

**PETALUMA
CITY SCHOOLS**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2011**

PETALUMA CITY SCHOOLS

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JUNE 30, 2011

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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, 2011, 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 2010-11*, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non Major Governmental Funds, as described in Note 18.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, 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 are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2011

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011. 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, 2011

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, 2011

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 \$51.2 million for the fiscal year ended June 30, 2011. Of this amount, \$9.4 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, 2011

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 27,698,485	\$ 28,489,959	\$ 17,284	\$ 18,655	\$ 27,715,769	\$ 28,508,614
Capital assets	103,785,936	105,797,389	29,841	35,524	103,815,777	105,832,913
Total Assets	131,484,421	134,287,348	47,125	54,179	131,531,546	134,341,527
Current liabilities	4,922,185	8,660,134	-	-	4,922,185	8,660,134
Long-term debt	75,326,993	74,225,359	-	-	75,326,993	74,225,359
Total Liabilities	80,249,178	82,885,493	-	-	80,249,178	82,885,493
Net assets						
Invested in capital assets, net of related debt	31,454,248	31,188,954	29,841	41,207	31,484,089	31,224,478
Restricted	10,359,138	9,271,520	-	-	10,359,138	9,271,520
Unrestricted	9,421,857	10,941,381	17,284	20,526	9,439,141	10,960,036
Total Net Assets	\$ 51,235,243	\$ 51,401,855	\$ 47,125	\$ 61,733	\$ 51,282,368	\$ 51,456,034

The \$9.4 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 \$9.4 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, 2011

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 817,028	\$ 817,825	\$ 9,525	\$ 6,275	\$ 826,553	\$ 824,100
Operating grants and contributions	13,518,370	14,095,745	-	-	13,518,370	14,095,745
Capital grants and contributions	3,059	1,095,810	-	-	3,059	1,095,810
General revenues:						
Federal and state aid	24,163,582	24,163,582	-	-	24,163,582	24,163,582
Property taxes	32,934,160	32,934,160	-	-	32,934,160	32,934,160
Other general revenues	5,685,933	5,325,442	130	158	5,686,063	5,325,600
Total Revenues	77,122,132	78,432,564	9,655	6,433	77,131,787	78,438,997
Expenses						
Instruction-related	51,870,250	53,519,295	-	-	51,870,250	53,519,295
Student support services	10,755,071	11,047,641	-	-	10,755,071	11,047,641
Administration	3,207,291	3,137,653	-	-	3,207,291	3,137,653
Maintenance and operations	6,846,894	6,607,972	-	-	6,846,894	6,607,972
Other	4,609,238	7,112,920	16,709	13,987	4,625,947	7,126,907
Total Expenses	77,288,744	81,425,481	16,709	13,987	77,305,453	81,439,468
Change in Net Assets	\$ (166,612)	\$ (2,409,299)	\$ (7,054)	\$ (8,264)	\$ (173,666)	\$ (3,000,471)

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$77.3 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 (\$13.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$29.8 million in Federal and state aid, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net 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, 2011

Table 3

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$ 51,870,250	\$ 53,519,295	\$ 42,769,383	\$ 42,674,841
Pupil services	10,755,071	11,047,641	5,836,339	6,130,272
School administration	3,207,291	3,137,653	3,104,018	3,021,485
Maintenance and operations	6,846,894	6,607,972	6,699,058	6,561,074
Other	4,609,238	7,112,920	4,541,489	7,028,429
Totals	\$ 77,288,744	\$ 81,425,481	\$ 62,950,287	\$ 65,416,101

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$22.1 million, which is a decrease of \$0.7 million from last year (Table 4).

Table 4

	Fund Balance	
	June 30, 2011	June 30, 2010
General	\$ 14,577,360	\$ 11,319,917
Adult Education	-	215,029
Building	327,942	2,540,755
Bond Interest and Redemption	5,250,155	5,241,992
Cafeteria	195,394	122,223
Deferred Maintenance	-	799,312
Capital Facilities	521,558	159,798
County Schools Facilities	158,358	806,344
Capital Projects - Special Reserve	1,057,489	1,552,782
Totals	\$ 22,088,256	\$ 22,758,152

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 \$2.2 million to \$14.6 million. This increase is due to one-time federal ARRA funds allowing the District to conserve unrestricted resources and prevent or minimize job loss and the inclusion of flexibility funds.
- 2) The Bond, Interest and Redemption fund remained fairly stable.
- 3) Our other funds including the Cafeteria Fund, Building, Capital Facilities, County School Facilities Fund, and Special Reserve for Capital Outlay decreased by \$2.9 million in the aggregate. This deficit spending was due to the spending down of bond and capital project funds.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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 28, 2011. 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 52.

Actual expenditures were \$1.3 million (excluding on behalf payments) below final budget and \$2.7 million (excluding on behalf payments) over original budget due to mid-year spending freezes that occurred and unexpended grants/donations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$103.8 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of just under \$2.0 million, or 1.9 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	149,218,331	139,333,891	-	-	149,218,331	139,333,891
Furniture and Equipment	6,131,949	6,059,445	56,833	56,833	6,188,782	6,116,278
Construction in progress	506,298	7,748,523	-	-	506,298	7,748,523
Totals	160,123,464	157,408,745	56,833	56,833	160,180,297	157,465,578
Less Accumulated Depreciation	(56,337,258)	(51,611,356)	(26,992)	(21,309)	(56,364,250)	(51,632,665)
Capital Assets, net	\$ 103,786,206	\$ 105,797,389	\$ 29,841	\$ 35,524	\$ 103,816,047	\$ 105,832,913

This year's primary additions of \$2.7 million included completion of 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. Additionally, the work in progress includes Mary Collins at Cherry Valley Charter School Lodge Siding.

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, 2011

Long-Term Obligations

At the end of this year, the District had \$75.3 million in long term obligations outstanding versus \$78.0 million last year, a decrease of 3.5 percent. The debt consisted of:

Table 6

	Totals	
	2011	2010
General obligation bonds (financed with property taxes)	\$ 63,361,501	\$ 65,412,981
Bond premiums, net of amortization	243,987	272,501
Certifications of participation	7,485,000	7,760,000
Accrued vacation	453,628	400,128
Capitalized lease obligations	3,482,034	3,739,233
Other post employment benefits	300,843	454,023
Totals	\$ 75,326,993	\$ 78,038,866

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 2010-11 ARE NOTED BELOW:

The major projects completed during 2010-11 were solar installation projects at Casa Grande High School and Petaluma High School, modernization of Petaluma Junior High School's Administration and Library Buildings, and modernization at Mary Collins at Cherry Valley Charter School. Projects still in progress are mentioned above and are anticipated to be completed during 2011-12.

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 is expected to be flat funded; unfunded COLA of 2.24% increasing the deficit from 82.037% to 80.346%
- 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, 2011

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	22:1	1,435
Grades four through six	28:1	1,066
Grades seven through eight	25.78:1	1,669
Grades nine through twelve	27.67:1	3,210

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, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Deposits and investments	\$ 13,488,494	\$ 16,501	\$ 13,504,995
Receivables	12,852,113	783	12,852,896
Deferred charges	1,298,779	-	1,298,779
Stores inventories	59,099	-	59,099
Capital assets not depreciated	4,773,184	-	4,773,184
Capital assets, net of accumulated depreciation	99,012,752	29,841	99,042,593
Total Assets	<u>131,484,421</u>	<u>47,125</u>	<u>131,531,546</u>
LIABILITIES			
Accounts payable	3,112,033	-	3,112,033
Interest payable	752,483	-	752,483
Deferred revenue	1,057,669	-	1,057,669
Current portion of long-term obligations	3,698,928	-	3,698,928
Noncurrent portion of long-term obligations	71,628,065	-	71,628,065
Total Liabilities	<u>80,249,178</u>	<u>-</u>	<u>80,249,178</u>
NET ASSETS			
Invested in capital assets, net of related debt	31,454,248	29,841	31,484,089
Restricted for:			
Debt service	5,250,155	-	5,250,155
Capital projects	1,001,935	-	1,001,935
Educational programs	2,491,703	-	2,491,703
Other activities	1,536,089	-	1,536,089
Self-insurance	79,256	-	79,256
Unrestricted	9,421,857	17,284	9,439,141
Total Net Assets	<u>\$ 51,235,243</u>	<u>\$ 47,125</u>	<u>\$ 51,282,368</u>

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

PETALUMA CITY SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$44,474,359	\$ 1,745	\$ 8,070,710	\$ 3,059	\$ (36,398,845)	\$ -	\$ (36,398,845)
Instruction-related activities:							
Supervision of instruction	1,626,729	-	859,658	-	(767,071)	-	(767,071)
Instructional library, media, and technology	1,134,979	-	14,242	-	(1,120,737)	-	(1,120,737)
School site administration	4,634,183	-	151,453	-	(4,482,730)	-	(4,482,730)
Pupil services:							
Home-to-school transportation	2,985,111	30,078	1,304,975	-	(1,650,058)	-	(1,650,058)
Food services	1,922,148	775,156	1,155,222	-	8,230	-	8,230
All other pupil services	5,847,812	275	1,653,026	-	(4,194,511)	-	(4,194,511)
General administration:							
All other general administration	3,207,291	-	103,273	-	(3,104,018)	-	(3,104,018)
Plant services	6,846,894	3,180	144,656	-	(6,699,058)	-	(6,699,058)
Ancillary services	340,900	-	-	-	(340,900)	-	(340,900)
Community services	375,311	-	-	-	(375,311)	-	(375,311)
Enterprise services	262,743	-	-	-	(262,743)	-	(262,743)
Interest on long-term debt	3,590,636	-	-	-	(3,590,636)	-	(3,590,636)
Other outgo	39,648	6,594	61,155	-	28,101	-	28,101
Total Governmental-Type Activities	77,288,744	817,028	13,518,370	3,059	(62,950,287)	-	(62,950,287)
Business-Type Activities							
Enterprise services	16,709	9,525	-	-	-	(7,184)	(7,184)
Total Business-Type Activities	\$ 16,709	\$ 9,525	\$ -	\$ -	-	(7,184)	(7,184)
General revenues and subventions:							
Property taxes, levied for general purposes					25,917,744	-	25,917,744
Property taxes, levied for debt service					5,254,223	-	5,254,223
Taxes levied for other specific purposes					1,891,836	-	1,891,836
Federal and State aid not restricted to specific purposes					26,275,700	-	26,275,700
Interest and investment earnings					141,340	130	141,470
Miscellaneous					3,302,832	-	3,302,832
Subtotal, General Revenues					62,783,675	130	62,783,805
Change in Net Assets					(166,612)	(7,054)	(173,666)
Net Assets - Beginning					51,401,855	54,179	51,456,034
Net Assets - Ending					\$ 51,235,243	\$ 47,125	\$ 51,282,368

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

PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Deposits and investments	\$ 6,108,303	\$ 5,250,155	\$ 2,089,804	\$ 13,448,262
Receivables	12,682,126	-	169,987	12,852,113
Due from other funds	2,361,172	-	889,168	3,250,340
Stores inventories	37,605	-	21,494	59,099
Total Assets	<u>\$ 21,189,206</u>	<u>\$ 5,250,155</u>	<u>\$ 3,170,453</u>	<u>\$ 29,609,814</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,093,966	\$ -	\$ 83,861	\$ 3,177,827
Due to other funds	2,460,951	-	825,111	3,286,062
Deferred revenue	1,056,929	-	740	1,057,669
Total Liabilities	<u>6,611,846</u>	<u>-</u>	<u>909,712</u>	<u>7,521,558</u>
Fund Balances:				
Nonspendable	57,905	-	21,644	79,549
Restricted	2,491,703	5,250,155	2,065,347	9,807,205
Assigned	586,035	-	173,750	759,785
Unassigned	11,441,717	-	-	11,441,717
Total Fund Balances	<u>14,577,360</u>	<u>5,250,155</u>	<u>2,260,741</u>	<u>22,088,256</u>
Total Liabilities and Fund Balances	<u>\$ 21,189,206</u>	<u>\$ 5,250,155</u>	<u>\$ 3,170,453</u>	<u>\$ 29,609,814</u>

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, 2011**

Total Fund Balance - Governmental Funds	\$ 22,088,256
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	\$ 160,123,464
Accumulated depreciation is	<u>(56,337,528)</u>
Net Capital Assets	103,785,936
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.	1,298,779
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.	58,774
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.	(752,483)
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.	82,974
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	\$ 63,361,501
Certificates of participation	7,485,000
Capital leases payable	3,482,034
Other post employment benefits	300,843
Bond premiums, net of amortization	243,987
Compensated absences (vacations)	<u>453,628</u>
Total Long-Term Liabilities	<u>(75,326,993)</u>
Total Net Assets - Governmental Activities	<u>\$ 51,235,243</u>

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

PETALUMA CITY SCHOOLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 42,948,497	\$ -	\$ -	\$ 42,948,497
Federal sources	6,546,846	-	1,046,315	7,593,161
Other state sources	11,825,503	50,812	114,533	11,990,848
Other local sources	8,042,877	5,221,407	1,349,164	14,613,448
Total Revenues	69,363,723	5,272,219	2,510,012	77,145,954
EXPENDITURES				
Current				
Instruction	42,123,795	-	-	42,123,795
Instruction-related activities:				
Supervision of instruction	1,526,131	-	-	1,526,131
Instructional library, media and technology	798,263	-	-	798,263
School site administration	4,426,428	-	-	4,426,428
Pupil services:				
Home-to-school transportation	2,629,322	-	-	2,629,322
Food services	1,047	-	1,863,204	1,864,251
All other pupil services	5,475,140	-	-	5,475,140
General administration:				
All other general administration	2,756,804	-	18,472	2,775,276
Plant services	5,895,584	-	160,468	6,056,052
Facility acquisition and construction	79,837	-	2,963,340	3,043,177
Ancillary services	295,654	-	-	295,654
Community services	338,261	-	-	338,261
Other outgo	39,648	-	-	39,648
Enterprise services	262,743	-	-	262,743
Debt service				
Principal	322,203	3,695,000	278,833	4,296,036
Interest and other	218,598	1,569,056	146,856	1,934,510
Total Expenditures	67,189,458	5,264,056	5,431,173	77,884,687
Excess (Deficiency) of Revenues Over Expenditures	2,174,265	8,163	(2,921,161)	(738,733)
Other Financing Sources (Uses):				
Other financing source - capital lease	68,837	-	-	68,837
Net Financing Sources (Uses)	68,837	-	-	68,837
NET CHANGE IN FUND BALANCES	2,243,102	8,163	(2,921,161)	(669,896)
Fund Balance - Beginning as Restated	12,334,258	5,241,992	5,181,902	22,758,152
Fund Balance - Ending	\$ 14,577,360	\$ 5,250,155	\$ 2,260,741	\$ 22,088,256

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

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ (669,896)
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	\$ (4,726,172)
Capital outlays	<u>2,714,719</u>
Net Expense Adjustment	(2,011,453)
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.	(24,232)
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.	(68,837)
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).	(53,500)
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.	3,695,000
Payment of principal on certificates of participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	275,000
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.	326,036
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.	153,180
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.	(1,796,275)
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.	<u>8,366</u>
Change in Net Assets of Governmental Activities	<u>\$ (166,611)</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Business Type Activities Enterprise Fund Downtown Project Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 16,501	\$ 40,232
Receivables	783	6,419
Due from other funds	-	36,323
Total Current Assets	<u>17,284</u>	<u>82,974</u>
Noncurrent Assets		
Furniture and equipment (net)	29,841	-
Total Assets	<u>\$ 47,125</u>	<u>\$ 82,974</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ -	\$ 3,117
Due to other funds	-	601
Total Current Liabilities	<u>-</u>	<u>3,718</u>
NET ASSETS		
Unrestricted	47,125	79,256
Total Net Assets	<u>\$ 47,125</u>	<u>\$ 82,974</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Business Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 9,525	\$ 55,998
Total Operating Revenues	<u>9,525</u>	<u>55,998</u>
OPERATING EXPENSES		
Payroll costs	1,440	-
Supplies and materials	8,144	-
Depreciation	5,683	-
Other operating cost	1,442	48,039
Total Operating Expenses	<u>16,709</u>	<u>48,039</u>
Operating Income (loss)	<u>(7,184)</u>	<u>7,959</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	130	407
Total Nonoperating Revenues (Expenses)	<u>130</u>	<u>407</u>
Income (Loss) Before Capital Contributions and Transfers	(7,054)	8,366
Total Net Assets - Beginning	54,179	70,890
Total Net Assets - Ending	<u>\$ 47,125</u>	<u>\$ 79,256</u>

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, 2011**

	Business-Type Activities Enterprise Funds	Governmental Activities -
	Downtown Project Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 9,410	\$ 15,696
Cash payments to employees for services	(1,440)	-
Cash payments to suppliers for goods and services	(8,144)	-
Cash payments for other operating expenses	(1,442)	(48,890)
Net Cash Provided for Operating Activities	(1,616)	(33,194)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	130	407
Net Cash Provided from Investing Activities	130	407
Net Decrease in Cash and Cash Equivalents	(1,486)	(32,787)
Cash and Cash Equivalents - Beginning	17,987	73,019
Cash and Cash Equivalents - Ending	\$ 16,501	\$ 40,232
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (7,184)	\$ 7,959
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,683	-
Changes in assets and liabilities:		
(Increase) Decrease receivables	(115)	(3,977)
(Increase) Decrease Due from other fund	-	(36,323)
Increase (Decrease) Accounts payable	-	(1,323)
Increase (Decrease) Due to other fund	-	470
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,616)	\$ (33,194)

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

PETALUMA CITY SCHOOLS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 111,608	\$ 425,322
Total Assets	<u>\$ 111,608</u>	<u>\$ 425,322</u>
LIABILITIES		
Due to student groups	\$ -	\$ 425,322
Total Liabilities	<u>-</u>	<u>\$ 425,322</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, 2011**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ -</u>
Total Additions	<u>\$ -</u>
DEDUCTIONS	
Other expenditures	<u>-</u>
Total Deductions	<u>\$ -</u>
Change in Net Assets	-
Net Assets - Beginning	<u>111,608</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, 2011

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:

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another fund.

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund/Fund 14, Deferred Maintenance Fund do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund/Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$2,228,031, \$1,340,695, \$796,073, and \$1,409,630, respectively.

Bond Interest and Redemption Fund The Board Interest and Redemption Fund is used for the repayment of bonds issued for a district (Education Code Sections 15125-15262).

Non-Major Governmental Funds

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

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

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (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 (Education Code Section 15146) and may not be used for any purpose other than those for which the bonds were issued.

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).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for Capital Outlay purposes (Education Code Section 42840).

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

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

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, 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, 2011, 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

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

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 Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

PETALUMA CITY SCHOOLS

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Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 percent of General fund expenditures and other financing uses.

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 \$10.4 million of restricted net assets, of which \$2.5 is restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

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

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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.

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

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The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

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This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 13,448,262
Business-type activities	16,501
Proprietary activities	40,232
Fiduciary funds	536,930
Total Deposits and Investments	<u><u>\$ 14,041,925</u></u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 439,148
Cash in revolving	20,450
Investments	13,582,327
Total Deposits and Investments	<u><u>\$ 14,041,925</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.

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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

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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	13,155,701	751 days
Total	<u>\$ 13,582,327</u>	

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Certificates of Deposit	\$ 99,782	¹	\$ -	\$ -	\$ -
U.S. Agencies	326,844	AAA	326,844	-	-
County Pool	13,155,701	n/a	-	-	13,155,701
Total	<u>\$ 13,582,327</u>		<u>\$ 326,844</u>	<u>\$ -</u>	<u>\$ 13,155,701</u>

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, 2011, none of the District's bank balance of \$804,726 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, 2011

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, 2011, 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	\$ 2,365,408	\$ 131,427	\$ 2,496,835	\$ -	\$ -
State Government					-
Apportionment	5,488,123	-	5,488,123	-	-
Categorical aid	2,521,836	-	2,521,836	-	-
Lottery	517,269	-	517,269	-	-
Other State	79,153	-	79,153	-	-
Local Government		-			
Interest	19,637	2,491	22,128	524	55
Other Local Sources	1,690,700	36,069	1,726,769	259	6,364
Total	<u>\$12,682,126</u>	<u>\$ 169,987</u>	<u>\$ 12,852,113</u>	<u>\$ 783</u>	<u>\$ 6,419</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	7,748,523	39,736	7,281,961	506,298
Total Capital Assets Not Being Depreciated	12,015,409	39,736	7,281,961	4,773,184
Capital Assets Being Depreciated:				
Land Improvements	6,907,890	5,672,200	-	12,580,090
Buildings and Improvements	132,426,001	4,212,240	-	136,638,241
Furniture and Equipment	6,059,445	72,504	-	6,131,949
Total Capital Assets Being Depreciated	145,393,336	9,956,944	-	155,350,280
Total Capital Assets	157,408,745	9,996,680	7,281,961	160,123,464
Less Accumulated Depreciation:				
Land Improvements	4,713,430	348,545	-	5,061,975
Buildings and Improvements	42,356,006	4,078,533	-	46,434,539
Furniture and Equipment	4,541,920	299,094	-	4,841,014
Total Accumulated Depreciation	51,611,356	4,726,172	-	56,337,528
Governmental Activities Capital Assets, Net	<u>\$ 105,797,389</u>	<u>\$ 5,270,508</u>	<u>\$ 7,281,961</u>	<u>\$ 103,785,936</u>
Business-Type Activities				
Furniture and Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Less Accumulated Depreciation	21,309	5,683	-	26,992
Business-Type Activities Capital Assets, Net	<u>\$ 35,524</u>	<u>\$ (5,683)</u>	<u>\$ -</u>	<u>\$ 29,841</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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

Governmental Activities

Instruction	\$ 2,474,940
Supervision of instruction	93,720
Instructional library, media, and technology	333,188
School site administration	314,060
Home-to-school transportation	354,144
Food services	58,358
All other pupil services	303,816
Ancillary services	45,246
Community services	36,424
All other general administration	281,648
Plant services	430,628
Total Depreciation Expenses Governmental Activities	<u>4,726,172</u>

Business-Type Activities

Downtown Enterprise	5,683
Total Depreciation Expenses All Activities	<u><u>\$ 4,731,855</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, 2011, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ 1,535,460	\$ 889,168	\$ 36,323	\$2,460,951
Non-Major Governmental funds	825,111	-	-	825,111
Proprietary funds	601	-	-	601
Total	<u>\$ 2,361,172</u>	<u>\$ 889,168</u>	<u>\$ 36,323</u>	<u>\$3,286,663</u>

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

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total	Internal Service Fund
Vendor payables	\$ 2,153,383	\$ 81,797	\$2,235,180	\$ 3,117
State apportionment	934,132	-	934,132	-
Salaries and benefits	6,451	1,940	8,391	-
Total	<u>\$ 3,093,966</u>	<u>\$ 83,861</u>	<u>\$3,177,827</u>	<u>\$ 3,117</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund	Non-Major Governmental Funds
Federal financial assistance	\$ 904,518	\$ -
State categorical aid	152,411	740
Total	<u>\$ 1,056,929</u>	<u>\$ 740</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On November 23, 2010, the District issued \$5,600,000 Tax and Revenue Anticipation Notes bearing interest at 1.50 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2011. By June 30, 2011, 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 \$5,600,000 and related accrued interest and cash held in trust are not included in these financial statements.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2010	Additions	Payments	Outstanding June 30, 2011
November 17, 2009	1.250%	November 23, 2010	\$ 5,300,000	\$ -	\$ 5,300,000	\$ -
November 23, 2010	1.500%	July 1, 2011		5,600,000	-	5,600,000
			<u>\$ 5,300,000</u>	<u>\$5,600,000</u>	<u>\$ 5,300,000</u>	<u>\$ 5,600,000</u>

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010	Additions	Accretions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 65,412,981	\$ -	\$ 1,643,520	\$ 3,695,000	\$ 63,361,501	\$ 2,983,550
Premiums (discounts), net of amortization	272,501	-	-	28,514	243,987	28,514
Certificates of participation	7,760,000	-	-	275,000	7,485,000	280,000
Accumulated vacation	400,128	53,500	-	-	453,628	-
Capital leases	3,739,233	68,837	-	326,036	3,482,034	302,982
Other post employment benefits	454,023	-	-	153,180	300,843	103,882
	<u>\$ 78,038,866</u>	<u>\$ 122,337</u>	<u>\$ 1,643,520</u>	<u>\$ 4,477,730</u>	<u>\$ 75,326,993</u>	<u>\$ 3,698,928</u>

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Additions/ Accretions	Redeemed	Bonds Outstanding June 30, 2011
Elementary								
1991 I	07/01/02	8/1/2027	1.70-5.00	\$ 3,500,000	\$ 2,935,000	\$ -	\$ 110,000	\$ 2,825,000
1991 J	04/06/04	8/1/2028	4.00-8.00	\$ 2,700,000	2,340,000	-	85,000	2,255,000
2003 Refunding	04/17/03	8/1/2021	2.75-4.30	\$ 5,895,000	4,240,000	-	310,000	3,930,000
2003 Series B								
Refunding	10/29/03	8/1/2017	3.00-4.00	\$ 4,560,000	3,005,000	-	305,000	2,700,000
2008 Refunding	04/15/08	8/1/2024	2.00-3.80	\$ 7,965,000	7,235,000	-	615,000	6,620,000
High School								
1992 C	07/01/95	8/1/2021	4.50-6.20	\$ 10,623,276	2,266,919	142,646	-	2,409,565
1995 Refunding	11/09/95	8/1/2018	4.65-5.80	\$ 8,972,019	14,660,974	1,370,694	1,185,000	14,846,668
2002 Refunding	07/01/02	8/1/2020	2.00-4.75	\$ 11,943,021	2,881,297	130,180	595,000	2,416,477
2005 Refunding	07/13/05	8/1/2024	3.125-7.00	\$ 14,825,000	14,335,000	-	490,000	13,845,000
1992 G	06/09/10	08/01/25	2.00-4.25	\$ 2,418,791	2,418,791	-	-	2,418,791
2010 Refunding	05/12/10	08/01/20	2.00-4.00	\$ 9,095,000	9,095,000	-	-	9,095,000
					<u>\$ 65,412,981</u>	<u>\$ 1,643,520</u>	<u>\$ 3,695,000</u>	<u>\$ 63,361,501</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Debt Service Requirements to Maturity

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Accretion</u>	<u>Total</u>
2012	\$ 2,983,550	\$ 1,529,162	\$ 805,241	\$ 5,317,953
2013	3,089,211	1,503,657	950,789	5,543,657
2014	3,188,838	1,474,104	1,116,162	5,779,104
2015	3,240,699	1,386,526	1,374,301	6,001,526
2016	3,343,511	1,292,423	1,561,489	6,197,423
2017-2021	21,841,642	4,862,031	9,243,358	35,947,031
2022-2026	13,731,969	984,332	3,443,031	18,159,332
2027-2031	960,000	58,440	-	1,018,440
Total	<u>52,379,420</u>	<u>\$ 13,090,675</u>	<u>\$18,494,371</u>	<u>\$ 83,964,466</u>
Accretions to date	<u>10,982,081</u>			
	<u>\$ 63,361,501</u>			

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, 2011, the principal balance outstanding was \$7,485,000. The certificates mature through 2031 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	315,000	80,768	395,768
2017-2021	1,725,000	340,800	2,065,800
2022-2026	1,985,000	223,936	2,208,936
2027-2031	2,285,000	89,472	2,374,472
Total	<u>\$ 7,485,000</u>	<u>\$ 1,096,192</u>	<u>\$ 8,581,192</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$453,628.

PETALUMA CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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:

	<u>Buses</u>	<u>Buildings and Equipment</u>	<u>Total</u>
Balance, July 1, 2010	\$ 127,441	\$ 5,408,750	\$ 5,536,191
Additions	71,634	-	71,634
Payments	133,947	412,123	546,070
Balance, July 1, 2011	<u>\$ 65,128</u>	<u>\$ 4,996,627</u>	<u>\$ 5,061,755</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2012	\$ 506,854
2013	428,008
2014	422,285
2015	385,498
2016	354,343
2017-2021	1,700,974
2022-2026	1,263,793
Total	<u>5,061,755</u>
Less: Amount Representing Interest	1,579,721
Present Value of Minimum Lease Payments	<u>\$ 3,482,034</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post-employment Benefits
2012	\$ 103,882
2013	67,430
2014	35,885
2015	30,682
2016	31,250
2017-2019	31,714
	<u>\$ 300,843</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, 2011

NOTE 10 - FUND BALANCES

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

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 20,300	\$ -	\$ 150	\$ 20,450
Stores inventories	37,605	-	21,494	59,099
Total Nonspendable	<u>57,905</u>	<u>-</u>	<u>21,644</u>	<u>79,549</u>
Restricted				
Legally restricted programs	2,491,703	-	-	2,491,703
Capital projects	-	-	2,065,347	2,065,347
Debt services	-	5,250,155	-	5,250,155
Total Restricted	<u>2,491,703</u>	<u>5,250,155</u>	<u>2,065,347</u>	<u>9,807,205</u>
Assigned				
Grants & Donations	269,112	-	-	269,112
OPEB	316,923	-	-	316,923
Other	-	-	173,750	173,750
Total Assigned	<u>586,035</u>	<u>-</u>	<u>173,750</u>	<u>759,785</u>
Unassigned				
Remaining unassigned	11,441,717	-	-	11,441,717
Total Unassigned	<u>11,441,717</u>	<u>-</u>	<u>-</u>	<u>11,441,717</u>
Total	<u><u>\$ 14,577,360</u></u>	<u><u>\$ 5,250,155</u></u>	<u><u>\$ 2,260,741</u></u>	<u><u>\$ 22,088,256</u></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, 2011, membership of the Plan consists of 54 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no active plan members.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, with an additional amount to refund benefits as determined annually through the agreements between the District, FEA, CSEA and the unrepresented groups. For fiscal year 2010-11, the District contributed \$153,180 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums). The remainder of the premiums, were funded from beginning net assets and interest earnings.

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, 2011, 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, 2011, the District contracted with Redwood Empire Schools Insurance Group (RESIG), for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Workers' Compensation

For fiscal year 2011, the District participated in the Redwood Empire Schools Insurance Group (RESIG) JPA, an insurance purchasing pool. The intent of the RESIG JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG JPA. Participation in the RESIG JPA is limited to districts that can meet the RESIG JPA's selection criteria.

Employee Dental Benefits

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost of living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

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 2010-2011 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, 2011, 2010, and 2009, were \$2,365,341, \$2,480,023, and \$2,651,108, respectively, and equal 100 percent of the required contributions for each year.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$1,130,429, \$1,057,428, and \$1,108,460, 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 \$1,223,383 (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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011.

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, 2011.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Casa Grande High School Learning Environment Project	\$ 40,022	Sep-11
Petaluma City Schools Roofing Project	222,716	Aug-11
Mary Collins at Cherry Valley Charter School Lodge Siding Project	72,625	Nov-11
	<u>\$ 335,364</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, 2011, the District made payments of \$698,114 and \$124,792 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 16 - SUBSEQUENT EVENTS

Tax Revenue and Anticipation Notes

The District issued \$7,400,000 of Tax and Revenue Anticipation Notes dated September 20, 2011. The notes mature on June 1, 2012 and yield a .42 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 November and February, until 100 percent of principal and interest due is on account in May, 2012.

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), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010). 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 18 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance(s) for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

General Fund

Fund Balance - Beginning	\$ 11,319,917
Change in accounting principles to conform to GASB Statement No. 54	<u>1,014,341</u>
Fund Balance - Beginning as Restated	<u><u>\$ 12,334,258</u></u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 6,196,243
Change in accounting principles to conform to GASB Statement No. 54	<u>(1,014,341)</u>
Fund Balance - Beginning as Restated	<u><u>\$ 5,181,902</u></u>

***REQUIRED SUPPLEMENTARY
INFORMATION***

PETALUMA CITY SCHOOLS

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 40,934,751	\$ 43,115,108	\$ 42,948,497	\$ (166,611)
Federal sources	4,666,694	5,866,791	6,546,846	680,055
Other State sources	9,153,514	9,456,834	11,825,503	2,368,669
Other local sources	7,327,314	7,956,279	8,042,877	86,598
Total Revenues ¹	62,082,273	66,395,012	69,363,723	2,968,711
EXPENDITURES				
Current				
Certificated salaries	28,929,750	28,970,493	29,210,423	(239,930)
Classified salaries	9,939,978	10,151,891	10,180,860	(28,969)
Employee benefits	12,607,588	12,898,368	14,152,311	(1,253,943)
Books and supplies	1,978,860	3,630,038	2,372,704	1,257,334
Services and operating expenditures	9,622,461	10,660,446	10,555,378	105,068
Other outgo	205,520	905,106	569,399	335,707
Capital outlay	15,000	56,557	148,383	(91,826)
Total Expenditures ¹	63,299,157	67,272,899	67,189,458	83,441
Excess (Deficiency) of Revenues Over Expenditures	(1,216,884)	(877,887)	2,174,265	3,052,152
Other Financing Sources (Uses)				
Other sources	-	-	68,837	68,837
Transfers out	(337,550)	-	-	-
Net Financing Sources (Uses)	(337,550)	-	68,837	68,837
NET CHANGE IN FUND BALANCES	(1,554,434)	(877,887)	2,243,102	3,120,989
Fund Balance - Beginning as Restated	12,334,258	12,334,258	12,334,258	-
Fund Balance - Ending	\$ 10,779,824	\$ 11,456,371	\$ 14,577,360	\$ 3,120,989

¹ On behalf payments of \$1,223,383 are included in the actual revenues and expenditures, but have not been included in the budget amounts. In addition, due to the consolidation of Fund 11, Adult education Fund and Fund 14, Deferred Maintenance Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Funds budgets.

PETALUMA CITY SCHOOLS

**SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

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%
June 30, 2011	-	300,843	300,843	-	-	0%

SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

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	\$ 27,539
Adult Secondary Education	84.002	13978	2,414
English Literacy & Civics	84.002A	14109	18,588
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	364,318
NCLB: Title I, Part A, Program Improvement District Intervention	84.377	14971	131,014
NCLB: Title I, ARRA, School Improvement Grant	84.388	15020	43,846
NCLB: Title I, ARRA, Part A, Basic Grants Low income and Neglected	84.389	15005	155,120
NCLB: ARRA Title II, Part D, Enhancing Education Through Technology	84.386A	15019	1,894
Title II - Part A, Improving Teacher Quality	84.367	14341	143,898
Title II - Part A, Administrator Training	84.367	14344	7,691
Title III - Immigrant Education Program	84.365	14346	13,269
Title III - Limited English Proficiency	84.365	10084	154,361
Title V - Part A, Innovative Education Strategies	84.298A	14354	4,674
Title X - McKinney-Vento Homeless Assistance	84.196	14332	7,473
Title X - ARRA McKinney-Vento Homeless Assistance	84.387	15007	15,668
ARRA: State Fiscal Stabilization Fund	84.394	25008	505,779
Education Jobs Fund	84.410	25152	1,338,233
Special Education - Cluster			
IDEA, Local Assistance	84.027	13379	1,565,147
IDEA, ARRA Local Assistance	84.391	15003	264,397
IDEA, Preschool Local Entitlement	84.027A	13682	133,860
IDEA, ARRA: Preschool Local Entitlement	84.391	15002	57,998
IDEA, Federal Preschool	84.173	13430	161,604
IDEA, ARRA: Federal Preschool	84.392	15000	8,103
Vocational Educational Grants			
Voc and Appl. Tech Secondary IIC, Sec. 131 - Carl Perkins Act	84.048	13924	48,647
Voc and Appl. Tech Secondary IIC, Sec. 131 - Carl Perkins Act	84.243	14899	100,000
Elementary & Secondary School Counseling Demonstration	84.215E	NA	437,112
Readiness and Emergency Management	84.184E	NA	185,161
Traditional Teaching American History Project	84.215X	NA	344,634
Smaller Learning Communities Grant	84.215L	NA	236,870
Total U.S. Department of Education			6,479,309

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through 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	\$ 768,088
Basic School Breakfast Program	10.553	13525	1,224
Especially Needy Breakfast	10.553	13526	277,002
Fresh Fruit & Vegetable	10.582	14968	1,046
FMV Commodities	10.555	1	115,808
Total U.S. Department of Agriculture			<u>1,163,168</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICE:			
Medical Administrative Activities	93.778	10060	\$ 11,699
Medi-Cal Billing Options	93.778	10013	54,793
			<u>66,492</u>
Total Expenditures of Federal Awards			<u><u>\$ 7,708,969</u></u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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>
Mary Schafer	President	2012
Carolyn Tennyson	Clerk	2014
Michael Baddeley	Member	2014
Sheri Chlebowski	Member	2014
Troy Sanderson	Member	2012

ADMINISTRATION

Steve Bolman	Interim Superintendent
Midge Hoffman	Chief Business Official

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

		Second Period Report	Annual Report	
ELEMENTARY				
Kindergarten		311.26	311.15	
First through third		905.66	908.66	
Fourth through sixth		842.97	844.37	
Seventh and eighth		1,516.25	1,513.91	
Home and hospital		0.48	0.39	
Special education		29.37	28.95	
Total Elementary		<u>3,605.99</u>	<u>3,607.43</u>	
SECONDARY				
Regular classes		2,969.74	2,947.28	
Continuation education		151.02	147.42	
Home and hospital		12.03	11.97	
Special education		90.98	90.12	
Community day school		13.91	16.16	
Total Secondary		<u>3,237.68</u>	<u>3,212.95</u>	
Total K-12		<u>6,843.67</u>	<u>6,820.38</u>	
CHARTER SCHOOL				
	Classroom Based	Non-Classroom Based	P2 Total	Annual Total
Kindergarten	48.23	0.07	48.30	48.48
First through third	132.28	0.39	132.67	132.90
Fourth through sixth	127.45	0.10	127.55	127.63
Seventh and eighth	64.35	-	64.35	64.35
Total	<u>372.31</u>	<u>0.56</u>	<u>372.87</u>	<u>373.36</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, 2011

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Petaluma City Schools - Elementary and High School Districts								
Kindergarten	31,500	30,625	36,000	35,000	35,000	175		In Compliance
Grades 1 - 3	42,000	40,833	50,400	49,000				
Grade 1					49,085	175		In Compliance
Grade 2					49,085	175		In Compliance
Grade 3					49,085	175		In Compliance
Grades 4 - 6	49,875	48,490	54,000	52,500				
Grade 4					52,520	175		In Compliance
Grade 5					52,520	175		In Compliance
Grade 6					52,520	175		In Compliance
Grades 7 - 8	49,875	48,490	54,000	52,500				
Grade 7					52,610	175		In Compliance
Grade 8					52,610	175		In Compliance
Grades 9 - 12	56,525	54,955	64,800	63,000				
Grade 9					63,629	175		In Compliance
Grade 10					63,914	175		In Compliance
Grade 11					63,629	175		In Compliance
Grade 12					63,629	175		In Compliance
Charter School - Mary Collins at Cherry Valley								
Kindergarten	31,500	30,625	36,000	34,971	36,655	175		In Compliance
Grades 1 - 3	42,000	40,833	50,400	48,960				
Grade 1					51,418	175	¹	In Compliance
Grade 2					51,418	175	¹	In Compliance
Grade 3					51,418	175	¹	In Compliance
Grades 4 - 6	49,875	48,490	54,000	52,457				
Grade 4					52,995	175		In Compliance
Grade 5					52,995	175		In Compliance
Grade 6					52,995	175		In Compliance
Grades 7 - 8	49,875	48,490	54,000	52,457				
Grade 7					52,995	175		In Compliance
Grade 8					52,995	175		In Compliance

¹ In Compliance using the weighted average method. The weighted average required minutes for grades 1-3 is 51,146.

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, 2011**

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

FUND BALANCE	Downtown Enterprise Fund
Balance, June 30, 2011, Unaudited Actuals	\$ 17,284
Increase (Decrease) in:	
Capital assets	56,833
Accumulated depreciation	(26,992)
Balance, June 30, 2011, Audited Financial Statement	<u>\$ 47,125</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, 2011, Unaudited Actuals	\$ 105,797,390
Increase (Decrease) in:	
Work in progress	(7,242,225)
Land improvements	5,672,200
Buildings	4,212,240
Equipment	72,504
(Increase) Decrease in:	
Accumulated depreciation - land improvements	(348,545)
Accumulated depreciation - buildings	(4,078,533)
Accumulated depreciation - equipment	(299,095)
Balance, June 30, 2011, Audited Financial Statement, Governmental Funds	<u>\$ 103,785,936</u>

FORM DEBT	
Total Liabilities, June 30, 2011, Unaudited Actuals	\$ 70,850,866
Increase in:	
General obligation bonds	4,213,099
OPEB Benefits	540
Compensated absences	53,500
Premiums, net of amortization	243,988
Decrease in:	
COP Payables	(35,000)
Total Liabilities, June 30, 2011, Audited Financial Statement	<u>\$ 75,326,993</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 ¹	2011 ⁵	2010	2009
GENERAL FUNDS				
Revenues	\$ 64,874,139	\$ 68,567,650	\$ 68,491,526	\$ 70,162,428
Other sources	-	68,837	-	-
Total Revenues and Other Sources	64,874,139	68,636,487	68,491,526	70,162,428
Expenditures	67,130,809	65,779,828	67,065,771	71,265,329
Other uses and transfers out	980,978	-	917,574	455,898
Total Expenditures and Other Uses	68,111,787	65,779,828	67,983,345	71,721,227
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,237,648)	\$ 2,856,659	\$ 508,181	\$ (1,558,799)
ENDING FUND BALANCE	\$ 10,938,928	\$ 14,176,576	\$ 11,319,917	\$ 10,811,736
AVAILABLE RESERVES ²	\$ 7,650,065	\$ 10,101,321	\$ 9,706,762	\$ 8,687,866
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	11.23%	15.65%	14.57%	12.39%
LONG-TERM DEBT	\$ 71,628,065	\$ 75,326,993	\$ 78,038,866	\$ 71,957,990
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	6,840	6,844	6,905	7,055

The General Fund balance has increased by \$3,364,840 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$3,237,648 (23 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 2011-2012 fiscal year due to State budget cuts and lack of funded COLA. Total long-term obligations have increased by \$3,369,003 over the past two years.

Average daily attendance has decreased by 211 over the past two years. An additional decrease of 4 is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$1,223,383, \$1,381,052, and \$1,583,441, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009.

⁴ Excludes adult education ADA.

⁵ General Fund amounts do not include activity related to the consolidation of the Adult Education Fund and the Deferred Maintenance Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2011**

<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, 2011**

	<u>Elementary</u>	<u>High School</u>
ASSETS		
Cash and investments	\$ 394,553	\$ 391,132
Accounts receivable	-	71
Total Assets	<u>\$ 394,553</u>	<u>\$ 391,203</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	<u>\$ 298</u>	<u>\$ 4,205</u>
FUND EQUITY		
Fund balances		
Undesignated	<u>394,255</u>	<u>386,998</u>
Total Fund Equity	<u>394,255</u>	<u>386,998</u>
Total Liabilities and Fund Equity	<u>\$ 394,553</u>	<u>\$ 391,203</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, 2011**

	<u>Elementary</u>	<u>High School</u>
REVENUES		
Parcel tax revenue	<u>\$ 733,974</u>	<u>\$ 1,146,713</u>
EXPENDITURES		
Current Expenditures		
Certificated salaries	347,744	533,412
Classified salaries	116,868	110,987
Benefits	146,927	212,063
Books and supplies	27,785	261,136
Services and operating expenditures	21,407	84,147
Equipment	-	38,947
Total Expenditures	<u>660,732</u>	<u>1,240,693</u>
EXCESS OF REVENUES OVER EXPENDITURES	73,242	(93,980)
FUND BALANCE, Beginning of Year	<u>321,013</u>	<u>480,978</u>
FUND BALANCE, End of Year	<u><u>\$ 394,255</u></u>	<u><u>\$ 386,998</u></u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**PARCEL TAX – FINANCIAL SUMMARY
FOR THE YEAR ENDED JUNE 30, 2011**

Expenditures	Elementary	High School
Certificated salaries	\$ 347,744	\$ 533,412
Classified salaries	116,868	110,987
Benefits	146,927	212,063
Books and supplies	27,785	261,136
Services and operating expenses	21,407	84,147
Equipment	-	38,947
Total expenditures	<u>\$ 660,732</u>	<u>\$ 1,240,693</u>

	Elementary	High School
Parcel taxes collected	\$ 733,974	\$ 1,146,713
Total expenditures and commitments	<u>660,732</u>	<u>1,240,693</u>
Amount available from current year collections	<u>\$ 73,242</u>	<u>\$ (93,980)</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>
ASSETS				
Deposits and investments	\$ 127,409	\$ 199,539	\$ 536,644	\$ 185,046
Receivables	133,714	332	19,166	301
Due from other funds	7,304	188,402	-	17,779
Stores inventories	21,494	-	-	-
Total Assets	<u>\$289,921</u>	<u>\$ 388,273</u>	<u>\$ 555,810</u>	<u>\$ 203,126</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,150	\$ 22,704	\$ -	\$ 41,669
Due to other funds	75,200	37,627	34,252	3,099
Deferred revenue	177	-	-	-
Total Liabilities	<u>94,527</u>	<u>60,331</u>	<u>34,252</u>	<u>44,768</u>
Fund Balances:				
Nonspendable	21,644	-	-	-
Restricted		327,942	521,558	158,358
Assigned	173,750	-	-	-
Total Fund Balance	<u>195,394</u>	<u>327,942</u>	<u>521,558</u>	<u>158,358</u>
Total Liabilities and Fund Balances	<u>\$289,921</u>	<u>\$ 388,273</u>	<u>\$ 555,810</u>	<u>\$ 203,126</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	Non Major Governmental Funds
\$ 1,041,166	\$ 2,089,804
16,474	169,987
675,683	889,168
-	21,494
<u>\$ 1,733,323</u>	<u>\$ 3,170,453</u>

\$ 338	\$ 83,861
674,933	825,111
563	740
<u>675,834</u>	<u>909,712</u>

-	21,644
1,057,489	2,065,347
-	173,750
<u>1,057,489</u>	<u>2,260,741</u>

<u>\$ 1,733,323</u>	<u>\$ 3,170,453</u>
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PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES				
Federal sources	\$ 1,046,315	\$ -	\$ -	\$ -
Other state sources	114,533	-	-	-
Other local sources	784,913	7,166	498,398	3,059
Total Revenues	<u>1,945,761</u>	<u>7,166</u>	<u>498,398</u>	<u>3,059</u>
EXPENDITURES				
Current				
Pupil services:				
Food services	1,863,204	-	-	-
General administration:				
All other general administration	-	-	18,472	-
Plant services	4,117	51,770	56,582	7,815
Facility acquisition and construction	-	2,168,209	61,584	643,230
Debt service				
Principal	3,833	-	-	-
Interest and other	1,436	-	-	-
Total Expenditures	<u>1,872,590</u>	<u>2,219,979</u>	<u>136,638</u>	<u>651,045</u>
Excess (Deficiency) of				
Revenues Over Expenditures	<u>73,171</u>	<u>(2,212,813)</u>	<u>361,760</u>	<u>(647,986)</u>
NET CHANGE IN FUND BALANCES	73,171	(2,212,813)	361,760	(647,986)
Fund Balance - Beginning as restated	<u>122,223</u>	<u>2,540,755</u>	<u>159,798</u>	<u>806,344</u>
Fund Balance - Ending	<u>\$ 195,394</u>	<u>\$ 327,942</u>	<u>\$ 521,558</u>	<u>\$ 158,358</u>

See accompanying note to supplementary information.

Special Reserve Capital Fund	Nonmajor Governmental Funds
\$ -	\$ 1,046,315
-	114,533
55,628	1,349,164
<u>55,628</u>	<u>2,510,012</u>
-	1,863,204
-	18,472
40,184	160,468
90,317	2,963,340
275,000	278,833
145,420	146,856
<u>550,921</u>	<u>5,431,173</u>
<u>(495,293)</u>	<u>(2,921,161)</u>
(495,293)	(2,921,161)
1,552,782	5,181,902
<u>\$ 1,057,489</u>	<u>\$ 2,260,741</u>

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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 Business-Type Activities and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amount consists primarily of Commodities that are non-cash awards and not recorded in the financial statements.

Description	CFDA	
	Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		
Commodities	10.555	\$ 7,593,161
Total Schedule of Expenditures of Federal Awards		<u>115,808</u>
		<u>\$ 7,708,969</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

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

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) JUNE 30, 2011

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



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

VALUE THE DIFFERENCE

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

Governing Board
Petaluma City Schools
Petaluma, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2011, which collectively comprise Petaluma City Schools' basic financial statements and have issued our report thereon dated December 15, 2011. 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

The management of Petaluma City Schools is responsible for establishing and maintaining effective 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 2011-1, 2011-2, 2011-3, 2011-4, and 2011-5; that we considered 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 responses. We did not audit Petaluma City Schools' responses and, accordingly, express no opinion on the response.

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, 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, 2011



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 Petaluma City Schools' compliance 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 Petaluma City Schools major Federal programs for the year ended June 30, 2011. 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-6.

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 the 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 was not designed to 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.

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

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, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Petaluma City Schools
Petaluma, California

We have audited Petaluma City Schools' compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Petaluma City Schools' government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. 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 are applicable to the government programs noted below that were audited for the year ended June 30, 2011, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as item 2011-7.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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
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.

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

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

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PETALUMA CITY SCHOOLS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

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>Yes</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 Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.394 (ARRA)</u>	<u>(ARRA) State Fiscal Stabilization Fund</u>
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>84.215X</u>	<u>Traditional Teaching American History Project</u>
<u>10.555, 10.553, 10.555, 10.582</u>	<u>National School Lunch Program Cluster</u>

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

STATE AWARDS

Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>
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PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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>
30000	Internal Control

2011-1 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 Junior High 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.
- Revenue potentials/sales analysis aren’t prepared.

Petaluma High School

- Daily sales reports for the month of January did not coincide with the corresponding deposits.
- An annual physical inventory is not performed on the student store and perpetual inventory records are not maintained.

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 risk of fraud, abuse or errors.

Cause
District policy and procedures as described in the ASB Manual are not being followed.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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 have Activities Directors and Leadership Teachers attend the CASBO Associated Student Body Workshop in the Fall. In addition, the District will meet with ASB and Leadership Student Officers and their respective Certificated leaders to ensure understanding of responsibilities and proper procedures.

2011-2 Site Cash and Revolving Funds – 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, retaining documentation that site cash collections were received by the District and were accurately posted to the site's general ledger accounts, and the District oversight of cash accounts. Strong internal controls over site cash collections are based on issuance of pre-numbered receipts.

Condition

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

McKinley Elementary:

- Revolving account bank statements weren't reviewed by a second party when no activity occurred in the month.
- Site cash receipts were not timely deposited to the District clearing account.

Valley Vista Elementary School:

- There isn't any evidence that revolving account bank statements and reconciliations are reviewed by a second party.
- Pre-numbered receipts aren't always used for site cash collections.
- No evidence as to whether fines for lost or damaged books were collected in cash or replaced with the purchase of a similarly valued book.

Valley Oaks Independent Study

Site doesn't submit receipts to the District in a timely manner.

Petaluma High School

- Site doesn't submit receipts to the District in a timely manner.
- No evidence that the revolving fund account reconciliation is being reviewed by a second party.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Condition (Continued)

Kenilworth Junior High School:

- Pre-numbered receipts aren't always used for site cash collections. Additionally, when a teacher submits cash receipts to the school office the amount of cash changing custody should be verified and a receipt issued to the teacher.
- Library receipts for pencil sales, lost books, and erasers should be deposited to the District in a timely manner.
- 5 out of 7 receipts tested at the site couldn't be traced to the site's deposit into the District's clearing account.
- No evidence that the revolving fund account reconciliation is being reviewed by a second party.

Mary Collins Charter School:

- Pre-numbered receipts aren't being used for site collections. Additionally, when the site transmits their receipts to the District, no documentation is maintained to verify the correct amount has been deposited and the appropriate accounts have been credited in the general ledger.

Petaluma Adult Education:

- Pre-numbered receipts aren't written for cash collection for ESL and Swim Fees.

Questioned Costs

None

Context

The conditions were noted during our review of site cash collections and site revolving bank accounts during the fiscal year 2010-11.

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 site cash collections and segregation of duties over revolving fund accounts were not being adhered to.

Recommendation

We recommend the District remind all sites that they are responsible for ensuring that all cash collections are properly reported by pre-numbered receipts and deposited timely. Additionally, support for deposits made to the District clearing account should include a list of receipts included in the deposit as well as which general ledger accounts are expected to be credited.

District Response

The District will provide training and materials to ensure compliance.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2011-3 District Cash Collection – Code 30000 *Significant Deficiency*

Criteria or Specific Requirements

General accounting practices emphasize the importance of strong internal controls over cash collections. Strong internal controls over cash collections are based on adequately documenting when receipts arrive at the District Office and safeguarding receipts.

Condition

It was noted that the District doesn't keep a log of receipts that arrive at the District Office. It was also noted that these receipts aren't kept in a secured location throughout the day.

Questioned Cost

None

Context

The conditions were noted during our walk through of District cash collection procedures.

Effect

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

Cause

District policies over cash collections aren't being followed or don't include policies to address safeguarding of assets.

Recommendation

We recommend that the District keep a log of all receipts including checks and site deposits noting the amount received, who it is from, and the date received. The daily receipts should be kept in a safe or other similar location out of the view of other personnel and the public until the collections are deposited.

District Response

The District will review its cash collection procedures to ensure that District assets are appropriately safeguarded.

2011-4 Controls over Payroll Transactions – Code 30000 *Significant Deficiency*

Criteria or Specific Requirements

General accounting practices emphasize the importance of strong internal controls over payroll transactions. Strong internal controls over payroll transactions are based on verification that amounts paid to employees are accurate and segregation of duties between the payroll personnel and human resource personnel.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Condition

We noted that two employees were paid more per hour than what was documented in their salary schedule and two employees were paid less per hour than what was documented in their salary schedule out of the 31 classified employee files reviewed. Additionally, we noted that the Payroll Department personnel can make changes to the Calendar File Maintenance Screen which is a screen used by the Human Resource Department.

Questioned Cost

The overpayment in salaries between the four employees netted to \$189.21 for one month. This was calculated by taking the difference between the rate that was actually paid as compared to the rate that should have been paid, multiplied by the hours worked for the month of February.

Context

The condition was noted during our testing of payroll transactions in the month of February.

Effect

Segregation of duties between District Payroll and Human Resource Departments do not adequately safeguard the District's assets and reduce the risk of fraud and abuse. Additionally, reliance on system generated reports without separate verification that pay rates are accurate may result in employees not being paid the appropriate amounts.

Cause

This is the first year that the District used MUNIS for payroll transactions and the controls over which screens payroll can change have not been fully implemented. We noted that the pay discrepancies only affected employees who either changed duties mid-year, changed pay rates mid-year, or were hired mid-year.

Recommendation

The ability for payroll staff to change certain screens in the system should be prohibited. A review of the system segregation controls should be performed. Additionally, a manual verification of the actual pay rates compared to the pay rates per an employee's contract or salary schedule should be performed on all employees who are hired after the start of the fiscal year, have a pay rate change after the start of the fiscal year, or change positions after the start of the fiscal year.

District Response

The District will update the payroll system access controls to ensure that payroll personnel only have access to those screens that are necessary to perform their duties. We will update our payroll procedures to address the control deficiencies noted above.

2011-5 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 approved by someone other than the person posting or originating the transaction.

PETALUMA CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Condition

We noted 3 of 15 journal entries where the person entering the journal entries could approve them in the system.

Questioned Cost

None

Context

We noted the condition during our walk through of journal entry transactions.

Effect

Without a properly operating internal control system over journal entry transactions errors or fraud could occur and might not be detected.

Cause

The designated duties and controls within the District Office were not operating as intended by the operational procedures.

Recommendation

In order to strengthen controls over journal entries, we recommend that only certain personnel have the rights to approve journal entry transactions and those same personnel don't also input journal entries into the system.

District Response

The District will correct the routing of the electronic workflow so this does not occur in the future.

PETALUMA CITY SCHOOLS

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiency, material weakness, or material instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2011-6 Federal Compliance – Code 50000
Traditional Teaching American History Project CFDA# 84.215X
Significant Deficiency

Criteria or Specific Requirements

Federal, state, or local procurement laws are followed and vendors and/or sub-recipients aren't debarred or suspended.

Condition

The District does not have procedures established to verify that vendors providing over \$25,000 in goods and services have not been suspended or debarred from receiving federal funds.

Questioned Costs

None – No vendors who were actually suspended or debarred were noted.

Context

We noted the condition above during our testing of the Traditional Teaching American History Project grant expenditures.

Effect

There is a risk that the District will contract with a vendor and spend federal awards on a vendor that has been suspended or debarred and thus will not be in compliance with the federal requirements over the program expenditures.

Cause

The District policies lack a procedure to verify that vendors are not suspended or debarred were noted.

Recommendation

We recommend that the District establish official written policies and procedures that contain or reference the federal requirements. Included in these procedures should be requirements that staff determine that entities receiving sub-awards of an value and procurement contracts equal to or exceeding \$25,000, and their principals, are not suspended or debarred, and specify the means that will be used to make the determination, i.e. checking the *Excluded Parties Listing System (EPLS)*, obtaining a certification from the vendors or containing a clause in their agreements.

District Response

The District will implement correct procedures to ensure compliance.

PETALUMA CITY SCHOOLS

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents an instance of noncompliance and/or questioned costs relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance
41000	CalSTRS
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

2011-7 Attendance Code – 10000
Attendance Rosters – Significant Deficiency

Criteria or Specific Requirements

Currently, California Education Code 44809 requires districts to maintain printed, signed attendance records from teachers even when an online attendance system is used unless formal approval of the online attendance system is obtained from the California Department of Education to switch to a completely paperless system.

Condition

At San Antonio Continuation High School, we noted that although the site uses an online attendance system, the site didn't print the attendance rosters for the week of 10/11/10-10/15/10, and therefore, they weren't reviewed or signed by the teachers.

Questioned Costs

San Antonio ADA at Annual was 98.47. There is 175 days in a school year which is 25 weeks. Dividing 98.47 by 25 weeks is 3.94 which is the estimated ADA for the week where the site didn't print and sign their attendance rosters.

Context

Although we noted no errors in the online attendance records, the site didn't print out the attendance rosters for the week indicated above.

Effect

The site is not in compliance with the requirements for maintenance of certified attendance records.

Cause

Site personnel failed to print out attendance rosters for the week indicated.

Recommendation

We recommend that the site print out weekly attendance rosters every week and have the site teachers review and certify the accuracy of the information.

District Response

The District will review proper attendance accounting procedures with the site staff to ensure compliance.

PETALUMA CITY SCHOOLS

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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

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

Cause

District policy 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, 2011

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.

Current Status

Not implemented, see 2011-1

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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 not 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.

Current Status

Not implemented, see 2011-2