61,733	\$ 51,456,034	\$ 54,394,983

The \$11 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 \$11 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, 2010**

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 817,825	\$ 1,507,414	\$ 6,275	\$ 8,245	\$ 824,100	\$ 1,515,659
Operating grants and contributions	14,095,745	16,652,742	-	-	14,095,745	16,652,742
Capital grants and contributions	1,095,810	28,869	-	-	1,095,810	28,869
General revenues:						
Federal and state aid	24,163,582	24,488,443	-	-	24,163,582	24,488,443
Property taxes	32,934,160	33,107,914	-	-	32,934,160	33,107,914
Other general revenues	5,325,442	4,739,012	158	402	5,325,600	4,739,414
Total Revenues	78,432,564	80,524,394	6,433	8,647	78,438,997	80,533,041
Expenses						
Instruction-related	53,519,295	57,163,220	-	-	53,519,295	57,163,220
Student support services	11,047,641	11,592,149	-	-	11,047,641	11,592,149
Administration	3,137,653	2,868,334	-	-	3,137,653	2,868,334
Maintenance and operations	6,607,972	6,971,881	-	-	6,607,972	6,971,881
Other	7,112,920	4,338,109	13,987	16,911	7,126,907	4,355,020
Total Expenses	81,425,481	82,933,693	13,987	16,911	81,439,468	82,950,604
Change in Net Assets	\$ (2,992,917)	\$ (2,409,299)	\$ (7,554)	\$ (8,264)	\$ (3,000,471)	\$ (2,417,563)

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$81.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$32.9 million because the cost was paid by those who benefited from the programs (\$.82 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$15.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$24 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, 2010**

Table 3

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction	\$ 53,519,295	\$ 57,163,220	\$ 42,674,841	\$ 45,434,833
Pupil services	11,047,641	11,592,149	6,130,272	5,892,607
School administration	3,137,653	2,868,334	3,021,485	2,600,951
Maintenance and operations	6,607,972	6,971,881	6,561,074	6,574,284
Other	7,112,920	4,338,109	7,028,429	4,241,993
Totals	\$ 81,425,481	\$ 82,933,693	\$ 65,416,101	\$ 64,744,668

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$22.8 million, which is an increase of \$0.48 million from last year (Table 4).

Table 4

	Fund Balance	
	June 30, 2010	June 30, 2009
General	\$ 11,319,917	\$ 10,811,736
Adult Education	215,029	516,314
Building	2,540,755	3,032,253
Bond Interest and Redemption	5,241,992	5,043,405
Cafeteria	122,223	111,031
Deferred Maintenance	799,312	566,078
Capital Facilities	159,798	27,397
County Schools Facilities	806,344	47,167
Capital Projects - Special Reserve	1,552,782	2,118,927
Totals	\$ 22,758,152	\$ 22,274,308

The primary reasons for these increases/decreases are:

- 1) Our General Fund is our principal operating fund. The fund balance in the General Fund increased by approximately \$.51 million to \$11.3 million. This increase is due to a one time reduction of special education encroachment.
- 2) The Bond, Interest and Redemption fund increased by \$.2 million to \$5.2 million due to decreasing interest expense.
- 3) Our other funds including the Adult Fund, Cafeteria Fund, Deferred Maintenance Fund, Building, Capital Facilities, County School Facilities Fund, and Special Reserve for Capital Outlay decreased by \$.22 million in the aggregate. This deficit spending was due to budget cuts.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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, 2010. 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 51.

Actual expenditures were \$2.9 million (excluding on behalf payments) below final budget and \$280,000 (excluding on behalf payments) 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, 2010, the District had \$105.8 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 \$2.6 million, or 2.5 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	139,333,891	131,337,570	-	-	139,333,891	131,337,570
Furniture and Equipment	6,059,445	5,902,155	56,833	56,833	6,116,278	5,958,988
Construction in progress	7,748,522	8,736,245	-	-	7,748,522	8,736,245
Totals	157,408,744	150,242,856	56,833	56,833	157,465,577	150,299,689
Less Accumulated Depreciation	(51,611,356)	(47,038,048)	(21,309)	(15,626)	(51,632,665)	(47,053,674)
Capital Assets, net	\$ 105,797,388	\$ 103,204,808	\$ 35,524	\$ 41,207	\$ 105,832,912	\$ 103,246,015

This year's primary net increase of \$2.6 million included completion of the Art Building at Petaluma High School and the Library and Drama Buildings at Casa Grande High School. Additionally, the work in progress includes the following major projects: 1) Solar Installation projects at Casa Grande High School and Petaluma High School, 2) Modernization of Petaluma Junior High School's Administration and Library Buildings, and 3) Modernization at Mary Collins at Cherry Valley Charter School.

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, 2010

Long-Term Obligations

At the end of this year, the District had \$78 million in long term obligations outstanding versus \$72 million last year, an increase of 8.5 percent. The debt consisted of:

Table 6

	Totals	
	2010	2009
General obligation bonds (financed with property taxes)	\$ 65,412,981	\$ 62,686,446
Bond premiums, net of amortization	272,501	28,537
Certifications of participation	7,760,000	7,815,000
Accrued vacation	400,128	367,135
Capitalized lease obligations	3,739,233	414,387
Other post employment benefits	454,023	646,486
Totals	\$ 78,038,866	\$ 71,957,991

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 2009-10 ARE NOTED BELOW:

The major projects completed during 2009-10 were Petaluma High School Phase D Art Building and Casa Grande High School Phase G Library and Drama Buildings. Projects still in progress are mentioned above and are anticipated to be completed during 2010-11.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2010-11 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

- 1) Revenue limit income decrease due to negative .39 percent COLA and \$191 and \$231 elementary and secondary cuts per ADA (respectively).
- 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 remain flat.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	22:1	1,477
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, 2010**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 17,204,297	\$ 17,987	\$ 17,222,284
Receivables	9,843,239	668	9,843,907
Deferred charges	1,370,677	-	1,370,677
Stores inventories	71,746	-	71,746
Capital assets not depreciated	12,015,409	-	12,015,409
Capital assets, net of accumulated depreciation	93,781,980	35,524	93,817,504
Total Assets	134,287,348	54,179	134,341,527
LIABILITIES			
Accounts payable	2,739,762	-	2,739,762
Interest payable	783,261	-	783,261
Deferred revenue	1,323,604	-	1,323,604
Current portion of long-term obligations	3,813,507	-	3,813,507
Noncurrent portion of long-term obligations	74,225,359	-	74,225,359
Total Liabilities	82,885,493	-	82,885,493
NET ASSETS			
Invested in capital assets, net of related debt	31,188,954	35,524	31,224,478
Restricted for:			
Debt service	6,025,253	-	6,025,253
Capital projects	966,142	-	966,142
Educational programs	1,072,669	-	1,072,669
Other activities	1,136,564	-	1,136,564
Self-insurance	70,892	-	70,892
Unrestricted	10,941,381	18,655	10,960,036
Total Net Assets	\$ 51,401,855	\$ 54,179	\$ 51,456,034

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

PETALUMA CITY SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$45,936,471	\$ 1,891	\$ 8,677,086	\$ 1,095,810
Instruction-related activities:				
Supervision of instruction	1,741,807	-	910,595	-
Instructional library, media, and technology	959,371	-	15,868	-
School site administration	4,881,646	-	143,204	-
Pupil services:				
Home-to-school transportation	3,017,455	30,761	1,407,336	-
Food services	1,940,383	773,822	1,101,441	-
All other pupil services	6,089,803	333	1,603,676	-
General administration:				
All other general administration	3,137,653	-	116,168	-
Plant services	6,607,972	3,107	43,791	-
Ancillary services	378,947	-	-	-
Community services	386,234	-	-	-
Enterprise services	133,044	-	-	-
Interest on long-term debt	6,164,084	-	-	-
Other outgo	50,611	7,911	76,580	-
Total Governmental-Type Activities	81,425,481	817,825	14,095,745	1,095,810
Business-Type Activities				
Enterprise services	13,987	6,275	-	-
Total Business-Type Activities	\$ 13,987	\$ 6,275	\$ -	\$ -
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

Governmental Activities	Business- Type Activities	Total
\$ (36,161,684)	\$ -	\$ (36,161,684)
(831,212)	-	(831,212)
(943,503)	-	(943,503)
(4,738,442)	-	(4,738,442)
(1,579,358)	-	(1,579,358)
(65,120)	-	(65,120)
(4,485,794)	-	(4,485,794)
(3,021,485)	-	(3,021,485)
(6,561,074)	-	(6,561,074)
(378,947)	-	(378,947)
(386,234)	-	(386,234)
(133,044)	-	(133,044)
(6,164,084)	-	(6,164,084)
33,880	-	33,880
<u>(65,416,101)</u>	<u>-</u>	<u>(65,416,101)</u>
-	(7,712)	(7,712)
-	(7,712)	(7,712)
25,614,733	-	25,614,733
5,448,554	-	5,448,554
1,870,873	-	1,870,873
24,163,582	-	24,163,582
152,038	158	152,196
5,173,404	-	5,173,404
<u>62,423,184</u>	<u>158</u>	<u>62,423,342</u>
(2,992,917)	(7,554)	(3,000,471)
54,394,772	61,733	54,456,505
<u>\$ 51,401,855</u>	<u>\$ 54,179</u>	<u>\$ 51,456,034</u>

PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 5,814,588	\$ 5,241,992	\$ 5,936,545	\$ 16,993,125
Receivables	9,320,528	-	504,901	9,825,429
Due from other funds	513,895	-	328,306	842,201
Stores inventories	50,252	-	21,494	71,746
Total Assets	\$ 15,699,263	\$ 5,241,992	\$ 6,791,246	\$ 27,732,501
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,335,616	\$ -	\$ 473,057	\$ 2,808,673
Due to other funds	720,689	-	121,383	842,072
Deferred revenue	1,323,041	-	563	1,323,604
Total Liabilities	4,379,346	-	595,003	4,974,349
Fund Balances:				
Reserved for:				
Legally restricted balances	1,072,669	-	-	1,072,669
Other reservations	70,252	-	21,944	92,196
Unreserved:				
Designated	2,468,304	-	-	2,468,304
Undesignated, reported in:				
General Fund	7,708,692	-	-	7,708,692
Special revenue funds	-	-	1,114,620	1,114,620
Debt service funds	-	5,241,992	-	5,241,992
Capital projects funds	-	-	5,059,679	5,059,679
Total Fund Balance	11,319,917	5,241,992	6,196,243	22,758,152
Total Liabilities and Fund Balances	\$ 15,699,263	\$ 5,241,992	\$ 6,791,246	\$ 27,732,501

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

PETALUMA CITY SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balance - Governmental Funds	\$ 22,758,152
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 157,408,745
Accumulated depreciation is	<u>(51,611,356)</u>
Net Capital Assets	105,797,389
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.	1,370,677
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.	226,871
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.	(783,260)
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.	70,892
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	\$ 65,412,981
Certificates of participation	7,760,000
Capital leases payable	3,739,233
Other post employment benefits	454,023
Bond premiums, net of amortization	272,501
Compensated absences (vacations)	<u>400,128</u>
Total Long-Term Liabilities	<u>(78,038,866)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 51,401,855</u></u>

PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 41,564,114	\$ -	\$ -	\$ 41,564,114
Federal sources	6,945,480	-	1,050,224	7,995,704
Other state sources	12,964,656	51,919	1,583,330	14,599,905
Other local sources	7,017,276	5,428,512	1,870,542	14,316,330
Total Revenues	68,491,526	5,480,431	4,504,096	78,476,053
EXPENDITURES				
Current				
Instruction	42,798,356	-	922,966	43,721,322
Instruction-related activities:				
Supervision of instruction	1,645,338	-	-	1,645,338
Instructional library, media and technology	730,420	-	-	730,420
School site administration	4,277,418	-	264,963	4,542,381
Pupil services:				
Home-to-school transportation	2,679,819	-	-	2,679,819
Food services	9,995	-	1,861,999	1,871,994
All other pupil services	5,753,748	-	-	5,753,748
General administration:				
All other general administration	2,827,024	-	18,982	2,846,006
Plant services	5,288,161	-	1,011,391	6,299,552
Facility acquisition and construction	-	-	7,064,049	7,064,049
Ancillary services	332,259	-	-	332,259
Community services	353,504	-	-	353,504
Other outgo	50,611	-	-	50,611
Enterprise services	133,044	-	-	133,044
Debt service				
Principal	174,400	11,989,614	5,573,912	17,737,926
Interest and other	11,674	2,659,708	2,630,809	5,302,191
Total Expenditures	67,065,771	14,649,322	19,349,071	101,064,164
Excess (Deficiency) of Revenues Over Expenditures	1,425,755	(9,168,891)	(14,844,975)	(22,588,111)
Other Financing Sources (Uses):				
Transfers in	-	-	917,574	917,574
Other financing source - refunding bond	-	9,367,478	5,804,254	15,171,732
Other financing sources	-	-	7,900,223	7,900,223
Transfers out	(917,574)	-	-	(917,574)
Net Financing Sources (Uses)	(917,574)	9,367,478	14,622,051	23,071,955
NET CHANGE IN FUND BALANCES	508,181	198,587	(222,924)	483,844
Fund Balance - Beginning	10,811,736	5,043,405	6,419,167	22,274,308
Fund Balance - Ending	\$ 11,319,917	\$ 5,241,992	\$ 6,196,243	\$ 22,758,152

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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ 483,844
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	\$ (4,582,020)
Capital outlays	<u>7,184,557</u>
Net Expense Adjustment	2,602,537
Gain (loss) on Disposal	9,956
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.	(33,033)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	(3,503,157)
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.	(13,059)
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).	(32,994)
Proceeds received from issuance of debt 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.	(19,273,791)
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.	9,744,614
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.	7,815,000
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.	178,312
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.	192,463
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.	(1,164,756)
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.	1,147
Change in Net Assets of Governmental Activities	<u>\$ (2,992,917)</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Business Type Activities Enterprise Fund Downtown Project Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 17,987	\$ 73,019
Receivables	668	2,442
Total Current Assets	18,655	75,461
Noncurrent Assets		
Furniture and equipment (net)	35,524	-
Total Assets	\$ 54,179	\$ 75,461
LIABILITIES		
Current Liabilities		
Accounts payable	\$ -	\$ 4,440
Due to other funds	-	129
Total Current Liabilities	-	4,569
NET ASSETS		
Unrestricted	54,179	70,892
Total Net Assets	\$ 54,179	\$ 75,461

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, 2010**

	Business Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 6,275	\$ 42,295
Total Operating Revenues	6,275	42,295
OPERATING EXPENSES		
Supplies and materials	6,620	-
Other operating cost	1,684	41,651
Total Operating Expenses	13,987	41,651
Operating Income (loss)	(7,712)	644
NONOPERATING REVENUES (EXPENSES)		
Interest income	158	503
Total Nonoperating Revenues (Expenses)	158	503
Change in Net Assets	(7,554)	1,147
Total Net Assets - Beginning	61,733	69,745
Total Net Assets - Ending	\$ 54,179	\$ 70,892

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, 2010**

	Business-Type Activities Enterprise Funds	Governmental Activities -
	Downtown	Internal
	Project Fund	Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 10,437	\$ 50,087
Cash payments to suppliers for goods and services	(7,117)	-
Cash payments for other operating expenses	(1,684)	(40,382)
Net Cash Provided for Operating Activities	<u>1,636</u>	<u>9,705</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	158	503
Net Cash Provided from Investing Activities	<u>158</u>	<u>503</u>
Net Increase in Cash and Cash Equivalents	1,794	10,208
Cash and Cash Equivalents - Beginning	16,193	62,811
Cash and Cash Equivalents - Ending	<u>\$ 17,987</u>	<u>\$ 73,019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (7,712)	\$ 644
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,683	-
Changes in assets and liabilities:		
(Increase) Decrease receivables	4,162	(1,437)
(Increase) Decrease Due from other fund	-	9,229
Increase (Decrease) Accounts payable	(497)	1,140
Increase (Decrease) Due to other fund	-	129
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,636</u>	<u>\$ 9,705</u>

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

PETALUMA CITY SCHOOLS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 111,608	\$ 348,633
Total Assets	<u>\$ 111,608</u>	<u>\$ 348,633</u>
 LIABILITIES		
Due to student groups	\$ -	\$ 348,633
Total Liabilities	<u>-</u>	<u>\$ 348,633</u>
 NET ASSETS		
Unreserved	111,608	
Total Net Assets	<u>\$ 111,608</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, 2010**

	<u>Scholarship Trust</u>
ADDITIONS	
Interest	4,912
Total Additions	<u>\$ 4,912</u>
DEDUCTIONS	
Other expenditures	4,000
Total Deductions	<u>\$ 4,000</u>
Change in Net Assets	912
Net Assets - Beginning	<u>110,696</u>
Net Assets - Ending	<u><u>\$ 111,608</u></u>

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010

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, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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).

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).

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, 2010

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, 2010

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, 2010

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, 2010, 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.

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, 2010

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

Compensated absences 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, 2010

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 \$8.0 is restricted by enabling legislation.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For 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, 2010

Property Tax

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

New Accounting Pronouncements

In 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, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 16,993,125
Business-type activities	17,987
Proprietary activities	73,019
Fiduciary funds	460,241
Total Deposits and Investments	<u><u>\$ 17,544,372</u></u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 362,459
Cash in revolving	20,450
Investments	17,161,463
Total Deposits and Investments	<u><u>\$ 17,544,372</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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

General Authorizations

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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	229 days
U.S. Agencies	326,844	32 days
County Pool	16,734,837	486 days
Total	\$ 17,161,463	

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Certificates of Deposit	\$ 99,782	1	\$ -	\$ -	\$ -
U.S. Agencies	326,844	AAA	326,844	-	-
County Pool	16,734,837	n/a	-	-	16,734,837
Total	\$17,161,463		\$ 326,844	\$ -	\$16,734,837

¹ 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, 2010, none of the District's bank balance of \$495,195 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.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 \$326,844 the District has a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Internal Service Fund
Federal Government					
Categorical aid	\$ 2,794,486	\$ 223,374	\$ 3,017,860	\$ -	\$ -
State Government					
Apportionment	3,151,649	-	3,151,649	-	-
Categorical aid	1,172,324	24,256	1,196,580	-	-
Lottery	485,175	-	485,175	-	-
Other State	1,424	118,715	120,139	-	-
Other Local Sources	1,715,470	138,556	1,854,026	668	2,442
Total	<u>\$ 9,320,528</u>	<u>\$ 504,901</u>	<u>\$ 9,825,429</u>	<u>\$ 668</u>	<u>\$ 2,442</u>

Additional long term receivables include \$14,363 for a special education settlement with payments expected to be received in 2010-2011.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	8,736,245	6,255,148	7,242,870	7,748,523
Total Capital Assets Not Being Depreciated	13,003,131	6,255,148	7,242,870	12,015,409
Capital Assets Being Depreciated:				
Land Improvements	6,493,370	414,520	-	6,907,890
Buildings and Improvements	124,844,200	7,581,801	-	132,426,001
Furniture and Equipment	5,902,155	175,958	18,668	6,059,445
Total Capital Assets Being Depreciated	137,239,725	8,172,279	18,668	145,393,336
Total Capital Assets	150,242,856	14,427,427	7,261,538	157,408,745
Less Accumulated Depreciation:				
Land Improvements	4,419,583	293,847	-	4,713,430
Buildings and Improvements	38,441,647	3,914,359	-	42,356,006
Furniture and Equipment	4,176,818	373,814	8,712	4,541,920
Total Accumulated Depreciation	47,038,048	4,582,020	8,712	51,611,356
Governmental Activities Capital Assets, Net	<u>\$ 103,204,808</u>	<u>\$ 9,845,407</u>	<u>\$ 7,252,826</u>	<u>\$ 105,797,389</u>
Business-Type Activities				
Furniture and Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Less Accumulated Depreciation	15,626	5,683	-	21,309
Business-Type Activities Capital Assets, Net	<u>\$ 41,207</u>	<u>\$ (5,683)</u>	<u>\$ -</u>	<u>\$ 35,524</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Governmental Activities

Instruction	\$ 2,443,622
Supervision of instruction	96,469
Instructional library, media, and technology	228,951
School site administration	311,201
Home-to-school transportation	342,132
Food services	65,477
All other pupil services	341,515
Ancillary services	46,688
Community services	32,730
All other general administration	280,968
Plant services	392,267
Total Depreciation Expenses Governmental Activities	<u>4,582,020</u>

Business-Type Activities

Downtown Enterprise	5,683
Total Depreciation Expenses All Activities	<u><u>\$ 4,587,703</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, 2010, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ 392,383	\$ 328,306	\$ 720,689
Non-Major Governmental funds	121,383	-	121,383
Proprietary funds	129	-	129
Total	\$ 513,895	\$ 328,306	\$ 842,201

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, 2010**

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From	
	General Fund	Total
Non-Major Governmental funds	\$ 917,574	\$ 917,574
The General Fund transferred to the Adult Education Fund for apportionment.		\$ 639,174
The General Fund transferred to the Deferred Maintenance Fund for District match.		278,400
Total		\$ 917,574

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, 2010, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total	Internal Service Fund
Vendor payables	\$ 1,590,297	\$ 464,587	\$2,054,884	\$ 4,440
State apportionment	722,813	-	722,813	-
Salaries and benefits	22,506	8,470	30,976	-
Total	\$ 2,335,616	\$ 473,057	\$2,808,673	\$ 4,440

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds
Federal financial assistance	\$ 1,250,069	\$ -
State categorical aid	72,972	563
Total	\$ 1,323,041	\$ 563

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On November 17, 2009, the District issued \$5,300,000 Tax and Revenue Anticipation Notes bearing interest at 1.25 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on November 23, 2010. By May, 2010, 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 \$5,300,000 and related accrued interest and cash held in trust are not included in these financial statements.

Issue Date	Rate	Maturity Date	Outstanding			Outstanding
			July 1, 2009	Additions	Payments	June 30, 2010
July 3, 2008	1.700%	July 3, 2009	\$ 3,370,000	\$ -	\$ 3,370,000	\$ -
November 17, 2009	1.250%	November 23, 2010	-	5,300,000	-	5,300,000
			<u>\$ 3,370,000</u>	<u>\$ 5,300,000</u>	<u>\$ 3,370,000</u>	<u>\$ 5,300,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance				Balance June 30, 2010	Due in One Year
	July 1, 2009	Additions	Accretions	Deductions		
General obligation bonds	\$ 62,686,446	\$ 11,513,791	\$ 957,358	\$ 9,744,614	\$ 65,412,981	\$ 3,048,298
Premiums (discounts), net of amortization	28,537	272,478	-	28,514	272,501	28,514
Certificates of participation	7,815,000	7,760,000	-	7,815,000	7,760,000	275,000
Accumulated vacation	367,134	32,994	-	-	400,128	-
Capital leases	414,387	3,503,158	-	178,312	3,739,233	304,867
Other post employment benefits	646,486	-	-	192,463	454,023	156,828
	<u>\$ 71,957,990</u>	<u>\$ 23,082,421</u>	<u>\$ 957,358</u>	<u>\$ 17,958,903</u>	<u>\$ 78,038,866</u>	<u>\$ 3,813,507</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, 2010**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Additions/ Accretions	Redeemed	Bonds Outstanding June 30, 2010
Elementary								
1991 I	07/01/02	8/1/2027	1.70-5.00	\$ 3,500,000	\$ 3,040,000	\$ -	\$ 105,000	\$ 2,935,000
1991 J	04/06/04	8/1/2028	4.00-8.00	\$ 2,700,000	2,420,000	-	80,000	2,340,000
2003 Refunding 2003 Series B	04/17/03	8/1/2021	2.75-4.30	\$ 5,895,000	4,540,000	-	300,000	4,240,000
Refunding	10/29/03	8/1/2017	3.00-4.00	\$ 4,560,000	3,295,000	-	290,000	3,005,000
2008 Refunding	04/15/08	8/1/2024	2.00-3.80	\$ 7,965,000	7,825,000	-	590,000	7,235,000
High School								
1992 C	07/01/95	8/1/2021	4.50-6.20	\$ 10,623,276	2,132,635	134,283	-	2,266,918
1995 Refunding	11/09/95	8/1/2018	4.65-5.80	\$ 8,972,019	14,455,364	700,224	494,614	14,660,974
2002 Refunding	07/01/02	8/1/2020	2.00-4.75	\$ 11,943,021	10,183,447	122,852	7,425,000	2,881,299
2005 Refunding	07/13/05	8/1/2024	3.125-7.00	\$ 14,825,000	14,795,000	-	460,000	14,335,000
1992 G	06/09/10	08/01/25	2.00-4.25	\$ 2,418,791	-	2,418,790	-	2,418,790
2010 Refunding	05/12/10	08/01/20	2.00-4.00	\$ 9,095,000	-	9,095,000	-	9,095,000
					<u>\$ 62,686,446</u>	<u>\$ 12,471,149</u>	<u>\$ 9,744,614</u>	<u>\$ 65,412,981</u>

Debt Service Requirements to Maturity

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Accretion	Total
2011	\$ 3,048,298	\$ 1,645,438	\$ 646,702	\$ 5,340,438
2012	2,983,550	1,529,162	805,241	5,317,953
2013	3,089,211	1,638,486	950,789	5,678,486
2014	3,188,838	1,719,917	1,116,162	6,024,917
2015	3,240,699	1,610,479	1,374,301	6,225,479
2016-2020	18,242,133	6,294,848	8,322,867	32,859,848
2021-2025	20,274,989	1,611,183	5,925,011	27,811,183
2026-2030	1,330,000	113,380	-	1,443,380
Total	<u>55,397,718</u>	<u>\$ 16,162,893</u>	<u>\$ 19,141,073</u>	<u>\$ 90,701,684</u>
Accretions to date	<u>10,015,263</u>			
	<u>\$ 65,412,981</u>			

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Certificates of Participation

In February 2010, the District issued certificates of participation in the amount of \$7,760,000 with a variable interest rates ranging from 0.18 percent to 0.45 percent to refund the 2005 certificates of participations. As of June 30, 2010, the principal balance outstanding was \$7,760,000. The certificates mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 275,000	\$ 99,328	\$ 374,328
2012	280,000	95,808	375,808
2013	290,000	92,224	382,224
2014	300,000	88,512	388,512
2015	305,000	84,672	389,672
2016-2020	1,675,000	80,768	1,755,768
2021-2025	1,930,000	340,800	2,270,800
2026-2030	2,220,000	223,936	2,443,936
2031-2035	485,000	89,472	574,472
Total	<u>\$ 7,760,000</u>	<u>\$ 1,195,520</u>	<u>\$ 8,955,520</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$400,128.

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, 2009	\$ 307,654	\$ 133,493	\$ 441,147
Additions	-	5,286,307	5,286,307
Payments	180,213	11,050	191,263
Balance, July 1, 2010	<u>\$ 127,441</u>	<u>\$ 5,408,750</u>	<u>\$ 5,536,191</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 546,070
2012	482,975
2013	404,130
2014	398,407
2015	385,498
2016-2020	1,725,193
2021-2025	1,593,918
Total	<u>5,536,191</u>
Less: Amount Representing Interest	1,796,958
Present Value of Minimum Lease Payments	<u><u>\$ 3,739,233</u></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, 2010, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post-employment Benefits
2011	\$ 156,828
2012	109,428
2013	71,822
2014	39,160
2015	32,693
2016-2018	44,092
	<u><u>\$ 454,023</u></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, 2010**

NOTE 10 - FUND BALANCES

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

Reserved	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Revolving cash	\$ 20,000	\$ -	\$ 450	\$ 20,450
Stores inventory	50,252	-	21,494	71,746
Restricted programs	1,072,669	-	-	1,072,669
Total Reserved	<u>1,142,921</u>	<u>-</u>	<u>21,944</u>	<u>1,164,865</u>
Unreserved				
Designated				
Economic uncertainties	1,998,069	-	-	1,998,069
Other designation	470,235	-	-	470,235
Total Designated	<u>2,468,304</u>	<u>-</u>	<u>-</u>	<u>2,468,304</u>
Undesignated	7,708,692	5,241,992	6,174,299	19,124,983
Total Unreserved	<u>10,176,996</u>	<u>5,241,992</u>	<u>6,174,299</u>	<u>21,593,287</u>
Total	<u>\$11,319,917</u>	<u>\$ 5,241,992</u>	<u>\$ 6,196,243</u>	<u>\$22,758,152</u>

NOTE 11 - 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, 2010, 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 2009-10, the District contributed \$192,463 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, 2010

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, 2010, 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, 2010, the District contracted with Redwood Empire Schools Insurance Group (RESIG), for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District participated in the Redwood Empire Schools Insurance Group (RESIG) JPA, an insurance purchasing pool. The intent of the RESIG JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG JPA. Participation in the RESIG JPA is limited to districts that can meet the RESIG JPA's selection criteria.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

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 2009-2010 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, 2010, 2009, and 2008, were \$2,480,023, \$2,651,108, and \$2,647,620, 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 2009-2010 was 9.709 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, 2010, 2009, and 2008, were \$1,057,428, \$1,108,460, and \$1,062,286, 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.

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 \$1,381,052 (4.267 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, 2010.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Petaluma Junior High School & Penngrove Elementary - Roofing Projects	\$ 204,290	Sep-10
Mary Collins at Cherry Valley Charter School - Modernization, Final Phase	468,108	Dec-10
Petaluma Junior High School - Admin. Modernization & Library	231,936	Jul-10
Petaluma Joint Union High School District Solar Project	5,360,463	Feb-11
Petaluma High School Agriculture Science Lab Modernization	103,500	Sep-10
	<u>\$ 6,368,297</u>	

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, 2010, the District made payments of \$2,003,662 and \$153,972 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 - SUBSEQUENT EVENTS

Tax Revenue and Anticipation Notes

The District issued \$5,600,000 of Tax and Revenue Anticipation Notes dated November 23, 2010. The notes mature on November 23, 2011, and yield a .74 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 2011, until 100 percent of principal and interest due is on account in May, 2011.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 17 – 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 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 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.

***REQUIRED SUPPLEMENTARY
INFORMATION***

PETALUMA CITY SCHOOLS

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		Final (Negative) to Actual
REVENUES				
Revenue limit sources	\$ 41,571,328	\$ 41,578,767	41,564,114	\$ (14,653)
Federal sources	3,902,629	8,120,220	6,945,480	(1,174,740)
Other State sources	9,145,891	9,701,345	12,964,656	3,263,311
Other local sources	7,574,414	7,483,220	7,017,276	(465,944)
Total Revenues ¹	<u>62,194,262</u>	<u>66,883,552</u>	<u>68,491,526</u>	<u>1,607,974</u>
EXPENDITURES				
Current				
Certificated salaries	30,364,601	30,293,676	30,074,211	219,465
Classified salaries	10,320,073	10,352,286	10,242,966	109,320
Employee benefits	12,870,540	13,136,635	13,083,109	53,526
Books and supplies	1,881,518	3,205,432	2,062,317	1,143,115
Services and operating expenditures	9,727,038	11,347,904	11,349,839	(1,935)
Other outgo	224,994	270,685	225,635	45,050
Capital outlay	15,000	26,814	27,694	(880)
Total Expenditures ¹	<u>65,403,764</u>	<u>68,633,432</u>	<u>67,065,771</u>	<u>1,567,661</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(3,209,502)</u>	<u>(1,749,880)</u>	<u>1,425,755</u>	<u>3,175,635</u>
Other Financing Sources (Uses)				
Transfers in	-	33,756	-	(33,756)
Transfers out	(337,550)	(337,550)	(917,574)	(580,024)
Net Financing Sources (Uses)	<u>(337,550)</u>	<u>(303,794)</u>	<u>(917,574)</u>	<u>(613,780)</u>
NET CHANGE IN FUND BALANCES	<u>(3,547,052)</u>	<u>(2,053,674)</u>	<u>508,181</u>	<u>2,561,855</u>
Fund Balance - Beginning	<u>10,811,736</u>	<u>10,811,736</u>	<u>10,811,736</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 7,264,684</u>	<u>\$ 8,758,062</u>	<u>\$ 11,319,917</u>	<u>\$ 2,561,855</u>

¹ On behalf payments of \$1,381,052 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, 2010**

Schedule of Funding Progress						
Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2009	\$ -	\$ 646,486	\$ 646,486	\$ -	\$ -	0%
June 30, 2010	-	454,023	454,023	-	-	0%

SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education:			
Adult Basic Education & ESL	84.002A	14508	\$ 39,564
Adult Secondary Education	84.002	13978	4,975
English Literacy & Civics	84.002A	14109	25,825
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	547,253
NCLB: Title I, Part A, Program Improvement District Intervention	84.377	14971	26,986
NCLB: Title I, ARRA, Part A, Basic Grants Low income and Neglected	84.389	15005	111,443
Title II - Part D, Enhancing Education Through Technology	84.318	14334	9,094
NCLB: ARRA Title II, Part D, Enhancing Education Through Technology	84.386A	15019	9,970
Title II - Part A, Improving Teacher Quality	84.367	14341	134,306
Title II - Part A, Administrator Training	84.367	14344	7,297
Title III - Immigrant Education Program	84.365	14346	16,131
Title III - Limited English Proficiency	84.365	10084	132,350
Title V - Part A, Innovative Education Strategies	84.298A	14354	3,741
Title X - McKinney-Vento Homeless Assistance	84.196	14332	14,823
Title X - ARRA McKinney-Vento Homeless Assistance	84.387	15007	12,118
Title IV - Part A, Drug Free Schools and Communities	84.186	14347	20,441
ARRA: State Fiscal Stabilization Fund	84.394	25008	3,869,932
Special Education - Cluster			
IDEA, Local Assistance	84.027	13379	1,586,063
IDEA, ARRA Local Assistance	84.391	15003	1,132,037
IDEA, Preschool Staff Development	84.173A	13431	2,453
IDEA, Preschool Local Entitlement	84.027A	13682	152,089
IDEA, ARRA: Preschool Local Entitlement	84.391	15002	33,999
IDEA, Federal Preschool	84.173	13430	109,897
IDEA, ARRA: Federal Preschool	84.392	15000	77,216
Vocational Educational Grants	84.048	13924	47,644
Elementary & Secondary School Counseling Demonstration	84.215E	NA	452,799
Carol White PE Grant	84.215F	NA	107,756
Traditional Teaching American History Project	84.215X	NA	246,725
Smaller Learning Communities Grant	84.215L	NA	230,240
Total U.S. Department of Education			<u>9,165,164</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster			
National School Lunch	10.555	13396	\$ 732,774
Basic School Breakfast Program	10.553	13525	897
Especially Needy Breakfast	10.553	13526	246,189
Fresh Fruit & Vegetable	10.582	14968	11,737
FMV Commodities	10.555	¹	98,252
Total U.S. Department of Agriculture			<u>1,089,850</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICE:			
Medical Administrative Activities	93.778	10060	\$ 18,083
			<u>18,083</u>
Total Expenditures of Federal Awards			<u><u>\$10,273,097</u></u>

¹ Not included in financial statements, disclosure only

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2010**

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Christina Kauk	President	2010
Mary Schafer	Clerk	2012
Carolyn Tennyson	Member	2014
Troy Sanderson	Member	2012
Michael Baddeley	Member	2014

ADMINISTRATION

Greta Viguie, EdD	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, 2010**

		Second Period Report	Annual Report	
ELEMENTARY				
Kindergarten		293.78	294.21	
First through third		862.28	864.67	
Fourth through sixth		811.91	812.41	
Seventh and eighth		1,564.50	1,563.28	
Home and hospital		0.15	0.44	
Special education		38.02	37.51	
Total Elementary		<u>3,570.64</u>	<u>3,572.52</u>	
SECONDARY				
Regular classes		3,066.21	3,039.79	
Continuation education		146.40	146.93	
Home and hospital		14.03	15.65	
Special education		91.68	92.32	
Community day school		15.73	15.84	
Total Secondary		<u>3,334.05</u>	<u>3,310.53</u>	
Total K-12		<u>6,904.69</u>	<u>6,883.05</u>	
	Classroom Based	Non-Classroom Based	P2 Total	Annual Total
CHARTER SCHOOL				
Kindergarten	42.78	0.22	43.00	43.08
First through third	132.59	0.30	132.89	132.94
Fourth through sixth	131.07	0.14	131.21	131.13
Seventh and eighth	42.50	0.03	42.53	43.26
Total	<u>348.94</u>	<u>0.69</u>	<u>349.63</u>	<u>350.41</u>

The above schedule includes ADA for Petaluma Elementary School District, Petaluma High School District and 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, 2010**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2009-10	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	30,625	36,000	35,000	36,000	180	N/A	In Compliance
Grades 1 - 3	42,000	40,833	50,400	49,000				
Grade 1					50,445	180	N/A	In Compliance
Grade 2					50,445	180	N/A	In Compliance
Grade 3					54,058	180	N/A	In Compliance
Grades 4 - 6	49,875	48,490	54,000	52,500				
Grade 4					54,058	180	N/A	In Compliance
Grade 5					54,058	180	N/A	In Compliance
Grade 6					54,058	180	N/A	In Compliance
Grades 7 - 8	49,875	48,490	54,000	52,500				
Grade 7					54,014	180	N/A	In Compliance
Grade 8					54,014	180	N/A	In Compliance
Grades 9 - 12	56,525	54,955	64,800	63,000				
Grade 9					66,470	180	N/A	In Compliance
Grade 10					66,609	180	N/A	In Compliance
Grade 11					66,470	180	N/A	In Compliance
Grade 12					66,470	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, 2010**

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

FUND BALANCE	Special Reserve Capital Outlay Fund	Downtown Enterprise Fund
Balance, June 30, 2010, Unaudited Actuals	\$ 1,565,660	\$ 18,655
Decrease in:		
Accounts receivable	(12,878)	-
Capital assets	-	56,833
Accumulated depreciation	-	(21,309)
Balance, June 30, 2010, Audited Financial Statement	<u>\$ 1,552,782</u>	<u>\$ 54,179</u>

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

FORM ASSET	
Balance, June 30, 2010, Unaudited Actuals	\$ 99,715,970
Increase (Decrease) in:	
Work in progress	6,464,163
Land improvements	595,704
Buildings	7,581,801
Equipment	445,586
(Increase) Decrease in:	
Accumulated depreciation - land improvements	(612,024)
Accumulated depreciation - buildings	(7,667,199)
Accumulated depreciation - equipment	(726,612)
Balance, June 30, 2010, Audited Financial Statement, Governmental Funds	<u>\$105,797,389</u>

FORM DEBT	
Total Liabilities, June 30, 2010, Unaudited Actuals	\$ 70,957,287
Increase in:	
General obligation bonds	3,216,281
Certificates of participation	175,000
Capital leases	3,385,464
Compensated absences	32,993
Premiums, net of amortization	272,501
Decrease in:	
OPEB benefits	(660)
Total Liabilities, June 30, 2010, Audited Financial Statement	<u>\$ 78,038,866</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

	(Budget) 2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$ 62,082,273	\$ 68,491,526	\$ 70,162,428	\$ 70,375,158
Total Revenues and Other Sources	62,082,273	68,491,526	70,162,428	70,375,158
Expenditures	63,299,157	67,065,771	71,265,329	68,154,026
Other uses and transfers out	337,550	917,574	455,898	404,707
Total Expenditures and Other Uses	63,636,707	67,983,345	71,721,227	68,558,733
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,554,434)	\$ 508,181	\$ (1,558,799)	\$ 1,816,425
ENDING FUND BALANCE	\$ 9,765,483	\$ 11,319,917	\$ 10,811,736	\$ 12,370,535
AVAILABLE RESERVES²	\$ 9,378,864	\$ 9,706,762	\$ 8,687,866	\$ 8,497,278
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	14.74%	14.57%	12.39%	12.67%
LONG-TERM DEBT	\$ 74,225,359	\$ 78,038,866	\$ 71,957,990	\$ 74,369,611
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,800	6,905	7,055	7,087

The General Fund balance has increased by \$1,050,618 over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$1,554,434 (14 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 2010-2011 fiscal year due to State budget cuts and lack of funded COLA. Total long-term obligations have increased by \$3,669,225 over the past two years.

Average daily attendance has decreased by 182 over the past two years. An additional decrease of 105 is anticipated during fiscal year 2010-2011.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$1,381,052, \$1,583,441, and \$1,476,548 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, 2010**

<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, 2010**

ASSETS	Elementary	High School
Cash and investments	\$ 325,909	\$ 490,727
Accounts receivable	-	7
Total Assets	<u>\$ 325,909</u>	<u>\$ 490,734</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	<u>\$ 4,896</u>	<u>\$ 9,758</u>
FUND EQUITY		
Fund balances		
Undesignated	<u>321,013</u>	<u>480,977</u>
Total Fund Equity	<u>321,013</u>	<u>480,977</u>
Total Liabilities and Fund Equity	<u>\$ 325,909</u>	<u>\$ 490,734</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, 2010**

	<u>Elementary</u>	<u>High School</u>
REVENUES		
Parcel tax revenue	<u>\$ 730,511</u>	<u>\$ 1,140,361</u>
EXPENDITURES		
Current Expenditures		
Certificated salaries	473,792	445,214
Classified salaries	133,109	107,031
Benefits	193,204	164,074
Books and supplies	21,692	213,119
Services and operating expenditures	7,901	64,242
Total Expenditures	<u>829,697</u>	<u>993,680</u>
EXCESS OF REVENUES OVER EXPENDITURES	(99,186)	146,682
FUND BALANCE, Beginning of Year	<u>420,199</u>	<u>334,294</u>
FUND BALANCE, End of Year	<u>\$ 321,013</u>	<u>\$ 480,976</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

PARCEL TAX – FINANCIAL SUMMARY FOR THE YEAR ENDED JUNE 30, 2010

Expenditures	Elementary	High School
Certificated salaries	\$ 473,792	\$ 445,214
Classified salaries	133,109	107,031
Benefits	193,204	164,074
Books and supplies	21,692	213,119
Services and operating expenses	7,901	64,242
Total expenditures	<u>\$ 829,697</u>	<u>\$ 993,680</u>

	Elementary	High School
Parcel taxes collected	\$ 730,511	\$ 1,140,361
Total expenditures and commitments	<u>829,697</u>	<u>993,680</u>
Amount available from current year collections	<u>\$ (99,186)</u>	<u>\$ 146,682</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS				
Deposits and investments	\$ 183,894	\$ 19,876	\$ 539,769	\$2,594,034
Receivables	208,002	168,394	-	-
Due from other funds	57,747	1,008	269,551	-
Stores inventories	-	21,494	-	-
Total Assets	\$ 449,643	\$ 210,772	\$ 809,320	\$2,594,034
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 185,335	\$ 17,910	\$ 8,543	\$ 53,279
Due to other funds	49,279	70,639	1,465	-
Deferred revenue	-	-	-	-
Total Liabilities	234,614	88,549	10,008	53,279
Fund Balances:				
Reserved for:				
Other reservations	300	21,644	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	214,729	100,579	799,312	-
Capital projects funds	-	-	-	2,540,755
Total Fund Balance	215,029	122,223	799,312	2,540,755
Total Liabilities and Fund Balances	\$ 449,643	\$ 210,772	\$ 809,320	\$2,594,034

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non Major Governmental Funds
\$ 151,737	\$ 999,577	\$ 1,447,658	\$ 5,936,545
8,901	-	119,604	504,901
-	-	-	328,306
-	-	-	21,494
<u>\$ 160,638</u>	<u>\$ 999,577</u>	<u>\$ 1,567,262</u>	<u>\$ 6,791,246</u>
\$ 840	\$ 193,233	\$ 13,917	\$ 473,057
-	-	-	121,383
-	-	563	563
<u>840</u>	<u>193,233</u>	<u>14,480</u>	<u>595,003</u>
-	-	-	21,944
-	-	-	1,114,620
159,798	806,344	1,552,782	5,059,679
<u>159,798</u>	<u>806,344</u>	<u>1,552,782</u>	<u>6,196,243</u>
<u>\$ 160,638</u>	<u>\$ 999,577</u>	<u>\$ 1,567,262</u>	<u>\$ 6,791,246</u>

PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES				
Federal sources	\$ 70,363	\$ 979,861	\$ -	\$ -
Other state sources	95,016	116,294	278,400	-
Other local sources	99,202	786,465	490,126	16,053
Total Revenues	264,581	1,882,620	768,526	16,053
EXPENDITURES				
Current				
Instruction	922,966	-	-	-
Instruction-related activities:				
School site administration	264,963	-	-	-
Pupil services:				
Food services	-	1,861,999	-	-
General administration:				
All other general administration	-	-	-	-
Plant services	17,111	4,081	813,692	8,833
Facility acquisition and construction	-	-	-	6,302,972
Debt service				
Principal	-	3,912	-	-
Interest and other	-	1,436	-	-
Total Expenditures	1,205,040	1,871,428	813,692	6,311,805
Excess (Deficiency) of Revenues Over Expenditures	(940,459)	11,192	(45,166)	(6,295,752)
Other Financing Sources (Uses):				
Transfers in	639,174	-	278,400	-
Other financing sources refunding bond	-	-	-	5,804,254
Other financing sources	-	-	-	-
Net Financing Sources (Uses)	639,174	-	278,400	5,804,254
NET CHANGE IN FUND BALANCES	(301,285)	11,192	233,234	(491,498)
Fund Balance - Beginning	516,314	111,031	566,078	3,032,253
Fund Balance - Ending	\$ 215,029	\$ 122,223	\$ 799,312	\$ 2,540,755

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 1,050,224
-	1,093,620	-	1,583,330
345,650	2,190	130,856	1,870,542
<u>345,650</u>	<u>1,095,810</u>	<u>130,856</u>	<u>4,504,096</u>
-	-	-	922,966
-	-	-	264,963
-	-	-	1,861,999
18,982	-	-	18,982
45,517	-	122,157	1,011,391
148,750	336,633	275,694	7,064,049
-	-	5,570,000	5,573,912
-	-	2,629,373	2,630,809
<u>213,249</u>	<u>336,633</u>	<u>8,597,224</u>	<u>19,349,071</u>
<u>132,401</u>	<u>759,177</u>	<u>(8,466,368)</u>	<u>(14,844,975)</u>
-	-	-	917,574
-	-	-	5,804,254
-	-	7,900,223	7,900,223
-	-	7,900,223	14,622,051
132,401	759,177	(566,145)	(222,924)
27,397	47,167	2,118,927	6,419,167
<u>\$ 159,798</u>	<u>\$ 806,344</u>	<u>\$ 1,552,782</u>	<u>\$ 6,196,243</u>

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA	Amount
	Number(s)	
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		
Commodities	10.555	\$ 98,252
ARRA State Stabilization Fund	84.394	2,179,141
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,273,097</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. Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) JUNE 30, 2010

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.

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Petaluma City Schools
Petaluma, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2010, which collectively comprise Petaluma City Schools basic financial statements and have issued our report thereon dated December 15, 2010. 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 2010-1 and 2010-2 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Vavinsk, Trine, Day & Co LLP

Pleasanton, California
December 15, 2010



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

VALUE THE DIFFERENCE

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each of its Petaluma City Schools' major Federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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
December 15, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 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 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	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 Education and Safety 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 did not perform testing for Charter School's 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
December 15, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PETALUMA CITY SCHOOLS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

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 Section .510(a) of Circular A-133 OMB	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Grant to Local Educational Agencies</u>
<u>84.389 (ARRA)</u>	<u>Title I, Grant to Local Educational Agencies (ARRA)</u>
<u>84.394 (ARRA)</u>	<u>State Fiscal Stabilization Fund (ARRA)</u>
<u>84.027, 84.173, 84.391, 84392 (ARRA)</u>	<u>Special Education Cluster (including ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 308,193</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, 2010

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

2010-1 Student Body Funds - Code 30000

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:
Carpe Diem Continuation School

- Pre-numbered receipts are not used to document the receipt of ASB funds therefore, completeness or timeliness of deposits is unable to be documented.
- A formal disbursement approval form is not being used to document the approvals of student body expenditures.
- 1 out of 5 disbursements were not adequately supported by invoices or receipts.
- Amounts recorded for Yearbook sales don't agree to the Yearbook sales reports.
- No sales reports for bottled water sales.
- Bank reconciliations are not being reviewed by an individual other than the preparer.

Casa Grande High School

- The site does not maintain a separate inventory log of all ticket rolls used.
- There was no documentation that fundraisers held in the 2009-10 fiscal year were approved.
- A reconciliation of all revenue and expenditures was not performed on one of two fundraisers selected during our audit.

Questioned costs

None

Context

The conditions noted above were discovered during our review of associated student body transactions.

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, 2010

Cause

District policy 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 online and can be used as resource materials to supplement any ASB procedures and policies already provided to the sites.

District Response

The District will meet with staff and provide necessary training to address issues. The District will follow up to ensure implementation of required changes as outlined by audit findings.

2010-2 Site Cash and Revolving Fund – Code 30000

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 the District oversight of cash accounts. Strong internal controls over site cash collections are based on issuance of pre-numbered receipts and transmittal

Condition

The following conditions were noted during our review of the District's site cash collections and revolving accounts:

Grant Elementary:

- Pre-numbered receipts are not being utilized to record donations and other site receipts.
- Receipts aren't being deposited timely.
- The revolving account was utilized as a clearing account for cash collected on behalf of an unrelated organization.
- The revolving account bank reconciliation is not being reviewed by a second party.

Valley Oaks Elementary:

- Pre-numbered receipts are not being utilized to record donations and other site receipts.
- No evidence that the revolving account reconciliation is being reviewed by a second party.

McDowell Elementary:

- Pre-numbered receipts aren't being utilized to record donations and other site receipts.
- No evidence that the revolving account reconciliation is being reviewed by a second party.
- Cash collected for lost/damaged books is not being submitted to the District but instead used to make purchases of library books.
- None of the library books purchased with money collected for lost/damaged books were authorized.
- 3 disbursements made out of the revolving fund to the principal were also signed by the principal.
- 1 disbursement was not supported by a receipt or invoice.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Condition (Continued)

The following conditions were noted during our review of the District's site cash collections and revolving accounts:

Carpe Diem Continuation School:

- Pre-numbered receipts aren't being utilized to record donations and other site receipts.
- 2 out of 7 checks only had one signor on the check.

Adult School:

- Site didn't document which receipts were included in any given deposit and therefore there was no documentation of the completeness of the deposit being made.

Questioned Costs

None

Context

The conditions were noted during our review of site cash collections and site revolving bank accounts during the fiscal year 2009-10.

Effect

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

Cause

District policies regarding the safeguarding of funds, segregation of duties, allowable use of District accounts, and prohibiting paying for purchases out of cash collections were note being adhered to.

Recommendation

We recommend the District remind all sites that they are responsible for ensuring that all cash collections are reported, deposited timely, are adequately supported with pre-numbered receipts, and that payment of expenses out of cash collections is prohibited. Sites that have a fundraiser for an outside organization should not be using the District accounts. Additionally, support for deposits being made should include a list of what receipts are included in the deposit.

District Response

The District will meet with staff with written documentation and policies to ensure understanding of required procedures and follow-up on implementation of aforementioned.

PETALUMA CITY SCHOOLS

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

PETALUMA CITY SCHOOLS

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

PETALUMA CITY SCHOOLS

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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

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.

Cause

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

PETALUMA CITY SCHOOLS

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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.

Current Status:

Not implemented, see 2010-1

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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.

Current Status

Implemented

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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.

Current Status

Implemented