

**PETALUMA CITY SCHOOLS
COUNTY OF SONOMA
PETALUMA, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2001

PETALUMA CITY SCHOOLS

JUNE 30, 2001

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PETALUMA CITY SCHOOLS

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards 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. 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 opinion.

The District does not maintain complete historical cost records for its fixed assets. Accordingly, a Statement of General Fixed Assets, which is required under generally accepted accounting principles, is not included in this report.

Lack of certain internal control procedures and supporting records limits us to expressing an independent auditor's opinion on recorded transactions of the Student Body Funds. (Note 14)

In our opinion, except for the omission of a Statement of General Fixed Assets, and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the Student Body revenues, the combined general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Petaluma City Schools at June 30, 2001 and the results of its operations and the cash flows of its proprietary fund for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining general-purpose financial statements referred to above present fairly in all material respects the financial position of each individual fund of Petaluma City Schools at June 30, 2001, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2001 on our consideration of Petaluma City Schools' internal controls over financial reporting and our tests of compliance with certain provisions of laws, regulation, contracts and grants.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 18, 2001

PETALUMA CITY SCHOOLS
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUP
 JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>ASSETS</u>			
Cash in County Treasury (Note 2)	\$ 4,677,335	\$ 330,921	\$ 5,860,611
Cash on Hand and in Bank	2,000		
Cash in Revolving Fund	20,000	300	
Investments (Note 2)			
Accounts Receivable (Note 4)			
Federal Government	320,766	62,135	
State Government	1,032,010	273,772	
Local Government	163,587	21,931	
Interest			
Miscellaneous	188,681	33,117	
Due from Other Funds (Note 5)	338,904	344,541	
Stores Inventory (Note 1I)	88,814	26,090	
Prepaid Expenses (Note 1J)	64,466		
Amount Available in Debt Service Funds			
Amount to be Provided for Retirement of General Long-Term Debt			
Total Assets	<u>\$ 6,896,563</u>	<u>\$ 1,092,807</u>	<u>\$ 5,860,611</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$ 2,236,249	\$ 103,528	
Due to Other Funds (Note 5)	256,500	217,802	
Due to Student Groups			
Deferred Revenue (Note 1L)	496,949	97,279	
Compensated Absences (Note 1K)			
General Obligation Bonds (Note 6)			
Capital Leases (Note 7)			
Retiree Benefits (Note 9)			
Total Liabilities	<u>2,989,698</u>	<u>418,609</u>	
Fund Balances (Note 11)			
Reserved	1,662,194	26,390	\$ 5,860,611
Unreserved:			
Designated	2,244,671	13,855	
Undesignated		633,953	
Total Fund Balances	<u>3,906,865</u>	<u>674,198</u>	<u>5,860,611</u>
Total Liabilities and Fund Balances	<u>\$ 6,896,563</u>	<u>\$ 1,092,807</u>	<u>\$ 5,860,611</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

	Proprietary Fund Type	Fiduciary Fund Types	Account Group	Totals (Memorandum Only)
Capital Projects	Self- Insurance	Trust and Agency	General Long-term Debt	
\$ 15,795,928	\$ 8,888	\$ 56 526,097 99,781		\$ 26,673,739 528,097 20,300 99,781
				382,901
				1,305,782
				185,518
		1,101		1,101
221,468	1,639			444,905
370,514				1,053,959
				114,904
4,778				69,244
			\$ 5,860,611	5,860,611
			58,754,053	58,754,053
<u>\$ 16,392,688</u>	<u>\$ 10,527</u>	<u>\$ 627,035</u>	<u>\$ 64,614,664</u>	<u>\$ 95,494,895</u>
\$ 455,811 569,130	\$ 10,527	\$ 54 513,102		\$ 2,795,642 1,053,959 513,102 594,228
			\$ 452,613	452,613
			60,350,435	60,350,435
			2,862,230	2,862,230
			949,386	949,386
<u>1,024,941</u>	<u>10,527</u>	<u>513,156</u>	<u>64,614,664</u>	<u>69,571,595</u>
4,778		113,879		7,667,852
16,250				2,274,776
15,346,719				15,980,672
<u>15,367,747</u>	<u>0</u>	<u>113,879</u>	<u>0</u>	<u>25,923,300</u>
<u>\$ 16,392,688</u>	<u>\$ 10,527</u>	<u>\$ 627,035</u>	<u>\$ 64,614,664</u>	<u>\$ 95,494,895</u>

PETALUMA CITY SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types	
	General	Special Revenue
<u>REVENUES</u>		
Revenue Limit Sources:		
State Apportionment	\$ 18,150,779	\$ 1,058,003
Local Sources	18,714,420	
Total Revenue Limit Sources	36,865,199	1,058,003
Federal Revenue	1,284,601	340,738
Other State Revenue	8,241,612	359,963
Other Local Revenue	5,485,870	1,435,896
Total Revenues	51,877,282	3,194,600
<u>EXPENDITURES</u>		
Certificated Salaries	24,983,243	704,668
Classified Salaries	8,272,039	941,802
Employee Benefits	8,613,221	419,335
Books and Supplies	2,236,514	827,258
Services and Other		
Operating Expenditures	5,796,350	316,110
Capital Outlay	1,679,532	35,233
Debt Service:		
Principal Retirement	225,145	14,898
Interest and Fiscal Charges	24,657	6,556
Other Expenditures	368,597	
Total Expenditures	52,199,298	3,265,860
Excess of Revenues Over (Under) Expenditures	(322,016)	(71,260)
Other Financing Sources (Uses):		
Operating Transfers In	57,777	254,000
Operating Transfers Out	(384,999)	(57,777)
Other Sources	387,528	
Other Uses		
Total Other Financing Sources (Uses)	60,306	196,223
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(261,710)	124,963
Fund Balances - July 1, 2000 (As restated - Note 18)	4,168,575	549,235
Fund Balances - June 30, 2001	\$ 3,906,865	\$ 674,198

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service	Capital Projects	Expendable Trusts Trust Funds	Totals (Memorandum Only)
			\$ 19,208,782
			18,714,420
			37,923,202
\$ 66,745	\$ 4,145,401		1,625,339
4,337,378	1,748,461	\$ 4,874	12,813,721
4,404,123	5,893,862	4,874	13,012,479
			65,374,741
			25,687,911
	117,509		9,331,350
	38,116		9,070,672
	5,399		3,069,171
	288,868		6,401,328
	7,101,864		8,816,629
1,866,720	356,562		2,463,325
2,461,856	161,527		2,654,596
			368,597
4,328,576	8,069,845	0	67,863,579
75,547	(2,175,983)	4,874	(2,488,838)
	841,305		1,153,082
	(710,306)		(1,153,082)
	212,500	1,811	601,839
		(9,325)	(9,325)
0	343,499	(7,514)	592,514
75,547	(1,832,484)	(2,640)	(1,896,324)
5,785,064	17,200,231	116,519	27,819,624
<u>\$ 5,860,611</u>	<u>\$ 15,367,747</u>	<u>\$ 113,879</u>	<u>\$ 25,923,300</u>

PETALUMA CITY SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue Limit Sources:						
State Apportionment	\$ 18,159,744	\$ 18,150,779	\$ (8,965)	\$ 1,082,057	\$ 1,058,003	\$ (24,054)
Local Sources	18,714,914	18,714,420	(494)			
Total Revenue Limit	36,874,658	36,865,199	(9,459)	1,082,057	1,058,003	(24,054)
Federal Revenue	1,374,305	1,284,601	(89,704)	353,843	340,738	(13,105)
Other State Revenue	8,534,678	8,241,612	(293,066)	445,897	359,963	(85,934)
Other Local Revenue	5,590,497	5,485,870	(104,627)	1,421,740	1,435,896	14,156
Total Revenues	52,374,138	51,877,282	(496,856)	3,303,537	3,194,600	(108,937)
EXPENDITURES						
Certificated Salaries	25,157,617	24,983,243	174,374	704,818	704,668	150
Classified Salaries	8,318,591	8,272,039	46,552	996,261	941,802	54,459
Employee Benefits	8,643,003	8,613,221	29,782	428,757	419,335	9,422
Books and Supplies	3,481,937	2,236,514	1,245,423	830,213	827,258	2,955
Services and Other						
Operating Expenditures	6,195,926	5,796,350	399,576	567,883	316,110	251,773
Capital Outlay	1,975,844	1,679,532	296,312	65,407	35,233	30,174
Debt Service:						
Principal Retirement	225,145	225,145		14,898	14,898	
Interest and Fiscal Charges	24,769	24,657	112	6,556	6,556	
Other Expenditures	368,597	368,597				
Total Expenditures	54,391,429	52,199,298	2,192,131	3,614,793	3,265,860	348,933
Excess of Revenues Over (Under) Expenditures	(2,017,291)	(322,016)	1,695,275	(311,256)	(71,260)	239,996
Other Financing Sources (Uses):						
Operating Transfers In	37,415	57,777	20,362	230,000	254,000	24,000
Operating Transfers Out	(389,576)	(384,999)	4,577	(58,329)	(57,777)	552
Other Sources	387,528	387,528				
Total Other Financing Sources (Uses)	35,367	60,306	24,939	171,671	196,223	24,552
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	\$ (1,981,924)	(261,710)	\$ 1,720,214	\$ (139,585)	124,963	\$ 264,548
Fund Balances - July 1, 2000 (As restated - Note 18)		4,168,575			549,235	
Fund Balances - June 30, 2001		\$ 3,906,865			\$ 674,198	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service Fund			Capital Projects Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
						\$ 19,241,801	\$ 19,208,782	\$ (33,019)
						18,714,914	18,714,420	(494)
						37,956,715	37,923,202	(33,513)
						1,728,148	1,625,339	(102,809)
	\$ 66,745	\$ 66,745	\$ 6,245,399	\$ 4,145,401	\$ (2,099,998)	15,225,974	12,813,721	(2,412,253)
\$ 1,789,162	4,337,378	2,548,216	1,787,972	1,748,461	(39,511)	10,589,371	13,007,605	2,418,234
1,789,162	4,404,123	2,614,961	8,033,371	5,893,862	(2,139,509)	65,500,208	65,369,867	(130,341)
						25,862,435	25,687,911	174,524
			144,904	117,509	27,395	9,459,756	9,331,350	128,406
			51,563	38,116	13,447	9,123,323	9,070,672	52,651
			6,192	5,399	793	4,318,342	3,069,171	1,249,171
			345,316	288,868	56,448	7,109,125	6,401,328	707,797
			17,521,737	7,101,864	10,419,873	19,562,988	8,816,629	10,746,359
1,866,720	1,866,720		356,562	356,562		2,463,325	2,463,325	
2,332,775	2,461,856	(129,081)	161,528	161,527	1	2,525,628	2,654,596	(128,968)
						368,597	368,597	
4,199,495	4,328,576	(129,081)	18,587,802	8,069,845	10,517,957	80,793,519	67,863,579	12,929,940
(2,410,333)	75,547	2,485,880	(10,554,431)	(2,175,983)	8,378,448	(15,293,311)	(2,493,712)	12,799,599
			1,996,648	841,305	(1,155,343)	2,264,063	1,153,082	(1,110,981)
			(1,851,436)	(710,306)	1,141,130	(2,299,341)	(1,153,082)	1,146,259
			212,500	212,500		600,028	600,028	
0	0	0	357,712	343,499	(14,213)	564,750	600,028	35,278
\$ (2,410,333)	75,547	\$ 2,485,880	\$ (10,196,719)	(1,832,484)	\$ 8,364,235	\$ (14,728,561)	(1,893,684)	\$ 12,834,877
	5,785,064			17,200,231			27,703,105	
	\$ 5,860,611			\$ 15,367,747			\$ 25,809,421	

PETALUMA CITY SCHOOLS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN RETAINED EARNINGS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Self- Insurance</u>
<u>OPERATING REVENUES</u>	
Other Local Revenue	\$ 15,821
<u>EXPENSES</u>	
Contract Services	<u>29,442</u>
Operating Loss	(13,621)
Non-Operating Expenses:	
Interest Expense	<u>(65)</u>
Net Loss	(13,686)
Retained Earnings - July 1, 2000	<u>13,686</u>
Retained Earnings - June 30, 2001	<u><u>\$ 0</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Self-Insurance</u>
Cash Flows From Operating Activities:	
Local Revenue	\$ 80,598
Contract Services	<u>(77,992)</u>
Net Cash Provided by Operating Activities	<u>2,606</u>
Cash Flows From Investing Activities:	
Interest Expense	<u>(65)</u>
Net Increase in Cash	2,541
Cash Balance - July 1, 2000	<u>6,347</u>
Cash Balance - June 30, 2001	<u>\$ 8,888</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>	
Operating Loss	<u>\$ (13,621)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Decrease in Accounts Receivable	40,274
Decrease in Due from Other Funds	24,503
Decrease in Accounts Payable	(40,467)
Decrease in Due to Other Funds	<u>(8,083)</u>
Total Net Adjustments	<u>16,227</u>
Net Cash Provided by Operating Activities	<u>\$ 2,606</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

These financial statements report the combined financial position of the various funds and accounts groups of the Petaluma City Elementary School District and Petaluma Joint Union High School District. These Districts share a common board of education and administration. These two entities are referred to collectively as Petaluma City Schools, and for purpose of these financial statement notes, will be referred to collectively as the District.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

In determining its reporting entity, the District considered all governmental units that were members of the District since inception. The criteria did not require the inclusion of these entities in the District's financial statements principally because the District does not exercise oversight responsibility over any members.

C. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized in four broad categories, which in aggregate include seven fund types and one account group as follows:

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

GOVERNMENTAL FUNDS:

General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three special revenue funds:

1. Deferred Maintenance Fund is used for the purpose of major repairs or replacement of District property.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs. The District maintains one debt service fund:

1. Bond Interest and Redemption Fund is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains five capital projects funds:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
2. State School Building Fund is used to account for the building of new schools and related equipment from state apportionments (Education Code Section 17708).
3. Building Fund is used to account for acquisition of major governmental facilities financed from the sale of bonds.
4. Special Reserve Fund is used to account for special building projects as determined by the District.
5. County School Facilities Fund is used primarily to account separately for state apportionments as provided in Education Code Sections 17009.5 and 17070.10-17076.10.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Concluded)

PROPRIETARY FUND

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used to provide a reserve for future claims. As of July 1, 1996, the District is no longer self-insured. The remaining retained earnings will be used to cover deductibles until funds are exhausted.

FIDUCIARY FUNDS:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains two expendable trust funds, the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, which are used to provide financial assistance to students of the District. The Schwobeda Memorial Trust Fund includes \$99,781 as a nonexpendable component that is permanently restricted for generating trust income.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains nine student body accounts.

ACCOUNT GROUP:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources". Thus, the long-term liabilities associated with Governmental Funds are accounted for in the Account Group of the District.

General Long -Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on long-term debt, which is recognized when due.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expense are recorded at the time liabilities are incurred. The district applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for the operations of its proprietary funds.

Trust and Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By State law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District superintendent, during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (see Note 3).

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows of the District's proprietary fund, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents. As of June 30, 2001, there were no cash equivalents other than amounts on deposit with the County Treasurer.

I. Inventories

Inventories are recorded using the purchase method in that the cost (handling charge for state surplus food) is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve that indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

J. Prepaid Expenses

Prepaid expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2001.

K. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. This liability is recognized in the general long-term debt account group. The value of accumulated vacation at June 30, 2001 was \$452,613.

Accumulated employee sick leave benefits are not recognized as liabilities of the District as the rights to these benefits do not vest with the employee. Therefore, sick leave benefits are recorded as expenditures in the period that sick leaves are taken.

Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

L. Deferred Revenue

The District received funds for certain programs for which qualifying expenditures have not been made, resulting in revenue that cannot be recognized until such expenditures are incurred.

M. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

N. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if not paid by December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Sonoma bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

O. Total Columns on Combined Statements

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - CASH AND INVESTMENTS

Authorized Deposits/Investments

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasurer. The County pools these funds and invests the cash. These pooled funds are carried at cost, which approximates fair value. Any investment losses are proportionately shared by all funds in the pool.

Based on the fundamental assumption that Governmental Accounting Standards Board (GASB) standards need not be applied to immaterial items, the District has elected to continue reporting the value of pooled investments at cost in these financial statements.

The County may invest in accordance with section 53601 and 53635 of the California Government Code:

- Local agency bonds, notes or warrants within the state
- United States 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 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
- Collateralized mortgage obligations

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Credit Risk

Investments in pools managed by other governments or in mutual funds are not required to be categorized.

Deposits held in banks are fully insured by the Federal Depository Insurance Corporation or collateralized with securities held by the banks.

Derivative Investments

The District did not directly enter into any derivative investments.

Information relating to the use of derivative investments by the County was not available.

Cash Balances

Cash at June 30, 2001 consisted of the following:

Pooled Funds:		
Cash in County Treasury		\$ 26,673,739
Deposits:		
Cash on Hand and in Bank		528,097
Cash in Revolving Fund		20,300

Investment Balances

Investments at June 30, 2001 are presented below, categorized separately to give an indication of the level of risk associated with each investment:

	<u>Category*</u>		<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>		
Certificates of Deposit	<u>\$ 99,781</u>	<u>\$ 0</u>	<u>\$ 99,781</u>	<u>\$ 99,781</u>

* Category 1 includes investments that are insured or collateralized.
 Category 2 includes investments that are not insured or collateralized.

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess expenditures over appropriations for fiscal year 2000-01 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
<u>Debt Service Fund:</u>	
Bond Interest and Redemption Fund:	
Interest and Fiscal Charges	\$ 129,081

The Bond Interest and Redemption Fund is under the control of the County Auditor.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2001 consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Totals</u>
Federal Government						
Categorical Programs	\$ 320,766	\$ 62,135				\$ 382,901
State Government						
State Aid		\$ 50,460				\$ 50,460
Categorical Programs	\$ 81,998	6,018				88,016
Lottery	586,190					586,190
Other Allowances	363,822	217,294				581,116
Total State	\$ 1,032,010	\$ 273,772				\$ 1,305,782
Local Government	\$ 163,587	\$ 21,931				\$ 185,518
Interest					\$ 1,101	\$ 1,101
Miscellaneous	\$ 188,681	\$ 33,117	\$ 221,468	\$ 1,639		\$ 444,905

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 5 - INTERFUND TRANSACTIONS

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2001 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 338,904	\$ 256,500
<u>Special Revenue Funds:</u>		
Deferred Maintenance	254,000	5,238
Cafeteria	13,484	126,708
Adult Education	77,057	85,856
<u>Capital Projects Funds:</u>		
Capital Facilities	5,000	
Building	263,593	185,537
Special Reserve		120,000
County School Facilities	101,921	263,593
Self-Insurance Fund		<u>10,527</u>
Totals	<u>\$ 1,053,959</u>	<u>\$ 1,053,959</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2000-01 fiscal year were as follows:

Transfer from Building Fund to Deferred Maintenance Fund to match State allocation	\$ 80,000
Transfer from General Fund to Deferred Maintenance Fund to match State allocation	174,000
Transfer from General Fund to Capital Projects - Special Reserve Fund to transfer redevelopment shift monies	200,787
Transfer from Building Fund to County School Facilities Fund for the match requirement	630,306
Transfer from General Fund to Building Fund for playground equipment	10,212
Transfer from Adult Education Fund to General Fund for warehouse supplies	1,000
Transfer from Adult Education Fund to General Fund for indirect support costs	<u>56,777</u>
Total	<u>\$ 1,153,082</u>

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 6 - GENERAL OBLIGATION BONDS

The outstanding general obligation bonded debt of Petaluma City Schools at June 30, 2001, is as follows:

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2000	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2001
Elementary						
1991 Series						
1993 B	5.00-8.00	\$ 5,600,000	\$ 5,030,000		\$ 140,000	\$ 4,890,000
1994 C	5.70-8.70	4,100,000	230,000		110,000	120,000
1995 D	4.80-7.50	2,000,000	1,865,000		50,000	1,815,000
1997 E	5.10-7.00	2,000,000	190,000		40,000	150,000
1997 F	5.15-6.15	4,500,000	4,365,000		110,000	4,255,000
1998 Series						
(Refunding)	4.00-4.60	7,530,000	7,470,000		120,000	7,350,000
1999 G	4.20-7.20	1,500,000	1,500,000		30,000	1,470,000
2000 H	5.00-8.00	<u>2,000,000</u>	<u>2,000,000</u>			<u>2,000,000</u>
Total Elementary		<u>29,230,000</u>	<u>22,650,000</u>	\$ 0	<u>600,000</u>	<u>22,050,000</u>
High School						
1992 Series						
1993 A	5.50-8.50	\$ 6,000,000	\$ 5,180,000		\$ 170,000	\$ 5,010,000
1994 B	4.10-7.00	10,057,932	409,290		214,522	194,768
1995 Series						
(Refunding)	4.65-5.80	8,972,019	8,972,019			8,972,019
1997 C	4.50-6.20	10,623,276	9,195,846		732,198	8,463,648
1999 D	4.25-7.25	3,900,000	3,810,000		95,000	3,715,000
1999 E	4.50-7.00	2,600,000	2,600,000		55,000	2,545,000
2000 F	5.00-8.00	<u>9,400,000</u>	<u>9,400,000</u>			<u>9,400,000</u>
Total High School		<u>51,553,227</u>	<u>39,567,155</u>	\$ 0	<u>1,266,720</u>	<u>38,300,435</u>
Total Bonds		<u>\$ 80,783,227</u>	<u>\$ 62,217,155</u>	<u>\$ 0</u>	<u>\$ 1,866,720</u>	<u>\$ 60,350,435</u>

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)

Annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2001, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,984,871	\$ 2,817,013	\$ 4,801,884
2003	2,156,811	2,540,163	4,696,974
2004	2,259,596	2,532,996	4,792,592
2005	2,252,714	2,387,797	4,640,511
2006	2,125,006	2,274,384	4,399,390
Thereafter	<u>49,571,437</u>	<u>43,510,061</u>	<u>93,081,498</u>
Totals	<u>\$ 60,350,435</u>	<u>\$ 56,062,414</u>	<u>\$ 116,412,849</u>

NOTE 7 - CAPITAL LEASES

The District leases portables, furniture, equipment and vehicles under lease agreements, which provide for title to pass to the District upon expiration of the lease periods. Future minimum lease payments under these agreements are as follows:

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2002	\$ 763,440
2003	472,205
2004	387,047
2005	292,699
2006	262,147
Thereafter	<u>1,559,448</u>
Total Payments	3,736,986
Less Amounts Representing Interest	<u>(874,756)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,862,230</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for any items currently being purchased under capital lease agreements.

NOTE 8 - OPERATING LEASES

The District has entered into various operating leases related to capital improvement projects with lease terms in excess of one year. The monthly payments are made from the Capital Projects Funds. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates.

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 9 - RETIREE BENEFITS

In addition to the benefits described in Note 12, the District provides health, dental, vision, and life insurance benefits for eligible employees. Eligible employees must be at least 55 years of age and have provided 10 years of service to the District at the time of retirement. Benefits are paid by the District until the retiree reaches age 65. For the year ended June 30, 2001, 73 employees were eligible to receive retiree medical benefits and the District paid \$172,092 in benefits.

Future estimated payments required under the plan are as follows:

<u>Year Ended June 30</u>	<u>Retiree Benefits</u>
2002	\$ 183,924
2003	166,630
2004	138,540
2005	112,643
2006	96,407
Thereafter	<u>251,242</u>
Totals	<u>\$ 949,386</u>

NOTE 10 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2001, is shown below:

	<u>Balances July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2001</u>
Compensated Absences	\$ 470,076		\$ 17,463	\$ 452,613
General Obligation Bonds	62,217,155		1,866,720	60,350,435
Capital Leases	3,071,307	\$ 387,528	596,605	2,862,230
Retiree Benefits	<u>792,157</u>	<u>329,321</u>	<u>172,092</u>	<u>949,386</u>
Totals	<u>\$ 66,550,695</u>	<u>\$ 716,849</u>	<u>\$ 2,652,880</u>	<u>\$ 64,614,664</u>

NOTE 11 - FUND BALANCES

Reservations of fund balances as of June 30, 2001 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Funds</u>	<u>Totals</u>
Revolving Cash	\$ 20,000	\$ 300				\$ 20,300
Stores Inventory	88,814	26,090				114,904
Prepaid Expenses	64,466			\$ 4,778		69,244
Expendable Trusts					\$ 113,879	113,879
Restricted Programs	1,488,914					1,488,914
Debt Service			<u>\$ 5,860,611</u>			<u>5,860,611</u>
Totals	<u>\$ 1,662,194</u>	<u>\$ 26,390</u>	<u>\$ 5,860,611</u>	<u>\$ 4,778</u>	<u>\$ 113,879</u>	<u>\$ 7,667,852</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 11 - FUND BALANCES (CONTINUED)

Reserved for Revolving Fund represents the portion of the ending fund balance represented by the revolving fund cash.

Reserved for Stores Inventory represents the portion of the ending fund balance represented by stores inventory.

Reserved for Prepaid Expenses represents the portion of the ending fund balance represented by current year payments, which will benefit future periods beyond June 30, 2001.

Reserved for Expendable Trusts represents the ending fund balance represented by expendable and nonexpendable cash and investments.

Reserved for Debt Service represents the fund balance of the Bond Interest and Redemption Fund reserved for future payment of interest and redemption of bond principal.

Reserved for Restricted Programs represents unspent program revenues that are legally restricted for future use.

Restricted program balances at June 30, 2001 are as follows:

Gifted and Talented Education	\$ 34,788
School Safety	26,548
English Language Acquisition Program	1,900
Education Technology	1,597
California Public School Library Materials	96,428
Classroom Library Materials	16,634
Schiff-Bustamante Instructional Materials	440,111
Instructional Materials K-8	156,659
Instructional Materials 9-12	28,643
Instructional Materials – Staff Development	215,036
Instructional Materials – Lottery	188,908
District Block Grant	145,637
Peer Assistance and Review	95,537
Professional Development	9,433
10 th Grade Counseling	9,591
Water Lead Testing	671
Science Instructional Materials	<u>20,793</u>
Total	<u>\$ 1,488,914</u>

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 11 - FUND BALANCES (CONCLUDED)

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. Designations of the fund balance as of June 30, 2001 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Economic Uncertainties	\$ 1,520,512		
School Site Block Grants	106,762		
API	412,907		
Vending	25,824		
Grants and Donations	178,666		
Other Designations	_____	\$ 13,855	\$ 16,250
Totals	\$ 2,244,671	\$ 13,855	\$ 16,250

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2000-01 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2001, 2000, and 1999, were \$2,005,834, \$1,854,539 and \$1,650,201, respectively, and equal 100% of the required contributions for each year.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% 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 2000-01 was 0% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2001, 2000, and 1999, were \$0, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) for K-12 Education. This payment consists of state general fund contributions to STRS in the amount of \$1,489,423 (6.126% of salaries subject to STRS). The District has chosen not to include the revenues and expenditures for this payment in the financial statements. This amount represents a financial disclosure only and would not change the fund balance of any District fund had they been recorded.

NOTE 14 - STUDENT BODY FUNDS

Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area, for some fundraisers, does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000-01, the District participated in two joint powers authorities (JPAs) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years. (See Note 16 for the nature of District participation in the JPAs)

NOTE 16 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools Insurance Group (RESIG) and Schools Excess Liability Fund (SELF) for common risk management of property & liability and workers' compensation coverage. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

Nature of Participation

Property

District Deductible:	\$	3,000	
JPA's SIR:		150,000	
Excess Insurance:		1,000,000	
		14,000,000	(SELF)

Liability

District Deductible:	\$	1,000	
JPA's SIR:		150,000	
Excess Insurance:		1,000,000	
		14,000,000	(SELF)

Workers' Compensation

District Deductible:	\$	0	
JPA's SIR:		250,000	
Excess Insurance:		1,000,000 / 10,000,000	

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 16 - JOINT VENTURES (CONCLUDED)

Condensed audited financial information of RESIG and SELF for the year ended June 30, 2000, the most recent available, are as follows:

	<u>RESIG</u>		<u>SELF</u>
	<u>Property and Liability</u>	<u>Workers' Compensation</u>	<u>Excess Liability</u>
Total Assets	<u>\$ 1,597,192</u>	<u>\$ 16,919,241</u>	<u>\$ 109,411,523</u>
Total Liabilities	\$ 1,344,592	\$ 13,312,266	\$ 49,889,135
Total Fund Equity	<u>252,600</u>	<u>3,606,975</u>	<u>59,522,388</u>
Total Liabilities and Fund Equity	<u>\$ 1,597,192</u>	<u>\$ 16,919,241</u>	<u>\$ 109,411,523</u>
Total Revenues	\$ 1,701,130	\$ 6,938,260	\$ 24,146,323
Total Expenditures	<u>1,675,915</u>	<u>6,770,837</u>	<u>10,066,057</u>
Net Increase in Fund Equity	<u>\$ 25,215</u>	<u>\$ 167,423</u>	<u>\$ 14,080,266</u>

RESIG and SELF did not have long-term debt outstanding at June 30, 2000. The District's share of year-end assets, liabilities and fund equity has not been calculated.

School Project for Utility Rate Reduction

The District is also a member of a Joint Powers Authority, School Project for Utility Rate Reduction (SPURR), for the direct purchase of gas, electricity, and other utility services. SPURR also provides advisory services relative to utilities.

Condensed audited financial information of SPURR for the year ended June 30, 2000, the most recent available, is as follows:

Total Assets	<u>\$ 7,899,323</u>
Total Liabilities	\$ 7,659,187
Total Fund Equity	<u>240,136</u>
Total Liabilities and Fund Equity	<u>\$ 7,899,323</u>
Total Revenues	\$ 20,837,736
Total Expenditures	<u>21,101,078</u>
Net (Decrease) in Fund Equity	<u>\$ (263,342)</u>

The District's share of year-end assets, liabilities and fund equity has not been calculated.

PETALUMA CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

B. Litigation

The District is subject to legal proceedings and claims. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

C. Reimbursements

During the year ended June 30, 1990, the District entered into an informal agreement with both the Casa Grande High School Booster Club and the Petaluma High School Booster Club to reimburse the District for the costs of improving the two high schools' athletic facilities.

The Casa Grande High School Booster Club and the Petaluma High School Booster Club have agreed to reimburse the District a total of \$140,722 and \$251,095, respectively, the cost of improvements made through June 30, 1991, in annual installments of \$15,000 and \$10,000. During the year ended June 30, 2001, the District received no payments from either the Petaluma High School Booster Club or the Casa Grande High School Booster Club. The District renegotiated the agreements during the year ended June 30, 1998, allowing the Casa Grande High School Booster Club to defer payments for five years. In addition, the District relieved the Petaluma High School Booster Club of \$92,177 of the obligation. The remaining balance owed to the District at June 30, 2001 from the Casa Grande High School Booster Club and the Petaluma High School Booster Club is \$32,219 and \$49,272, respectively.

NOTE 18 - RESTATEMENT OF FUND BALANCES

The beginning fund balance of the Adult Education Fund has been restated to correct a prior year \$4,878 overstatement of accounts receivable related to JTPA revenue.

The beginning fund balance of the County School Facilities Fund has been restated to correct a prior year overstatement of accounts payable related to \$7,312 of County School Facilities Fund expenditures, which were incorrectly recorded as accounts payable in the State School Building Fund.

PETALUMA CITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 18 - RESTATEMENT OF FUND BALANCES (CONCLUDED)

The effects of the restatements on these financial statements are as follows:

	Adult Education <u>Fund</u>	State School Building <u>Fund</u>	County School Facilities <u>Fund</u>
Fund Balances – July 1, 2000 (as originally stated)	\$ 213,539	\$ 264,369	\$ 321,032
Overstatement of Accounts Receivable	(4,878)		
Overstatement of Accounts Payable		7,312	
Understatement of Accounts Payable	_____	_____	____(7,312)
Fund Balances – July 1, 2000 (as restated)	<u>\$ 208,661</u>	<u>\$ 271,681</u>	<u>\$ 313,720</u>

NOTE 19 - SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes (TRANS)

On July 3, 2001 the District issued tax and revenue anticipation notes (TRANS) for \$3,225,000. The notes mature on July 3, 2002 and bear interest at 3.5%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

B. Capital Lease

On July 24, 2001, the District entered into a new capital lease agreement for the purchase of equipment. The agreement provides for title to pass upon expiration of the lease period. Future minimum lease payments under this agreement is as follows:

Year Ended <u>June 30</u>	Lease <u>Payments</u>
2002	\$ 4,219
2003	5,063
2004	____844
Total Payments	10,126
Less Amounts Representing Interest	____(755)
Present Value of Net Minimum Lease Payments	<u>\$ 9,371</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for any items purchased under this agreement.

COMBINING STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 SPECIAL REVENUE FUNDS
 JUNE 30, 2001

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>	<u>Totals</u>
ASSETS				
Cash in County Treasury	\$ 161,237	\$ 1,322	\$ 168,362	\$ 330,921
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		62,135		62,135
State Government	217,294	6,018	50,460	273,772
Local Government			21,931	21,931
Miscellaneous		33,117		33,117
Due from Other Funds	254,000	13,484	77,057	344,541
Stores Inventory		26,090		26,090
Total Assets	<u>\$ 632,531</u>	<u>\$ 142,166</u>	<u>\$ 318,110</u>	<u>\$ 1,092,807</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 32,875	\$ 12,515	\$ 58,138	\$ 103,528
Due to Other Funds	5,238	126,708	85,856	217,802
Deferred Revenue			97,279	97,279
Total Liabilities	<u>38,113</u>	<u>139,223</u>	<u>241,273</u>	<u>418,609</u>
Fund Balances:				
Reserved		26,090	300	26,390
Unreserved				
Designated		562	13,293	13,855
Undesignated (Deficit)	594,418	(23,709)	63,244	633,953
Total Fund Balances	<u>594,418</u>	<u>2,943</u>	<u>76,837</u>	<u>674,198</u>
Total Liabilities and Fund Balances	<u>\$ 632,531</u>	<u>\$ 142,166</u>	<u>\$ 318,110</u>	<u>\$ 1,092,807</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Deferred Maintenance	Cafeteria	Adult Education	Totals
REVENUES				
Revenue Limit Sources:				
State Apportionment			\$ 1,058,003	\$ 1,058,003
Federal Sources:				
Child Nutrition Program		\$ 340,738		340,738
Other State Sources:				
State Nutrition Program		34,159		34,159
Other	\$ 238,338		87,466	325,804
Local Sources:				
Food Service Sales		1,325,913		1,325,913
Interest	8,237		22,984	31,221
Other			78,762	78,762
Total Revenues	<u>246,575</u>	<u>1,700,810</u>	<u>1,247,215</u>	<u>3,194,600</u>
EXPENDITURES				
Certificated Salaries			704,668	704,668
Classified Salaries	40,231	700,444	201,127	941,802
Employee Benefits	14,758	204,209	200,368	419,335
Books and Supplies		772,242	55,016	827,258
Services and Other				
Operating Expenditures	168,213	14,128	133,769	316,110
Capital Outlay	3,992	9,376	21,865	35,233
Debt Service:				
Principal Retirement		11,531	3,367	14,898
Interest and Fiscal Charges		5,474	1,082	6,556
Total Expenditures	<u>227,194</u>	<u>1,717,404</u>	<u>1,321,262</u>	<u>3,265,860</u>
Excess of Revenues Over (Under) Expenditures	<u>19,381</u>	<u>(16,594)</u>	<u>(74,047)</u>	<u>(71,260)</u>
Other Financing Sources (Uses):				
Operating Transfers In	254,000			254,000
Operating Transfers Out			(57,777)	(57,777)
Total Other Financing Sources (Uses)	<u>254,000</u>	<u>0</u>	<u>(57,777)</u>	<u>196,223</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	273,381	(16,594)	(131,824)	124,963
Fund Balances - July 1, 2000 (As restated - Note 18)	<u>321,037</u>	<u>19,537</u>	<u>208,661</u>	<u>549,235</u>
Fund Balances - June 30, 2001	<u>\$ 594,418</u>	<u>\$ 2,943</u>	<u>\$ 76,837</u>	<u>\$ 674,198</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	DEFERRED MAINTENANCE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 225,000	\$ 238,338	\$ 13,338
Local Sources:			
Interest	4,400	8,237	3,837
Total Revenues	<u>229,400</u>	<u>246,575</u>	<u>17,175</u>
<u>EXPENDITURES</u>			
Classified Salaries	67,912	40,231	27,681
Employee Benefits	24,087	14,758	9,329
Services and Other			
Operating Expenditures	411,204	168,213	242,991
Capital Outlay	3,996	3,992	4
Total Expenditures	<u>507,199</u>	<u>227,194</u>	<u>280,005</u>
Excess of Revenues Over (Under) Expenditures	(277,799)	19,381	297,180
Other Financing Sources:			
Operating Transfers In	<u>230,000</u>	<u>254,000</u>	<u>24,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	<u>\$ (47,799)</u>	273,381	<u>\$ 321,180</u>
Fund Balance - July 1, 2000		<u>321,037</u>	
Fund Balance - June 30, 2001		<u>\$ 594,418</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CAFETERIA		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Federal Sources:			
Child Nutrition Program	\$ 353,843	\$ 340,738	\$ (13,105)
Other State Sources:			
State Nutrition Program	36,153	34,159	(1,994)
Local Sources:			
Food Service Sales	1,329,350	1,325,913	(3,437)
Total Revenues	<u>1,719,346</u>	<u>1,700,810</u>	<u>(18,536)</u>
<u>EXPENDITURES</u>			
Classified Salaries	700,729	700,444	285
Employee Benefits	204,209	204,209	
Books and Supplies	772,243	772,242	1
Services and Other			
Operating Expenditures	14,134	14,128	6
Capital Outlay	9,401	9,376	25
Debt Service:			
Principal Retirement	11,531	11,531	
Interest and Fiscal Charges	5,474	5,474	
Total Expenditures	<u>1,717,721</u>	<u>1,717,404</u>	<u>317</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 1,625</u>	(16,594)	<u>\$ (18,219)</u>
Fund Balance - July 1, 2000		<u>19,537</u>	
Fund Balance - June 30, 2001		<u>\$ 2,943</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Revenue Limit Sources:			
State Apportionment	\$ 1,082,057	\$ 1,058,003	\$ (24,054)
Other State Sources:			
Other	184,744	87,466	(97,278)
Local Sources:			
Interest	24,000	22,984	(1,016)
Other	63,990	78,762	14,772
Total Revenues	<u>1,354,791</u>	<u>1,247,215</u>	<u>(107,576)</u>
<u>EXPENDITURES</u>			
Certificated Salaries	704,818	704,668	150
Classified Salaries	227,620	201,127	26,493
Employee Benefits	200,461	200,368	93
Books and Supplies	57,970	55,016	2,954
Services and Other			
Operating Expenditures	142,545	133,769	8,776
Capital Outlay	52,010	21,865	30,145
Debt Service:			
Principal Retirement	3,367	3,367	
Interest and Fiscal Charges	1,082	1,082	
Total Expenditures	<u>1,389,873</u>	<u>1,321,262</u>	<u>68,611</u>
Excess of Revenues (Under) Expenditures	(35,082)	(74,047)	(38,965)
Other Financing (Uses):			
Operating Transfers Out	(58,329)	(57,777)	552
Excess of Revenues (Under) Expenditures and Other Uses	<u>\$ (93,411)</u>	<u>(131,824)</u>	<u>\$ (38,413)</u>
Fund Balance - July 1, 2000 (As restated - Note 18)		<u>208,661</u>	
Fund Balance - June 30, 2001		<u>\$ 76,837</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionment	\$ 1,082,057	\$ 1,058,003	\$ (24,054)
Federal Sources:			
Child Nutrition Program	353,843	340,738	(13,105)
Other State Sources:			
State Nutrition Program	36,153	34,159	(1,994)
Other	409,744	325,804	(83,940)
Local Sources:			
Food Service Sales	1,329,350	1,325,913	(3,437)
Interest	28,400	31,221	2,821
Other	63,990	78,762	14,772
Total Revenues	<u>3,303,537</u>	<u>3,194,600</u>	<u>(108,937)</u>
EXPENDITURES			
Certificated Salaries	704,818	704,668	150
Classified Salaries	996,261	941,802	54,459
Employee Benefits	428,757	419,335	9,422
Books and Supplies	830,213	827,258	2,955
Services and Other			
Operating Expenditures	567,883	316,110	251,773
Capital Outlay	65,407	35,233	30,174
Debt Service:			
Principal Retirement	14,898	14,898	
Interest and Fiscal Charges	6,556	6,556	
Total Expenditures	<u>3,614,793</u>	<u>3,265,860</u>	<u>348,933</u>
Excess of Revenues (Under) Expenditures	<u>(311,256)</u>	<u>(71,260)</u>	<u>239,996</u>
Other Financing Sources (Uses):			
Operating Transfers In	230,000	254,000	24,000
Operating Transfers Out	(58,329)	(57,777)	552
Total Other Financing Sources (Uses)	<u>171,671</u>	<u>196,223</u>	<u>24,552</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ (139,585)</u>	124,963	<u>\$ 264,548</u>
Fund Balances - July 1, 2000 (As restated - Note 18)		<u>549,235</u>	
Fund Balances - June 30, 2001		<u>\$ 674,198</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2001

	<u>Capital Facilities</u>	<u>State School Building</u>
<u>ASSETS</u>		
Cash in County Treasury	\$ 2,475,500	\$ 238,548
Accounts Receivable		
Miscellaneous	35,664	
Due from Other Funds	5,000	
Prepaid Expenses		
Total Assets	<u>\$ 2,516,164</u>	<u>\$ 238,548</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts Payable	\$ 30,448	\$ 9,137
Due to Other Funds		
Total Liabilities	<u>30,448</u>	<u>9,137</u>
Fund Balances:		
Reserved		
Unreserved		
Designated		
Undesignated	<u>2,485,716</u>	<u>229,411</u>
Total Fund Balances	<u>2,485,716</u>	<u>229,411</u>
Total Liabilities and Fund Balances	<u>\$ 2,516,164</u>	<u>\$ 238,548</u>

Building	Special Reserve	County School Facilities	Totals
\$ 12,389,756	\$ 3,792	\$ 688,332	\$ 15,795,928
4	185,800		221,468
263,593		101,921	370,514
4,778			4,778
<u>\$ 12,658,131</u>	<u>\$ 189,592</u>	<u>\$ 790,253</u>	<u>\$ 16,392,688</u>
\$ 259,723	\$ 3,735	\$ 152,768	\$ 455,811
185,537	120,000	263,593	569,130
<u>445,260</u>	<u>123,735</u>	<u>416,361</u>	<u>1,024,941</u>
4,778			4,778
	16,250		16,250
12,208,093	49,607	373,892	15,346,719
<u>12,212,871</u>	<u>65,857</u>	<u>373,892</u>	<u>15,367,747</u>
<u>\$ 12,658,131</u>	<u>\$ 189,592</u>	<u>\$ 790,253</u>	<u>\$ 16,392,688</u>

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Capital Facilities</u>	<u>State School Building</u>
<u>REVENUES</u>		
Other State Sources:		
Other		
Local Sources:		
Developer Fees	\$ 766,259	
Interest	134,125	\$ 30,602
Other		
Total Revenues	<u>900,384</u>	<u>30,602</u>
<u>EXPENDITURES</u>		
Classified Salaries	9,261	
Employee Benefits	2,904	
Books and Supplies	96	
Services and Other		
Operating Expenditures	133,952	
Capital Outlay	378,464	72,872
Debt Service:		
Principal Retirement	245,885	
Interest and Fiscal Charges	37,118	
Total Expenditures	<u>807,680</u>	<u>72,872</u>
Excess of Revenues Over (Under) Expenditures	<u>92,704</u>	<u>(42,270)</u>
Other Financing Sources (Uses):		
Operating Transfers In		
Operating Transfers Out		
Other Sources		
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	92,704	(42,270)
Fund Balances (Deficit) - July 1, 2000 (As restated - Note 18)	<u>2,393,012</u>	<u>271,681</u>
Fund Balances - June 30, 2001	<u>\$ 2,485,716</u>	<u>\$ 229,411</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>Special Reserve</u>	<u>County School Facilities</u>	<u>Totals</u>
		\$ 4,145,401	\$ 4,145,401
\$ 779,025		28,850	766,259
	\$ 9,600		972,602
<u>779,025</u>	<u>9,600</u>	<u>4,174,251</u>	<u>5,893,862</u>
108,248			117,509
35,212			38,116
3,071	2,232		5,399
143,828	11,088		288,868
1,855,272	50,871	4,744,385	7,101,864
35,225	75,452		356,562
4,811	119,598		161,527
<u>2,185,667</u>	<u>259,241</u>	<u>4,744,385</u>	<u>8,069,845</u>
<u>(1,406,642)</u>	<u>(249,641)</u>	<u>(570,134)</u>	<u>(2,175,983)</u>
10,212	200,787	630,306	841,305
(710,306)			(710,306)
	212,500		212,500
<u>(700,094)</u>	<u>413,287</u>	<u>630,306</u>	<u>343,499</u>
(2,106,736)	163,646	60,172	(1,832,484)
<u>14,319,607</u>	<u>(97,789)</u>	<u>313,720</u>	<u>17,200,231</u>
<u>\$ 12,212,871</u>	<u>\$ 65,857</u>	<u>\$ 373,892</u>	<u>\$ 15,367,747</u>

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Developer Fees	\$ 817,800	\$ 766,259	\$ (51,541)
Interest	92,500	134,125	41,625
Total Revenues	<u>910,300</u>	<u>900,384</u>	<u>(9,916)</u>
<u>EXPENDITURES</u>			
Classified Salaries	10,432	9,261	1,171
Employee Benefits	3,350	2,904	446
Books and Supplies	100	96	4
Services and Other			
Operating Expenditures	175,699	133,952	41,747
Capital Outlay	1,214,772	378,464	836,308
Debt Service:			
Principal Retirement	245,885	245,885	
Interest and Fiscal Charges	37,119	37,118	1
Total Expenditures	<u>1,687,357</u>	<u>807,680</u>	<u>879,677</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (777,057)</u>	92,704	<u>\$ 869,761</u>
Fund Balance - July 1, 2000		<u>2,393,012</u>	
Fund Balance - June 30, 2001		<u>\$ 2,485,716</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>STATE SCHOOL BUILDING</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 30,602	\$ 30,602	
<u>EXPENDITURES</u>			
Capital Outlay	193,762	72,872	\$ 120,890
Excess of Revenues (Under) Expenditures	<u>\$ (163,160)</u>	(42,270)	<u>\$ 120,890</u>
Fund Balance - July 1, 2000 (As restated - Note 18)		<u>271,681</u>	
Fund Balance - June 30, 2001		<u>\$ 229,411</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	BUILDING		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 784,000	\$ 779,025	\$ (4,975)
<u>EXPENDITURES</u>			
Classified Salaries	134,472	108,248	26,224
Employee Benefits	48,213	35,212	13,001
Books and Supplies	3,150	3,071	79
Services and Other			
Operating Expenditures	158,488	143,828	14,660
Capital Outlay	8,203,404	1,855,272	6,348,132
Debt Service:			
Principal Retirement	35,225	35,225	
Interest and Fiscal Charges	4,811	4,811	
Total Expenditures	<u>8,587,763</u>	<u>2,185,667</u>	<u>6,402,096</u>
Excess of Revenues (Under) Expenditures	<u>(7,803,763)</u>	<u>(1,406,642)</u>	<u>6,397,121</u>
Other Financing Sources (Uses):			
Operating Transfers In		10,212	10,212
Operating Transfers Out	(1,851,436)	(710,306)	1,141,130
Total Other Financing Sources (Uses)	<u>(1,851,436)</u>	<u>(700,094)</u>	<u>1,151,342</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Uses	<u>\$ (9,655,199)</u>	(2,106,736)	<u>\$ 7,548,463</u>
Fund Balance - July 1, 2000		<u>14,319,607</u>	
Fund Balance - June 30, 2001		<u>\$ 12,212,871</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	SPECIAL RESERVE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 5,355		\$ (5,355)
Other	9,600	\$ 9,600	
Total Revenues	<u>14,955</u>	<u>9,600</u>	<u>(5,355)</u>
<u>EXPENDITURES</u>			
Books and Supplies	2,942	2,232	710
Services and Other			
Operating Expenditures	11,129	11,088	41
Capital Outlay	52,058	50,871	1,187
Debt Service:			
Principal Retirement	75,452	75,452	
Interest and Fiscal Charges	119,598	119,598	
Total Expenditures	<u>261,179</u>	<u>259,241</u>	<u>1,938</u>
Excess of Revenues (Under) Expenditures	<u>(246,224)</u>	<u>(249,641)</u>	<u>(3,417)</u>
Other Financing Sources:			
Operating Transfers In	215,000	200,787	(14,213)
Other Sources	212,500	212,500	
Total Other Financing Sources	<u>427,500</u>	<u>413,287</u>	<u>(14,213)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>\$ 181,276</u>	163,646	<u>\$ (17,630)</u>
Fund Deficit - July 1, 2000		<u>(97,789)</u>	
Fund Balance - June 30, 2001		<u>\$ 65,857</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	COUNTY SCHOOL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 6,245,399	\$ 4,145,401	\$ (2,099,998)
Local Sources:			
Interest	48,115	28,850	(19,265)
Total Revenues	6,293,514	4,174,251	(2,119,263)
<u>EXPENDITURES</u>			
Capital Outlay	7,857,741	4,744,385	3,113,356
Excess of Revenues (Under) Expenditures	(1,564,227)	(570,134)	994,093
Other Financing Sources:			
Operating Transfers In	1,781,648	630,306	(1,151,342)
Excess of Revenues and Other Financing Sources Over Expenditures	<u>\$ 217,421</u>	60,172	<u>\$ (157,249)</u>
Fund Balance - July 1, 2000 (As restated - Note 18)		<u>313,720</u>	
Fund Balance - June 30, 2001		<u>\$ 373,892</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	TOTAL CAPITAL PROJECTS FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Sources:			
Other	\$ 6,245,399	\$ 4,145,401	\$ (2,099,998)
Local Sources:			
Developer Fees	817,800	766,259	(51,541)
Interest	960,572	972,602	12,030
Other	9,600	9,600	
Total Revenues	<u>8,033,371</u>	<u>5,893,862</u>	<u>(2,139,509)</u>
EXPENDITURES			
Classified Salaries	144,904	117,509	27,395
Employee Benefits	51,563	38,116	13,447
Books and Supplies	6,192	5,399	793
Services and Other			
Operating Expenditures	345,316	288,868	56,448
Capital Outlay	17,521,737	7,101,864	10,419,873
Debt Service:			
Principal Retirement	356,562	356,562	
Interest and Fiscal Charges	161,528	161,527	1
Total Expenditures	<u>18,587,802</u>	<u>8,069,845</u>	<u>10,517,957</u>
Excess of Revenues (Under) Expenditures	<u>(10,554,431)</u>	<u>(2,175,983)</u>	<u>8,378,448</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,996,648	841,305	(1,155,343)
Operating Transfers Out	(1,851,436)	(710,306)	1,141,130
Other Sources	212,500	212,500	
Total Other Financing Sources (Uses)	<u>357,712</u>	<u>343,499</u>	<u>(14,213)</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Uses	<u>\$ (10,196,719)</u>	<u>(1,832,484)</u>	<u>\$ 8,364,235</u>
Fund Balances - July 1, 2000 (As restated - Note 18)		<u>17,200,231</u>	
Fund Balances - June 30, 2001		<u>\$ 15,367,747</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING BALANCE SHEET
 TRUST AND AGENCY FUNDS
 JUNE 30, 2001

	<u>Expendable Trusts</u>			<u>Agency Funds</u>	<u>Total Trust and Agency Funds</u>
	<u>Schwobeda Memorial Trust Fund</u>	<u>At Risk Youth Trust Fund</u>	<u>Total Trust Funds</u>		
<u>Assets</u>					
Cash in County Treasury	\$ 56		\$ 56		\$ 56
Cash on Hand and in Bank	7,736	\$ 5,259	12,995	\$ 513,102	526,097
Investments	99,781		99,781		99,781
Accounts Receivable Interest	<u>1,101</u>		<u>1,101</u>		<u>1,101</u>
Total Assets	<u>\$ 108,674</u>	<u>\$ 5,259</u>	<u>\$ 113,933</u>	<u>\$ 513,102</u>	<u>\$ 627,035</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 54		\$ 54		\$ 54
Due to Student Groups				<u>\$ 513,102</u>	<u>513,102</u>
Total Liabilities	54		54	513,102	513,156
Fund Balances:					
Reserved for Expendable Trusts	<u>108,620</u>	<u>\$ 5,259</u>	<u>113,879</u>		<u>113,879</u>
Total Liabilities and Fund Balances	<u>\$ 108,674</u>	<u>\$ 5,259</u>	<u>\$ 113,933</u>	<u>\$ 513,102</u>	<u>\$ 627,035</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS - STUDENT BODY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Balances</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2001</u>
<u>ASSETS</u>				
Cash:				
Petaluma High	\$ 285,828	\$ 560,981	\$ 624,867	\$ 221,942
San Antonio High	326	0	326	0
Casa Grande High	180,468	521,904	512,980	189,392
Sonoma Mountain High	49	1,882	1,866	65
Carpe Diem High	168	3,625	3,516	277
Kenilworth Junior High	45,234	145,426	130,024	60,636
Petaluma Junior High	34,780	152,714	148,642	38,852
McNear Elementary	837	748	1,585	0
McDowell Elementary	2,270	8,367	8,699	1,938
	<u>2,270</u>	<u>8,367</u>	<u>8,699</u>	<u>1,938</u>
Total Assets	<u>\$ 549,960</u>	<u>\$ 1,395,647</u>	<u>\$ 1,432,505</u>	<u>\$ 513,102</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 549,960</u>	<u>\$ 1,395,647</u>	<u>\$ 1,432,505</u>	<u>\$ 513,102</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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SUPPLEMENTARY INFORMATION SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the fiscal year ended June 30, 2001 and have issued our report thereon dated October 18, 2001. In our report, our opinion was qualified because of the omission of the general fixed assets account group. These financial statements are the responsibility of the District's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial and compliance 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, prescribed by the State Controller. 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 opinion.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial and statistical information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Petaluma City Schools. The accompanying schedule of expenditures of federal awards is presented for purposes of analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, and is not a required part of the financial statements of Petaluma City Schools. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 18, 2001

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD/ADMINISTRATION

JUNE 30, 2001

ORGANIZATION

Petaluma City Schools, a political subdivision of the State of California, was established in 1857. The territory covered by the District includes Petaluma City Elementary School District and the Petaluma Joint Union High School District. There were no changes in the boundaries of the District during the current year.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Christina Kauk	President	December, 2002
Lou Steinberg	Clerk	December, 2002
Deborah Sloan	Member	December, 2004
Camille Sauv�	Member	December, 2004
Carolyn Tennyson	Member	December, 2002

ADMINISTRATION

Dr. Carl Wong
Superintendent

Steve Bolman
Assistant Superintendent, Business

Dr. D. Kim Jamieson
Deputy Superintendent, Human Services

Dr. Mike Carey
Assistant Superintendent, Instruction

PETALUMA CITY SCHOOLS
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	298	297
First through Third	958	959
Fourth through Sixth	1,089	1,091
Special Education	45	46
Home or Hospital	<u>2</u>	<u>2</u>
Subtotal	<u>2,392</u>	<u>2,395</u>
<u>Secondary</u>		
Seventh and Eighth	1,690	1,688
Ninth through Twelfth	3,091	3,055
Continuation Education	172	170
Home or Hospital	18	20
Special Education	37	38
Community Day School	8	9
Extended Year	<u>2</u>	<u>2</u>
Subtotal	<u>5,018</u>	<u>4,982</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	3	2
Not Concurrently Enrolled	<u>414</u>	<u>454</u>
Totals	<u>7,827</u>	<u>7,833</u>
<u>Community Day School</u>		
Elementary		
5th Hour	7	8
6th Hour	7	8
<u>Summer School</u>		
		<u>Hours of Attendance</u>
<u>Elementary</u>		
Core		6,372
Remedial		40,161
Pupils Retained/Recommended for Retention and Pupils at Risk of Retention:		
Grades 2 through 6		21,614
Elementary Intensive Reading Program:		
Grades K through 4		3,086
<u>Secondary</u>		
Remedial		48,387

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Grade Level</u>	<u>1986-87 Minutes Required</u>	<u>1982-83 Actual Minutes</u>	<u>2000-01 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 through 3	50,400	42,000	50,695	In Compliance
Grades 4 through 6	54,000	49,875	54,105	In Compliance
Grades 7 through 8	54,000	49,875	54,665	In Compliance
Grades 9 through 12	64,800	56,525	65,349	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
US Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	03524	\$ 267,865
Basic School Breakfast	10.553	03525	5,233
Especially Needy Breakfast	10.553	03526	64,879
Meal Supplements	10.557	03755	2,761
US Department of Education:			
Passed through CDE:			
IASA - Title I	84.010	03797	254,731
IASA - Title VI	84.298	03340	31,393
Special Education (PL 101-476)	84.027	03379	611,559
Special Education - Workability	84.027A	03705	63,512
Communities & Schools for Career Success		05448	100,000
Homeless Children Education	84.196	03699	23,338
Class Size Reduction	84.340	03073	70,042
Eisenhower	84.168	03207	19,646
Drug Free Schools	84.186	03453	29,446
Vocational Education Act - Carl Perkins	84.048	03577	40,274
Goals 2000	84.276	03264	6,733
Emergency Immigrant Education	84.162	03159	13,283
School To Career	84.048	10009	20,644
Subtotal			<u>1,625,339</u>
Nonmonetary Assistance			
USDA Food Distribution	10.550		<u>36,981</u>
Total			<u><u>\$1,662,320</u></u>

PETALUMA CITY SCHOOLS
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
 WITH AUDITED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>County School Facilities Fund</u>
June 30, 2001 Annual Financial and Budget Report Fund Balance	\$ 473,396
Adjustments and Reclassifications: (Decreasing) Fund Balance:	
Understatement of Capital Outlay Expense	<u>(99,504)</u>
June 30, 2001 Audited Financial Statements Fund Balance	<u>\$ 373,892</u>

	<u>General Long-Term Debt Account Group</u>
June 30, 2001 Annual Financial and Budget Report Total Liabilities	\$ <u>66,478,872</u>
Adjustments and Reclassifications: Increasing (Decreasing) Total Liabilities:	
Overstatement of General Obligation Bonds	(1,866,720)
Understatement of Capital Leases	<u>2,512</u>
Net Adjustments and Reclassifications	<u>(1,864,208)</u>
June 30, 2001 Audited Financial Statement, General Long-Term Debt Total Liabilities	<u>\$ 64,614,664</u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2001.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GENERAL FUND			
	(Budget) 2001-02	2000-01	1999-00	1998-99
Revenues and Other Financial Sources	\$ 51,467,818	\$ 52,322,587	\$ 45,442,224	\$ 41,836,526
Expenditures	51,116,119	52,199,298	44,064,666	40,505,191
Other Uses and Transfers Out	393,460	384,999	199,256	260,784
Total Outgo	51,509,579	52,584,297	44,263,922	40,765,975
Change in Fund Balance	(41,761)	(261,710)	1,178,302	1,070,551
Ending Fund Balance	\$ 3,865,104	\$ 3,906,865	\$ 4,168,575	\$ 2,990,273
Available Reserves	\$ 1,575,579	\$ 1,520,512	\$ 2,459,951	\$ 1,919,058
Designated for Economic Uncertainties	\$ 1,545,287	\$ 1,520,512	\$ 1,357,366	\$ 1,255,796
Undesignated Fund Balance	\$ 30,292	\$ 0	\$ 1,102,585	\$ 663,262
Available Reserves as a Percentage of Total Outgo	3.1%	2.9%	5.6%	4.7%
Total Long-Term Debt	\$ 61,855,292	\$ 64,614,664	\$ 66,550,695	\$ 56,597,100
Average Daily Attendance at P-2 (Exclusive of Adult ADA)	7,511	7,410	7,309	7,219

The fund balance of the General Fund has increased \$916,592 (30.65%) over the past two years. The fiscal year 2001-02 budget projects an decrease of \$41,761. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). The District ended fiscal year 2000-01 with a 2.9% reserve due to unanticipated expenditures that took place at year end, but the District anticipates an available reserve of 3.1% of total general fund expenditures, transfers out and other uses for fiscal year 2001-02.

The District's General Fund produced operating surpluses of \$1,070,551 and \$1,178,302 in 1998-99 and 1999-00, respectively, and produced an operating deficit of \$261,710 in fiscal year 2000-01.

Long-term debt has increased \$8,017,564 over the past two years, due primarily to the issuance of general obligation bonds in the amount of \$11,400,000 during fiscal year 1999-00.

Average daily attendance has increased by 191 ADA over the past two years. The fiscal year 2001-02 budget projects an increase of 101 ADA.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance 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.

B. 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 46201 through 46206.

C. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and state requirements, this schedule was prepared for the District.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Annual Financial and Budget Report to the audited financial statements.

E. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

INDEPENDENT AUDITOR REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 18, 2001. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Except as discussed in the preceding sentence, our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	3	Yes
Staff Development Days	3	Yes
Kindergarten Enrollment	4	Yes
Independent Study	13	Yes
Continuation Education	12	Yes
Adult Education	8	Yes
Regional Occupational Center/Programs	5	Not Applicable
County Office of Education Programs	9	Not Applicable

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentive for longer instructional day: School Districts	3	Yes
County Offices of Education	3	Not Applicable
GANN Limit Calculation	2	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	Yes
Class Size Reduction:		
Option One Classes	11	Yes
Option Two Classes	10	Not Applicable
Option One and Two Classes	16	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Materials Fund	8	Yes
Schiff-Bustamante Standards Based Instructional Materials	4	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public Schools Library Act of 1998	4	Yes
Office of Criminal Justice Planning	-	Not Applicable

Based on our audit, we found that, for the items tested, the Petaluma City Schools complied with the state laws and regulations of the state programs referred to above, except as described in the Findings and Recommendations Section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Petaluma City Schools had not complied with the state laws and regulations.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
 Certified Public Accountants

October 18, 2001

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

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

Board of Education
Petaluma City Schools
Petaluma, California

We have audited the combined and combining general-purpose financial statements of Petaluma City Schools as of and for the year ended June 30, 2001, and have issued our report thereon dated October 18, 2001. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Findings and Recommendations Section of this report.

Internal Control over Financial Reporting (Concluded)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 18, 2001

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Petaluma City Schools
Petaluma, California

Compliance

We have audited the compliance of Petaluma City Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Petaluma City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 reasonable basis for our opinion. Our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

In our opinion, Petaluma City Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying Findings and Recommendations Section of this report.

Internal Control Over Compliance

The management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 18, 2001

FINDINGS AND RECOMMENDATIONS SECTION

PETALUMA CITY SCHOOLS
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 JUNE 30, 2001

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? _____ X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? _____ X Yes _____ None reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a) _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
84.027	Special Education
10.555/10.553/10.557	National School Lunch Cluster

Dollar threshold used to distinguish between Type A
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

State Awards

Internal control over state programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered
to be material weaknesses? _____ X Yes _____ None reported

Type of auditor's report issued on compliance for
state programs: Unqualified

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL

01 - 1 / 30000

CASH DISBURSEMENTS

Criteria: Evidence of receipt of conforming goods or services should be obtained prior to processing invoices for payment.

Condition: Packing slips were not attached to cafeteria invoices to document that conforming goods had been received prior to issuing payment.

Questioned Costs: None.

Context: The condition was present in three of thirty-three transactions tested.

Effect: The District may pay for goods that were never received.

Cause: Payments were issued prior to obtaining documented evidence that goods had been received.

Recommendation: Cafeteria invoices should not be processed for payment prior to obtaining documented evidence that goods have been received.

District Response: The District will remind staff of proper internal controls and implement the recommended change.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL (CONTINUED)

01 - 2 / 30000

STUDENT BODY – CASH DISBURSEMENTS

Criteria: 1. Education Code Section 48933 requires that every time student body funds are expended, approval is required by each of the following three persons; an employee or official of the district designated by the governing board, the certificated employee who is the designated advisor of the particular student body organization, and a representative of the particular student body organization.

2. Checks should be manually signed by two authorized signers.

Condition: 1. The District was unable to provide evidence that student body expenditures had been approved by the student body or student body representative.

2. Checks were issued with only one of the two required signatures.

Questioned Cost: None.

Context: The conditions were present in:

1. Five of ten transactions tested.

2. Nine of approximately one hundred cancelled checks reviewed.

Effects: 1. The District did not comply with the requirements of Education Code Section 48933.

2. Two authorized signors are not reviewing student body expenditures prior to payment.

Cause: Individuals responsible for student body accounts generally have very limited training and experience in internal control procedures, and are usually required to perform numerous tasks in a work environment filled with many interruptions.

Recommendation: 1. All student body expenditures should be approved by the student body or student body representative. No payment should be issued prior to obtaining documented authorization.

2. Checks should not be issued prior to obtaining the signatures of two authorized signers.

District Response: The District will remind staff of proper internal controls and implement the recommended change.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL (CONTINUED)

01 - 3 / 30000

CASH RECEIPTS

<u>Criteria:</u>	Cash receipts should be deposited in a timely manner to maximize interest earnings and safeguard District assets.
<u>Condition:</u>	Deposits were not made in a timely manner on a consistent basis during fiscal year 2000-01. School sites held checks for over a month prior to forwarding to the District office for deposit.
<u>Questioned Cost:</u>	None.
<u>Context:</u>	This condition was noted during our testing of the detail of deposited items on four deposits.
<u>Effect:</u>	The District is not earning interest on checks and cash held at school sites.
<u>Cause:</u>	The District has not emphasized the importance of forwarding checks and cash to the District office, for deposit, on a weekly basis.
<u>Recommendation:</u>	Deposits should be made at least every two weeks, and more frequently, if large amounts of cash or checks are received by the District Office. School sites should be informed that all cash and checks should be forwarded to the District office on a weekly basis.
<u>District Response:</u>	The District will remind staff of proper internal controls and implement the recommended change.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL (CONTINUED)

01 - 4 / 30000

CAFETERIA CASH RECEIPTS

Criteria: In order to maintain appropriate internal controls over cafeteria cash receipts, duties should be segregated to ensure that the individual who counts cafeteria cash receipts, does not have access to the accounting records that support the amount of cash that should have been collected.

Condition: The cafeteria cash receipts clerk counts all cash received from the elementary sites, and maintains the completed meal rosters and daily sales reports, that support the amount of cash collected. In addition, the meal rosters and daily sales reports are completed in pencil and are not signed by the preparer.

Questioned Cost: None.

Context: This condition was present for all cash collected from the cafeterias at the elementary sites.

Effect: Internal control procedures are not adequate to prevent or detect potential irregularities that may be caused by the absence of an appropriate segregation of duties.

Cause: Due to limited staffing, the District has been unable to provide an appropriate segregation of duties.

Recommendation: Meal rosters and daily sales reports should be completed in ink, and should be signed by the individuals at the sites who prepared them.

District Response: The District will remind staff of proper internal controls and work with the Department Manager to segregate duties to limit exposure and implement the recommended change.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL (CONTINUED)

01 – 5 / 30000

BANK ACCOUNTS

Criteria: Revolving and abatement bank accounts should be reconciled on a monthly basis.

Condition: Bank statements are not being reconciled in a timely manner.

Questioned Costs: None.

Context: Bank reconciliations were not prepared for the revolving and abatement accounts on a monthly basis. The March 2001 bank statements were the last reconciliations performed as of October 17, 2001.

Effect: Errors or irregularities may occur and not be detected in a timely manner.

Cause: Due to limited staffing, the revolving and abatement accounts were not considered a priority.

Recommendation: Revolving and abatement bank accounts should be reconciled on a monthly basis.

District Response: The District will review staff duties and reassign to allow for timely reconciliations of bank accounts.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

INTERNAL CONTROL (CONCLUDED)

01 - 6 / 30000

VACATION CARRYOVER

- Criteria:** The District vacation policy allows eligible employees to accumulate and carryover 20 days of unused vacation to the next fiscal year.
- Condition:** As of June 30, 2001, approximately 51 employees had vacation balances that exceeded 20 days.
- Questioned Cost:** None.
- Context:** All District employees with vacation balances as of June 30, 2001.
- Effect:** The District vacation policy is not being adhered to and the liability for accrued unpaid compensated absences may increase.
- Cause:** The District has not enforced its vacation carryover policy.
- Recommendation:** The District should encourage employees to use the excess accumulated vacation time by the end of each fiscal year. The value of any vacation excess not taken by the end of the fiscal year should be paid to the employee(s).
- District Response:** The District does, in fact, monitor this closely. Information is distributed to respective management to address this issue. The District will continue to monitor and encourage employees to take their excess annual leave.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

FEDERAL COMPLIANCE

01 – 7 / 50000

U.S. Department of Agriculture

National School Lunch	CFDA	10.555	2000/01
Basic School Breakfast	CFDA	10.553	2000/01
Especially Needy Breakfast	CFDA	10.553	2000/01

FREE AND REDUCED MEAL APPLICATIONS

Criteria: Free and reduced meal applications should be completed in their entirety, and reviewed and approved by the District designated determining official.

Condition: Free and reduced meal applications were not completed in their entirety. The number of the household members was not completed on the applications. Also, the determining official was not signing the applications on a consistent basis.

Questioned Cost: None.

Context: This condition was present in four of seven free and reduced meal applications tested.

Effect: Free and reduced meal applications were not completed in their entirety. Also, the costs allocated to National School Lunch Cluster programs could be disallowed due to the lack of adequate documentation.

Cause: The Cafeteria Director did not review the completed applications to ensure accuracy and completeness.

Recommendation: Free and reduced meal applications should be completed in their entirety, and reviewed and approved by the District designated determining official. The Cafeteria Director should audit the applications to ensure they are complete and signed by the determining official.

District Response: The District will ensure that free and reduced meal applications are completed in their entirety, and reviewed and approved by the District designated determining official. In addition, the Cafeteria Director will audit the applications to ensure they are complete and signed by the determining official.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

STATE COMPLIANCE

01 - 8 / 10000

HOME AND HOSPITAL ATTENDANCE

- Criteria:
1. Excused absences should not be counted as apportionment attendance.
 2. State school registers should be filled in completely by the individuals who record attendance, and reviewed for accuracy and completeness by the District office designated person.
 3. State school registers should be signed at the end of each month by the individuals who recorded the attendance to attest to its accuracy and completeness.
 4. Monthly reports, which summarize attendance apportionment by home and hospital teachers, should agree to the attendance apportionment recorded on the state school registers.

- Condition:
1. Excused absences were counted as apportionment attendance on the state school registers.
 2. State school registers were filled out in an incomplete manner and frequently did not include row, column, or page totals. In addition, one teacher used only one sheet in the state school register, to record the attendance for the entire 2000-01 fiscal year.
 3. One teacher did not sign the attendance register for the 2000-01 school year.
 4. Various differences were noted between the summary of monthly reports and the detail recorded on the state school registers.

Questioned Cost: The net effect of these errors was an overstatement of .43 ADA.

Context: All of the home and hospital state school registers were reviewed for fiscal year 2000-01.

- Effect:
1. Errors which affect the level of state funding received by the District may occur.
 2. Current attendance procedures do not provide adequate internal controls to ensure that average daily attendance, reported on District state school registers, is accurate or complete.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

STATE COMPLIANCE (CONTINUED)

HOME AND HOSPITAL ATTENDANCE (CONCLUDED)

3. There was no certification made as to the accuracy or completeness of the attendance reported.
4. Errors which affect the level of state funding received by the District may occur.

Cause:

1. The home and hospital teacher was unaware that excused absences could not be counted for apportionment purposes.
2. Procedures for properly recording attendance in state school registers have not been adequately enforced.
3. The District has not actively enforced the requirement that all state school registers be signed by the individuals who recorded the attendance.
4. Procedures for properly recording attendance in state school registers have not been adequately enforced.

Recommendation:

1. State school registers should be reviewed by the District office designated person, prior to submitting to the attendance clerk, to ensure that the total apportionment excludes all excused and unexcused students.
2. Individuals who record student attendance should be informed of the proper procedures to follow when completing state school registers.
3. District staff should be informed of the appropriate procedures to follow when completing state school registers. Unsigned registers should be returned to the individuals who prepared them to obtain the required signatures.
4. Monthly reports, which summarize attendance apportionment by home and hospital teachers, should agree to the attendance apportionment recorded on the state school registers. The District office designated person should compare the monthly reports to the state school registers to ensure attendance reports are accurate and complete.

District Response:

The District will implement the recommended changes and will review the state school registers, on a monthly basis, for accuracy and completeness.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

STATE COMPLIANCE (CONTINUED)

01 - 9 / 40000

MORGAN HART - CLASS SIZE REDUCTION

- Criteria: The District is entitled to receive \$170 for each pupil enrolled in eligible 9th grade English, Mathematics, Science, and Social Studies class size reduction classes. To be eligible for funding, the average class enrollment for all classes participating in the program, at each school site, cannot exceed 20 pupils per certificated teacher. In addition, the average class enrollment for each individual class cannot exceed 22 pupils per certificated teacher. For fiscal year 2000-01, Districts were instructed to calculate class size by calculating the average enrollment count for all instructional days of each school month. They were then instructed to average the monthly enrollment counts and divide by the number of months each class was implemented. In effect, District's were instructed to calculate average daily enrollment for each eligible class. Form J-9 MH-A was due to the California Department of Education (CDE) by July 16, 2001.
- Condition: The District prepared Form J-9 MH-A using an average of month end enrollment counts instead of the required average daily enrollment count. In addition, the form was completed and mailed by the District to the CDE on July 31, 2001.
- Questioned Cost: None. Form J-9 MH-A was understated by \$13,430. (79 FYEE X \$170)
- Context: The District complied with all other requirements of the Morgan Hart Program.
- Effect: The District understated funding that it was entitled to receive, based on the actual number of pupils served in eligible class size reduction classes during fiscal year 2000-01.
- Cause: The District did not follow Form J-9MH-A instructions in calculating FYEEs and filing the Form by the due date, for fiscal year 2000-01.

PETALUMA CITY SCHOOLS
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2001

STATE COMPLIANCE (CONCLUDED)

MORGAN HART - CLASS SIZE REDUCTION (CONCLUDED)

Recommendation: Form J-9 MH-A should be amended to include an additional 79 FYEEs from the original claim amount and report a total of 1,576 FYEEs on the revised Form J-9 MH-A. The District should review and understand the instructions for preparing Form J-9MH-A, prior to finalizing and sending the form to the State. In addition, the District should implement procedures for computing FYEEs in a manner that will comply with the instructions provided by the California Department of Education.

District Response: The District was unaware of the required change to the **daily** enrollment monitoring, largely due to staff turnover. The District is searching for a cost effective way to implement this requirement by utilizing the SASI XP attendance software. The State continually adds/increases administrative requirements to operate this and other programs.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>INTERNAL CONTROL</u>		
00 - 1 / 30000		
<u>CAFETERIA CASH RECEIPTS</u>		
Meal rosters and daily sales reports should be completed in ink, and be signed by the individuals at the sites who prepared them. In addition, meal production records should be reconciled to the number of meals reported on the monthly meal reimbursement claims, to identify potential errors or irregularities in a timely manner.	Partially Implemented	Comment Repeated (See 01 - 4 / 30000)
00 - 2 / 30000		
<u>ALA CARTE SALES</u>		
The daily production report should be reconfigured to include columns that identify the unit price and projected sales dollars for each item. The daily production record should be completed and signed in ink by the preparer, and the projected sales figure should be reconciled to daily cash collections. Any significant discrepancies should be investigated in a timely manner.	Implemented	
00 - 3 / 30000		
<u>STUDENT BODY ACCOUNTS</u>		
Bank statements should be reconciled to the check register balance on a monthly basis. In addition, each check written and every deposit made should be posted to the manual check register on a daily basis.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>INTERNAL CONTROL (CONTINUED)</u>		
00 - 4 / 30000		
<u>STUDENT BODY</u>		
Student body accounting procedures should require student body account clerks to obtain original invoices or receipts prior to issuing payments. No payments should be made prior to receiving appropriate supporting documentation.	Implemented	
00 - 5 / 30000		
<u>STUDENT GOVERNMENT AND FUNDRAISING ACCOUNTS</u>		
Monthly bank reconciliations should be prepared for all checking, savings, and time deposit accounts, maintained at school sites. In addition, copies of the reconciliations should be submitted to the business office for review.	Implemented	
00 - 6 / 30000		
<u>STUDENT BODY CASH BALANCES</u>		
The District should enter into a collateralization agreement with the bank to safeguard balances, which exceed the \$100,000 FDIC insured limit.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>INTERNAL CONTROL (CONCLUDED)</u>		
00 - 7 / 30000		
<u>STUDENT BODY ACCOUNTS</u>		
Bank statements should be reconciled to the register balance on a monthly basis. In addition, annual financial statements, which summarize the activity of the account, should be prepared at the end of the school year for each separate account, and should be submitted to the District Office.	Implemented	
00 - 8 / 30000		
<u>VACATION CARRYOVER</u>		
The District should encourage employees to use the excess accumulated vacation time by the end of each fiscal year. The value of any vacation excess not taken by the end of the fiscal year should be paid to the employee(s).	Not Implemented	Comment Repeated (See 01 - 6 / 30000)
<u>FEDERAL COMPLIANCE</u>		
00 - 9 / 50000		
<u>MULTI-FUNDED TIMESHEETS</u>		
The District should require all multi-funded employees to submit multi-funded timesheets on a regular basis. In addition, the District Office should monitor this process throughout the year to ensure that it complies with all federal timekeeping regulations.	Implemented	

PETALUMA CITY SCHOOLS
 STATUS OF PRIOR YEAR RECOMMENDATIONS
 JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FEDERAL COMPLIANCE (CONCLUDED)</u>		
00 - 10 / 50000		
<u>FEDERAL CERTIFICATIONS</u>		
Semi-annual certifications should be prepared by all employees who are funded solely (100%) from a single federal categorical program. These certifications should be forwarded to the District office as soon as they are complete.	Implemented	
<u>STATE COMPLIANCE</u>		
00 - 11 / 10000		
<u>CONTINUATION SCHOOL</u>		
The District should consider limiting all classes to 60 minutes, or reconfiguring its scantrons and attendance system to properly reflect student attendance in classes held for more than 60 minutes.	Implemented	
00 - 12 / 10000		
<u>KINDERGARTEN RETENTION</u>		
The District should translate the pre-approved retention form, included in CDE Management Advisory 90-10, to Spanish, and instruct all sites to discard all other non-compliant versions.	Implemented	

PETALUMA CITY SCHOOLS
 STATUS OF PRIOR YEAR RECOMMENDATIONS
 JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE COMPLIANCE (CONTINUED)</u>		
00 - 13 / 10000		
<u>INDEPENDENT STUDY</u>		
The District should instruct attendance clerks at school sites on the proper procedures for recording independent study attendance.	Implemented	
00 - 14 / 10000		
<u>ATTENDANCE – CASA GRANDE HIGH</u>		
The District should inform all school staff on the importance of accurate attendance reporting.	Implemented	
00 - 15 / 10000		
<u>ATTENDANCE</u>		
The J-18/19 P-2 report should be reviewed for accuracy and completeness, by someone other than the preparer, prior to being submitting to the State.	Implemented	
Monthly attendance reports, which support the information reported on the J-18/19 P-2 report, should be maintained in an organized auditable manner.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2001

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE COMPLIANCE (CONCLUDED)</u>		
00 - 16 / 10000		
<u>INSTRUCTIONAL TIME AND STAFF DEVELOPMENT REFORM PROGRAM</u>		
Information reported on the ITSDR Application for Funding should be independently traced to supporting sign-in / sign-out sheets, to ensure accuracy and completeness, prior to submitting the final claim to the California Department of Education. In addition, the District should amend the 1999-00 Petaluma Joint Union High School District ITSDR Form, to exclude thirty-nine (39) teacher staff development days and fifteen (15) aide staff development days.	Implemented	
00 - 17 / 40000		
<u>MORGAN HART CLASS SIZE REDUCTION</u>		
The District should review and understand the instructions for preparing Form J-9MH-A, prior to finalizing and sending the form to the State.	Not Implemented	Comment Repeated (See 01 - 9 / 40000)