

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

**AUDIT REPORT**

**JUNE 30, 2002**



PETALUMA CITY SCHOOLS

JUNE 30, 2002

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PETALUMA CITY SCHOOLS

JUNE 30, 2002

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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, 2002, 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 U.S. 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. 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 U.S. 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, 2002 and the results of its operations and the cash flows of its proprietary fund for the year then ended, in conformity with U.S. 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, 2002, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2002 on our consideration of Petaluma City Schools' internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

September 19, 2002

PETALUMA CITY SCHOOLS  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUP  
 JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>ASSETS</b>			
Cash in County Treasury (Note 2)	\$ 5,084,384	\$ 413,528	\$ 5,875,017
Cash on Hand and in Bank	2,000		
Cash in Revolving Fund	20,000	300	
Investments (Note 2)			
Accounts Receivable (Note 4)			
Federal Government	322,261	101,407	
State Government	825,723	284,928	
Local Government	207,299	27,004	
Interest		21	
Miscellaneous	435,765	14,833	
Due from Other Funds (Note 5)	218,041	64,471	
Stores Inventory (Note 1I)	51,985	25,042	
Prepaid Expenses (Note 1J)	68,223		
Amount Available in Debt Service Fund			
Amount to be Provided for Retirement of General Long-Term Debt			
Total Assets	<u>\$ 7,235,681</u>	<u>\$ 931,534</u>	<u>\$ 5,875,017</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts Payable	\$ 2,204,738	\$ 38,377	
Due to Other Funds (Note 5)	87,129	190,017	
Due to Student Groups			
Deferred Revenue (Note 1L)	522,618	30,020	
Compensated Absences (Note 1K)			
General Obligation Bonds (Note 6)			
Capital Leases (Note 7)			
Retiree Benefits (Note 9)			
Total Liabilities	<u>2,814,485</u>	<u>258,414</u>	
Fund Balances (Note 11)			
Reserved	1,277,437	25,342	\$ 5,875,017
Unreserved:			
Designated	2,194,224		
Undesignated	949,535	647,778	
Retained Earnings			
Total Fund Equity	<u>4,421,196</u>	<u>673,120</u>	<u>5,875,017</u>
Total Liabilities and Fund Equity	<u>\$ 7,235,681</u>	<u>\$ 931,534</u>	<u>\$ 5,875,017</u>



	Proprietary Fund Type	Fiduciary Fund Types	Account Group	Totals (Memorandum Only)
Capital Projects	Self- Insurance	Trust and Agency	General Long-term Debt	
\$ 16,804,082	\$ 6,641	\$ 471,028		\$ 28,183,652
		99,781		473,028
				20,300
				99,781
				423,668
				1,110,651
				234,303
		519		540
24,843	70			475,511
23,538	597			306,647
				77,027
				68,223
			\$ 5,875,017	5,875,017
			56,447,926	56,447,926
<u>\$ 16,852,463</u>	<u>\$ 7,308</u>	<u>\$ 571,328</u>	<u>\$ 62,322,943</u>	<u>\$ 93,796,274</u>
\$ 1,274,359	\$ 6,891	\$ 458,754		\$ 3,524,365
29,501				306,647
				458,754
				552,638
			\$ 411,184	411,184
			58,365,563	58,365,563
			2,359,924	2,359,924
			1,186,272	1,186,272
<u>1,303,860</u>	<u>6,891</u>	<u>458,754</u>	<u>62,322,943</u>	<u>67,165,347</u>
				7,290,370
				2,194,224
15,548,603				17,145,916
	417			417
<u>15,548,603</u>	<u>417</u>	<u>112,574</u>	<u>0</u>	<u>26,630,927</u>
<u>\$ 16,852,463</u>	<u>\$ 7,308</u>	<u>\$ 571,328</u>	<u>\$ 62,322,943</u>	<u>\$ 93,796,274</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, 2002

	Governmental Fund Types	
	General	Special Revenue
<b>REVENUES</b>		
Revenue Limit Sources:		
State Apportionment	\$ 17,707,229	\$ 1,124,656
Local Sources	21,605,502	
Total Revenue Limit Sources	39,312,731	1,124,656
Federal Revenue	1,489,028	431,562
Other State Revenue	7,347,123	402,717
Other Local Revenue	5,503,095	1,505,160
Total Revenues	53,651,977	3,464,095
<b>EXPENDITURES</b>		
Certificated Salaries	25,945,589	772,445
Classified Salaries	8,634,955	1,047,453
Employee Benefits	8,648,251	465,500
Books and Supplies	2,357,330	836,062
Services and Other		
Operating Expenditures	5,852,136	520,659
Capital Outlay	503,154	24,650
Debt Service:		
Principal Retirement	230,429	17,017
Interest and Fiscal Charges	31,076	3,248
Other Expenditures	596,320	
Total Expenditures	52,799,240	3,687,034
Excess of Revenues Over (Under) Expenditures	852,737	(222,939)
Other Financing Sources (Uses):		
Operating Transfers In	39,687	261,548
Operating Transfers Out	(398,791)	(39,687)
Other Sources	20,698	
Total Other Financing Sources (Uses)	(338,406)	221,861
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	514,331	(1,078)
Fund Balances - July 1, 2001	3,906,865	674,198
Fund Balances - June 30, 2002	\$ 4,421,196	\$ 673,120

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service	Capital Projects	Expendable Trusts Trust Funds	Totals (Memorandum Only)
			\$ 18,831,885
			21,605,502
			40,437,387
			1,920,590
\$ 63,943	\$ 6,436,402		14,250,185
4,442,197	1,118,020	\$ 3,919	12,572,391
<u>4,506,140</u>	<u>7,554,422</u>	<u>3,919</u>	<u>69,180,553</u>
			26,718,034
	134,088		9,816,496
	39,740		9,153,491
	18,133		3,211,525
	339,076	5,224	6,717,095
	6,882,132		7,409,936
1,984,872	368,172		2,600,490
2,506,862	124,582		2,665,768
			596,320
<u>4,491,734</u>	<u>7,905,923</u>	<u>5,224</u>	<u>68,889,155</u>
<u>14,406</u>	<u>(351,501)</u>	<u>(1,305)</u>	<u>291,398</u>
	1,360,576		1,661,811
	(1,223,333)		(1,661,811)
	395,114		415,812
<u>0</u>	<u>532,357</u>	<u>0</u>	<u>415,812</u>
14,406	180,856	(1,305)	707,210
5,860,611	15,367,747	113,879	25,923,300
<u>\$ 5,875,017</u>	<u>\$ 15,548,603</u>	<u>\$ 112,574</u>	<u>\$ 26,630,510</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, 2002

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Revenue Limit Sources:						
State Apportionment	\$ 17,735,435	\$ 17,707,229	\$ (28,206)	\$ 1,130,677	\$ 1,124,656	\$ (6,021)
Local Sources	21,602,421	21,605,502	3,081			
Total Revenue Limit	39,337,856	39,312,731	(25,125)	1,130,677	1,124,656	(6,021)
Federal Revenue	1,697,329	1,489,028	(208,301)	414,319	431,562	17,243
Other State Revenue	7,418,800	7,347,123	(71,677)	497,035	402,717	(94,318)
Other Local Revenue	5,534,167	5,503,095	(31,072)	1,606,596	1,505,160	(101,436)
Total Revenues	53,988,152	53,651,977	(336,175)	3,648,627	3,464,095	(184,532)
<b>EXPENDITURES</b>						
Certificated Salaries	25,975,483	25,945,589	29,894	799,330	772,445	26,885
Classified Salaries	8,802,262	8,634,955	167,307	1,079,488	1,047,453	32,035
Employee Benefits	8,673,041	8,648,251	24,790	481,567	465,500	16,067
Books and Supplies	3,573,326	2,357,330	1,215,996	854,847	836,062	18,785
Services and Other						
Operating Expenditures	6,394,498	5,852,136	542,362	929,311	520,659	408,652
Capital Outlay	1,000,587	503,154	497,433	37,394	24,650	12,744
Debt Service:						
Principal Retirement	230,429	230,429		17,017	17,017	
Interest and Fiscal Charges	31,078	31,076	2	3,248	3,248	
Other Expenditures	585,268	596,320	(11,052)			
Total Expenditures	55,265,972	52,799,240	2,466,732	4,202,202	3,687,034	515,168
Excess of Revenues Over (Under) Expenditures	(1,277,820)	852,737	2,130,557	(553,575)	(222,939)	330,636
Other Financing Sources (Uses):						
Operating Transfers In	35,000	39,687	4,687	250,000	261,548	11,548
Operating Transfers Out	(389,133)	(398,791)	(9,658)	(40,000)	(39,687)	313
Other Sources	20,698	20,698				
Total Other Financing Sources (Uses)	(333,435)	(338,406)	(4,971)	210,000	221,861	11,861
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	\$ (1,611,255)	514,331	\$ 2,125,586	\$ (343,575)	(1,078)	\$ 342,497
Fund Balances - July 1, 2001		3,906,865			674,198	
Fund Balances - June 30, 2002		\$ 4,421,196			\$ 673,120	

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)
						\$ 18,866,112	\$18,831,885	\$ (34,227)
						<u>21,602,421</u>	<u>21,605,502</u>	<u>3,081</u>
						40,468,533	40,437,387	(31,146)
						2,111,648	1,920,590	(191,058)
	\$ 63,943	\$ 63,943	\$ 6,436,402	\$ 6,436,402		7,915,835	14,250,185	6,334,350
\$ 3,222,626	4,442,197	1,219,571	1,265,182	1,118,020	\$ (147,162)	11,628,571	12,568,472	939,901
<u>3,222,626</u>	<u>4,506,140</u>	<u>1,283,514</u>	<u>7,701,584</u>	<u>7,554,422</u>	<u>(147,162)</u>	<u>62,124,587</u>	<u>69,176,634</u>	<u>7,052,047</u>
						26,774,813	26,718,034	56,779
			134,091	134,088	3	10,015,841	9,816,496	199,345
			42,657	39,740	2,917	9,197,265	9,153,491	43,774
			19,962	18,133	1,829	4,448,135	3,211,525	1,236,610
			414,747	339,076	75,671	7,738,556	6,711,871	1,026,685
			18,518,520	6,882,132	11,636,388	19,556,501	7,409,936	12,146,565
1,984,872	1,984,872		368,172	368,172		2,600,490	2,600,490	
2,501,312	2,506,862	(5,550)	128,746	124,582	4,164	2,664,384	2,665,768	(1,384)
						585,268	596,320	(11,052)
<u>4,486,184</u>	<u>4,491,734</u>	<u>(5,550)</u>	<u>19,626,895</u>	<u>7,905,923</u>	<u>11,720,972</u>	<u>83,581,253</u>	<u>68,883,931</u>	<u>14,697,322</u>
<u>(1,263,558)</u>	<u>14,406</u>	<u>1,277,964</u>	<u>(11,925,311)</u>	<u>(351,501)</u>	<u>11,573,810</u>	<u>(21,456,666)</u>	<u>292,703</u>	<u>21,749,369</u>
			1,360,577	1,360,576	(1)	1,645,577	1,661,811	16,234
			(1,223,334)	(1,223,333)	1	(1,652,467)	(1,661,811)	(9,344)
			567,614	395,114	(172,500)	588,312	415,812	(172,500)
<u>0</u>	<u>0</u>	<u>0</u>	<u>704,857</u>	<u>532,357</u>	<u>(172,500)</u>	<u>581,422</u>	<u>415,812</u>	<u>(165,610)</u>
<u>\$ (1,263,558)</u>	<u>14,406</u>	<u>\$ 1,277,964</u>	<u>\$(11,220,454)</u>	<u>180,856</u>	<u>\$11,401,310</u>	<u>\$(20,875,244)</u>	<u>708,515</u>	<u>\$ 21,583,759</u>
	<u>5,860,611</u>			<u>15,367,747</u>			<u>25,809,421</u>	
	<u>\$ 5,875,017</u>			<u>\$15,548,603</u>			<u>\$26,517,936</u>	

PETALUMA CITY SCHOOLS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN RETAINED EARNINGS  
 PROPRIETARY FUND TYPE  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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	<u>Self- Insurance</u>
<u>OPERATING REVENUES</u>	
Other Local Revenue	\$130,661
<u>EXPENSES</u>	
Contract Services	<u>129,744</u>
Operating Gain	917
Non-Operating Expenses:	
Interest Expense	<u>(500)</u>
Net Gain	417
Retained Earnings - July 1, 2001	<u>0</u>
Retained Earnings - June 30, 2002	<u>\$ 417</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, 2002

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	<u>Self- Insurance</u>
Cash Flows From Operating Activities:	
Local Revenue	\$ 131,633
Contract Services	<u>(133,380)</u>
Net Cash Used by Operating Activities	<u>(1,747)</u>
Cash Flows From Investing Activities:	
Interest Expense	<u>(500)</u>
Net Decrease in Cash	(2,247)
Cash Balance - July 1, 2001	<u>8,888</u>
Cash Balance - June 30, 2002	<u>\$ 6,641</u>
Reconciliation of Operating Gain to Net <u>Cash Used by Operating Activities</u>	
Operating Gain	\$ <u>917</u>
Adjustments to Reconcile Operating Gain to Net Cash Used by Operating Activities:	
Decrease in Accounts Receivable	1,569
Increase in Due from Other Funds	(597)
Increase in Accounts Payable	6,891
Decrease in Due to Other Funds	<u>(10,527)</u>
Total Net Adjustments	<u>(2,664)</u>
Net Cash Used by Operating Activities	<u>\$ (1,747)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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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 U.S. 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, 2002

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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, 2002

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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 for payment of vision premiums. As of July 1, 1996, the District is no longer self-insured.

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 seven 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, 2002

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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 U.S. 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 U.S. 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, 2002

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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, 2002, 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, 2002.

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, 2002 was \$411,184.

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 appropriable 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, 2002

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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 U.S. 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.

The difference between cost and fair value of the District's share of pooled investments in the Sonoma County Treasury was not material at June 30, 2002. 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 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, 2002

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, 2002 consisted of the following:

Pooled Funds:		
Cash in County Treasury		\$ 28,183,652
Deposits:		
Cash on Hand and in Bank		473,028
Cash in Revolving Fund		20,300

Investment Balances

Investments at June 30, 2002 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>		
Certificate 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, 2002

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess expenditures over appropriations for fiscal year 2001-02 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
<u>General Fund:</u>	
Other Expenditures	\$ 11,052
<u>Debt Service Fund:</u>	
<u>Bond Interest and Redemption Fund:</u>	
Debt Service - Interest and Fiscal Charges	5,550

The District incurred unanticipated expenditures in the above expenditure classifications for which the budget was not revised. The Bond Interest and Redemption Fund is under the control of the County Auditor.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2002 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	\$ <u>322,261</u>	\$ <u>101,407</u>				\$ <u>423,668</u>
State Government						
State Aid		\$ 40,069				\$ 40,069
Categorical Programs	\$ 8,325	22,543				30,868
Lottery	623,488					623,488
Other Allowances	<u>193,910</u>	<u>222,316</u>				<u>416,226</u>
Total State	<u>\$ 825,723</u>	<u>\$ 284,928</u>				<u>\$1,110,651</u>
Local Government	<u>\$ 207,299</u>	<u>\$ 27,004</u>				<u>\$ 234,303</u>
Interest		<u>\$ 21</u>			<u>\$ 519</u>	<u>\$ 540</u>
Miscellaneous	<u>\$ 435,765</u>	<u>\$ 14,833</u>	<u>\$ 24,843</u>	<u>\$ 70</u>		<u>\$ 475,511</u>

PETALUMA CITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2002 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 218,041	\$ 87,129
<u>Special Revenue Funds:</u>		
Deferred Maintenance	1,232	10,279
Cafeteria	4,947	87,174
Adult Education	58,292	92,564
<u>Capital Projects Funds:</u>		
Capital Facilities		8,978
Building	19,376	20,523
Special Reserve	4,162	
Self-Insurance Fund	597	
Totals	\$ 306,647	\$ 306,647

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 2001-02 fiscal year were as follows:

Transfer from General Fund to Capital Projects - Special Reserve Fund redevelopment shift monies	\$ 219,658
Transfer from General Fund to Deferred Maintenance Fund to match State allocation	179,133
Transfer from Adult Education Fund to General Fund for indirect support costs	39,687
Transfer from State School Building Fund to Building Fund unspent matching funds received in prior years	46,082
Transfer from Building Fund to County School Facilities Fund for the match requirement	1,094,836
Transfer from Building Fund to Deferred Maintenance Fund to match State allocation	82,415
Total	\$ 1,661,811



PETALUMA CITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002

**NOTE 6 - GENERAL OBLIGATION BONDS**

The outstanding general obligation bonded debt of Petaluma City Schools at June 30, 2002, is as follows:

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2001	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2002
<b>Elementary</b>						
<b>1991 Series</b>						
1993 B	5.00-8.00	\$ 5,600,000	\$ 4,890,000		\$ 150,000	\$ 4,740,000
1994 C	5.70-8.70	4,100,000	120,000		120,000	0
1995 D	4.80-7.50	2,000,000	1,815,000		55,000	1,760,000
1997 E	5.10-7.00	2,000,000	150,000		45,000	105,000
1997 F	5.15-6.15	4,500,000	4,255,000		115,000	4,140,000
<b>1998 Series</b>						
(Refunding)	4.00-4.60	7,530,000	7,350,000		125,000	7,225,000
1999 G	4.20-7.20	1,500,000	1,470,000		30,000	1,440,000
2000 H	5.00-8.00	<u>2,000,000</u>	<u>2,000,000</u>		<u>35,000</u>	<u>1,965,000</u>
Total Elementary		<u>29,230,000</u>	<u>22,050,000</u>	<u>\$ 0</u>	<u>675,000</u>	<u>21,375,000</u>
<b>High School</b>						
<b>1992 Series</b>						
1993 A	5.50-8.50	\$ 6,000,000	\$ 5,010,000		\$ 185,000	\$ 4,825,000
1994 B	4.10-7.00	10,057,932	194,768		194,768	0
<b>1995 Series</b>						
(Refunding)	4.65-5.80	8,972,019	8,972,019			8,972,019
1997 C	4.50-6.20	10,623,276	8,463,648		610,104	7,853,544
1999 D	4.25-7.25	3,900,000	3,715,000		100,000	3,615,000
1999 E	4.50-7.00	2,600,000	2,545,000		55,000	2,490,000
2000 F	5.00-8.00	<u>9,400,000</u>	<u>9,400,000</u>		<u>165,000</u>	<u>9,235,000</u>
Total High School		<u>51,553,227</u>	<u>38,300,435</u>	<u>0</u>	<u>1,309,872</u>	<u>36,990,563</u>
Total Bonds		<u>\$ 80,783,227</u>	<u>\$ 60,350,435</u>	<u>\$ 0</u>	<u>\$ 1,984,872</u>	<u>\$ 58,365,563</u>

PETALUMA CITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2002

**NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)**

Annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2002, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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
2007	2,261,189	2,282,374	4,543,563
Thereafter	<u>47,310,247</u>	<u>41,227,687</u>	<u>88,537,934</u>
Totals	<u>\$ 58,365,563</u>	<u>\$ 53,245,401</u>	<u>\$ 111,610,964</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>
2003	\$ 505,525
2004	415,718
2005	308,630
2006	278,079
2007	277,205
Thereafter	<u>1,298,173</u>
Total Payments	3,083,330
Less Amounts Representing Interest	<u>(723,406)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,359,924</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for any leased assets.

**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, 2002

**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, 2002, 76 employees were eligible to receive retiree benefits.

Future estimated payments required under the plan are as follows:

<u>Year Ended June 30</u>	<u>Retiree Benefits</u>
2003	\$ 202,291
2004	176,155
2005	146,741
2006	127,007
2007	111,692
Thereafter	<u>422,386</u>
Totals	<u>\$1,186,272</u>

**NOTE 10 - LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2002, is shown below:

	<u>Balances July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2002</u>
Compensated Absences	\$ 452,613		\$ 41,429	\$ 411,184
General Obligation Bonds	60,350,435		1,984,872	58,365,563
Capital Leases	2,862,230	\$ 113,312	615,618	2,359,924
Retiree Benefits	<u>949,386</u>	<u>236,886</u>		<u>1,186,272</u>
Totals	<u>\$ 64,614,664</u>	<u>\$ 350,198</u>	<u>\$ 2,641,919</u>	<u>\$ 62,322,943</u>

**NOTE 11 - FUND BALANCES**

Reservations of fund balances as of June 30, 2002 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Expendable Trust Funds</u>	<u>Totals</u>
Revolving Cash	\$ 20,000	\$ 300			\$ 20,300
Stores Inventory	51,985	25,042			77,027
Prepaid Expenses	68,223				68,223
Expendable Trusts				\$ 112,574	112,574
Restricted Programs	1,137,229				1,137,229
Debt Service			<u>\$ 5,875,017</u>		<u>5,875,017</u>
Totals	<u>\$ 1,277,437</u>	<u>\$ 25,342</u>	<u>\$ 5,875,017</u>	<u>\$ 112,574</u>	<u>\$ 7,290,370</u>

PETALUMA CITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2002

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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, 2002.

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, 2002 are as follows:

Gifted and Talented Education	\$ 38,962
School Safety	25,015
English Language Acquisition Program	8,758
Education Technology	1,597
California Public School Library Materials	98,189
Classroom Library Materials	6,103
Schiff-Bustamante Instructional Materials	339,137
Instructional Materials K-8	178,846
Instructional Materials 9-12	9,085
Instructional Materials - Staff Development	173,281
Instructional Materials - Lottery	125,575
District Block Grant	79,246
Peer Assistance and Review	31,456
Professional Development	5,302
Tenth Grade Counseling	16,304
Technology Support and Staff Training	<u>373</u>
Total	<u>\$ 1,137,229</u>

PETALUMA CITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

**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, 2002 are as follows:

	<u>General Fund</u>
Economic Uncertainties	\$ 1,646,064
School Site Block Grants	79,427
API	237,869
Vending	25,419
Grants and Donations	<u>205,445</u>
Total	<u>\$ 2,194,224</u>

**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 2001-02 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, 2002, 2001, and 2000, were \$2,062,976, \$2,005,834 and \$1,854,539, respectively, and equal 100% of the required contributions for each year.

PETALUMA CITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002

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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 2001-02 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, 2002, 2001, and 2000, 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 \$1,127,917 (4.475% 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, 2002

**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 2001-02, 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:	\$	3,500	
JPA's SIR:		150,000	
Excess Insurance:		850,000	
		14,000,000	(SELF)

Liability

District Deductible:	\$	1,500	
JPA's SIR:		150,000	
Excess Insurance:		850,000	
		14,000,000	(SELF)

Workers' Compensation

District Deductible:	\$	0	
JPA's SIR:		300,000	
Excess Insurance:		1,000,000 / 10,000,000	

PETALUMA CITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2002

**NOTE 16 - JOINT VENTURES (CONCLUDED)**

Condensed unaudited financial information of RESIG for the year ended June 30, 2002, and condensed audited financial information of 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>\$ 2,376,423</u>	<u>\$ 17,389,039</u>	<u>\$ 109,411,523</u>
Total Liabilities	\$ 1,535,482	\$ 14,749,770	\$ 49,889,135
Total Fund Equity	<u>840,941</u>	<u>2,639,269</u>	<u>59,522,388</u>
Total Liabilities and Fund Equity	<u>\$ 2,376,423</u>	<u>\$ 17,389,039</u>	<u>\$ 109,411,523</u>
Total Revenues	\$ 2,214,668	\$ 7,167,450	\$ 24,146,323
Total Expenditures	<u>1,966,284</u>	<u>6,783,861</u>	<u>10,066,057</u>
Net Increase in Fund Equity	<u>\$ 248,384</u>	<u>\$ 383,589</u>	<u>\$ 14,080,266</u>

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, 2001, the most recent available, is as follows:

Total Assets	<u>\$ 17,687,131</u>
Total Liabilities	\$ 16,178,001
Total Fund Equity	<u>1,509,130</u>
Total Liabilities and Fund Equity	<u>\$ 17,687,131</u>
Total Revenues	\$ 42,153,690
Total Expenditures	<u>40,884,696</u>
Net Increase in Fund Equity	<u>\$ 1,268,994</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, 2002

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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, 2002, 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, 2002 from the Casa Grande High School Booster Club and the Petaluma High School Booster Club is \$32,219 and \$49,272, respectively.

NOTE 18 - SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes (TRANS)

On July 2, 2002 the District issued tax and revenue anticipation notes (TRANS) for \$3,515,000. The notes mature on July 1, 2003 and bear interest at 3.0%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

PETALUMA CITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002

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NOTE 18 - SUBSEQUENT EVENTS (CONCLUDED)

B. General Obligation Bonds

On August 1, 2002 the District issued general obligation bonds in the amount of \$3,500,000 with interest rates from 1.7% to 4.875%. The proceeds from the bond are to be used to acquire school sites, build or purchase school buildings, make permanent alterations or additions to the school building or buildings (including libraries) for health and safety purposes, other than such as may be necessary for current maintenance, operations, or repairs, make permanent improvements to the school grounds and carry out necessary sewage and drainage projects.

NOTE 19 - FUTURE GASB STATEMENT IMPLEMENTATION

In June of 1999, the Governmental Accounting Standards Board issued GASB Statement 34, "Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments" with required implementations for the District during fiscal year 2002-2003. The new statement will significantly change the way state and local governments will be required to report their finances to the public. As a result of GASB 34, state and local governments will be required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements will continue to use the modified accrual basis of accounting, but the government-wide statements will use full accrual. In addition to the change in the financial statement presentations, GASB Statement 34 requires the reporting of all capital assets, including infrastructure assets at historical cost and requires the preparation of management discussion and analysis to clarify the government's financial activities.

## COMBINING STATEMENTS

PETALUMA CITY SCHOOLS  
 COMBINING BALANCE SHEET  
 SPECIAL REVENUE FUNDS  
 JUNE 30, 2002

	Deferred Maintenance	Cafeteria	Adult Education	Totals
<b>ASSETS</b>				
Cash in County Treasury	\$ 356,955	\$ 1,065	\$ 55,508	\$ 413,528
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		70,144	31,263	101,407
State Government	222,316	7,342	55,270	284,928
Local Government		27,004		27,004
Interest		21		21
Miscellaneous		11,223	3,610	14,833
Due from Other Funds	1,232	4,947	58,292	64,471
Stores Inventory		25,042		25,042
 Total Assets	 <u>\$ 580,503</u>	 <u>\$ 146,788</u>	 <u>\$ 204,243</u>	 <u>\$ 931,534</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 3,672	\$ 10,463	\$ 24,242	\$ 38,377
Due to Other Funds	10,279	87,174	92,564	190,017
Deferred Revenue			30,020	30,020
 Total Liabilities	 <u>13,951</u>	 <u>97,637</u>	 <u>146,826</u>	 <u>258,414</u>
Fund Balances:				
Reserved		25,042	300	25,342
Unreserved				
Undesignated	566,552	24,109	57,117	647,778
 Total Fund Balances	 <u>566,552</u>	 <u>49,151</u>	 <u>57,417</u>	 <u>673,120</u>
 Total Liabilities and Fund Balances	 <u>\$ 580,503</u>	 <u>\$ 146,788</u>	 <u>\$ 204,243</u>	 <u>\$ 931,534</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, 2002

	Deferred Maintenance	Cafeteria	Adult Education	Totals
<b>REVENUES</b>				
Revenue Limit Sources:				
State Apportionment			\$ 1,124,656	\$ 1,124,656
Federal Sources:				
Child Nutrition Program		\$ 381,062		381,062
Other			50,500	50,500
Other State Sources:				
State Nutrition Program		26,511		26,511
Other	\$ 216,254		159,952	376,206
Local Sources:				
Food Service Sales		1,412,422		1,412,422
Interest	3,869	698	4,543	9,110
Other			83,628	83,628
Total Revenues	220,123	1,820,693	1,423,279	3,464,095
<b>EXPENDITURES</b>				
Certificated Salaries			772,445	772,445
Classified Salaries	88,886	739,649	218,918	1,047,453
Employee Benefits	26,372	221,266	217,862	465,500
Books and Supplies	245	781,201	54,616	836,062
Services and Other				
Operating Expenditures	389,937	15,096	115,626	520,659
Capital Outlay	4,097	3,382	17,171	24,650
Debt Service:				
Principal Retirement		11,536	5,481	17,017
Interest and Fiscal Charges		2,355	893	3,248
Other Expenditures				
Total Expenditures	509,537	1,774,485	1,403,012	3,687,034
Excess of Revenues Over (Under) Expenditures	(289,414)	46,208	20,267	(222,939)
Other Financing Sources (Uses):				
Operating Transfers In	261,548			261,548
Operating Transfers Out			(39,687)	(39,687)
Total Other Financing Sources (Uses)	261,548	0	(39,687)	221,861
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(27,866)	46,208	(19,420)	(1,078)
Fund Balances - July 1, 2001	594,418	2,943	76,837	674,198
Fund Balances - June 30, 2002	\$ 566,552	\$ 49,151	\$ 57,417	\$ 673,120

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, 2002

	<u>DEFERRED MAINTENANCE</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 239,000	\$ 216,254	\$ (22,746)
Local Sources:			
Interest	6,500	3,869	(2,631)
Total Revenues	<u>245,500</u>	<u>220,123</u>	<u>(25,377)</u>
<u>EXPENDITURES</u>			
Classified Salaries	94,848	88,886	5,962
Employee Benefits	29,958	26,372	3,586
Books and Supplies	500	245	255
Services and Other			
Operating Expenditures	759,430	389,937	369,493
Capital Outlay	4,500	4,097	403
Total Expenditures	<u>889,236</u>	<u>509,537</u>	<u>379,699</u>
Excess of Revenues (Under) Expenditures	(643,736)	(289,414)	354,322
Other Financing Sources:			
Operating Transfers In	250,000	261,548	11,548
Excess of Revenues and Other Financing Sources (Under) Expenditures	<u>\$ (393,736)</u>	(27,866)	<u>\$ 365,870</u>
Fund Balance - July 1, 2001		<u>594,418</u>	
Fund Balance - June 30, 2002		<u>\$ 566,552</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, 2002

	CAFETERIA		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Federal Sources:			
Child Nutrition Program	\$ 362,794	\$ 381,062	\$ 18,268
Other State Sources:			
State Nutrition Program	24,431	26,511	2,080
Local Sources:			
Food Service Sales	1,495,246	1,412,422	(82,824)
Interest		698	698
Total Revenues	<u>1,882,471</u>	<u>1,820,693</u>	<u>(61,778)</u>
<u>EXPENDITURES</u>			
Classified Salaries	744,475	739,649	4,826
Employee Benefits	223,942	221,266	2,676
Food and Supplies	791,732	781,201	10,531
Services and Other			
Operating Expenditures	48,243	15,096	33,147
Capital Outlay	13,385	3,382	10,003
Debt Service:			
Principal Retirement	11,536	11,536	
Interest and Fiscal Charges	2,355	2,355	
Total Expenditures	<u>1,835,668</u>	<u>1,774,485</u>	<u>61,183</u>
Excess of Revenues Over Expenditures	<u>\$ 46,803</u>	46,208	<u>\$ (595)</u>
Fund Balance - July 1, 2001		<u>2,943</u>	
Fund Balance - June 30, 2002		<u>\$ 49,151</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, 2002

	ADULT EDUCATION		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>REVENUES</b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,130,677	\$ 1,124,656	\$ (6,021)
Federal Sources:			
Other	51,525	50,500	(1,025)
Other State Sources:			
Other	233,604	159,952	(73,652)
Local Sources:			
Interest	20,000	4,543	(15,457)
Other	84,850	83,628	(1,222)
Total Revenues	<u>1,520,656</u>	<u>1,423,279</u>	<u>(97,377)</u>
<b>EXPENDITURES</b>			
Certificated Salaries	799,330	772,445	26,885
Classified Salaries	240,165	218,918	21,247
Employee Benefits	227,667	217,862	9,805
Books and Supplies	62,615	54,616	7,999
Services and Other			
Operating Expenditures	121,638	115,626	6,012
Capital Outlay	19,509	17,171	2,338
Debt Service:			
Principal Retirement	5,481	5,481	
Interest and Fiscal Charges	893	893	
Total Expenditures	<u>1,477,298</u>	<u>1,403,012</u>	<u>74,286</u>
Excess of Revenues Over Expenditures	43,358	20,267	(23,091)
Other Financing (Uses):			
Operating Transfers Out	(40,000)	(39,687)	313
Excess of Revenues Over (Under) Expenditures and Other Uses	<u>\$ 3,358</u>	(19,420)	<u>\$ (22,778)</u>
Fund Balance - July 1, 2001		<u>76,837</u>	
Fund Balance - June 30, 2002		<u>\$ 57,417</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, 2002

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,130,677	\$ 1,124,656	\$ (6,021)
Federal Sources:			
Child Nutrition Program	362,794	381,062	18,268
Other	51,525	50,500	(1,025)
Other State Sources:			
State Nutrition Program	24,431	26,511	2,080
Other	472,604	376,206	(96,398)
Local Sources:			
Food Service Sales	1,495,246	1,412,422	(82,824)
Interest	26,500	9,110	(17,390)
Other	84,850	83,628	(1,222)
Total Revenues	<u>3,648,627</u>	<u>3,464,095</u>	<u>(184,532)</u>
<b>EXPENDITURES</b>			
Certificated Salaries	799,330	772,445	26,885
Classified Salaries	1,079,488	1,047,453	32,035
Employee Benefits	481,567	465,500	16,067
Books and Supplies	854,847	836,062	18,785
Services and Other			
Operating Expenditures	929,311	520,659	408,652
Capital Outlay	37,394	24,650	12,744
Debt Service:			
Principal Retirement	17,017	17,017	
Interest and Fiscal Charges	3,248	3,248	
Total Expenditures	<u>4,202,202</u>	<u>3,687,034</u>	<u>515,168</u>
Excess of Revenues			
(Under) Expenditures	<u>(553,575)</u>	<u>(222,939)</u>	<u>330,636</u>
Other Financing Sources (Uses):			
Operating Transfers In	250,000	261,548	11,548
Operating Transfers Out	(40,000)	(39,687)	313
Total Other Financing Sources (Uses)	<u>210,000</u>	<u>221,861</u>	<u>11,861</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Uses	<u>\$ (343,575)</u>	<u>(1,078)</u>	<u>\$ 342,497</u>
Fund Balances - July 1, 2001		674,198	
Fund Balances - June 30, 2002		<u>\$ 673,120</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS  
 JUNE 30, 2002

	<u>Capital Facilities</u>	<u>State School Building</u>	<u>Building</u>
<b><u>ASSETS</u></b>			
Cash in County Treasury	\$ 1,973,911	\$ 180,645	\$ 9,391,387
Accounts Receivable			
Miscellaneous	20,743		3,300
Due from Other Funds			19,376
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 1,994,654</u>	<u>\$ 180,645</u>	<u>\$ 9,414,063</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts Payable	\$ 225,462		\$ 116,528
Due to Other Funds	8,978		20,523
	<u>                    </u>		<u>                    </u>
Total Liabilities	234,440		137,051
Fund Balances:			
Unreserved			
Undesignated	1,760,214	\$ 180,645	9,277,012
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities and Fund Balances	<u>\$ 1,994,654</u>	<u>\$ 180,645</u>	<u>\$ 9,414,063</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Special Reserve	County School Facilities	Totals
\$ 367,156	\$ 4,890,983	\$ 16,804,082
800		24,843
4,162		23,538
<u>\$ 372,118</u>	<u>\$ 4,890,983</u>	<u>\$ 16,852,463</u>
	\$ 932,369	\$ 1,274,359
		29,501
	932,369	1,303,860
<u>\$ 372,118</u>	<u>3,958,614</u>	<u>15,548,603</u>
<u>\$ 372,118</u>	<u>\$ 4,890,983</u>	<u>\$ 16,852,463</u>

PETALUMA CITY SCHOOLS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Capital Facilities	State School Building
<b>REVENUES</b>		
Other State Sources:		
Other		\$ 22,125
Local Sources:		
Developer Fees	\$ 426,373	
Interest	97,264	10,147
Other		
Total Revenues	523,637	32,272
<b>EXPENDITURES</b>		
Classified Salaries	10,306	
Employee Benefits	3,210	
Books and Supplies	28	
Services and Other		
Operating Expenditures	182,820	
Capital Outlay	794,479	34,956
Debt Service:		
Principal Retirement	245,492	
Interest and Fiscal Charges	12,804	
Total Expenditures	1,249,139	34,956
Excess of Revenues Over (Under) Expenditures	(725,502)	(2,684)
Other Financing Sources (Uses):		
Operating Transfers In		
Operating Transfers Out		(46,082)
Other Sources		
Total Other Financing Sources (Uses)	0	(46,082)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(725,502)	(48,766)
Fund Balances - July 1, 2001	2,485,716	229,411
Fund Balances - June 30, 2002	\$ 1,760,214	\$ 180,645

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>
		\$ 6,414,277	\$ 6,436,402
\$ 462,924	\$ 2,697 9,600	109,015	426,373 682,047 9,600
<u>462,924</u>	<u>12,297</u>	<u>6,523,292</u>	<u>7,554,422</u>
123,782			134,088
36,530			39,740
18,105			18,133
156,256			339,076
1,936,514	82,777	4,033,406	6,882,132
20,409	102,271		368,172
132	111,646		124,582
<u>2,291,728</u>	<u>296,694</u>	<u>4,033,406</u>	<u>7,905,923</u>
<u>(1,828,804)</u>	<u>(284,397)</u>	<u>2,489,886</u>	<u>(351,501)</u>
46,082	219,658	1,094,836	1,360,576
(1,177,251)			(1,223,333)
24,114	371,000		395,114
<u>(1,107,055)</u>	<u>590,658</u>	<u>1,094,836</u>	<u>532,357</u>
(2,935,859)	306,261	3,584,722	180,856
12,212,871	65,857	373,892	15,367,747
<u>\$ 9,277,012</u>	<u>\$ 372,118</u>	<u>\$ 3,958,614</u>	<u>\$ 15,548,603</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, 2002

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Local Sources:			
Developer Fees	\$ 524,444	\$ 426,373	\$ (98,071)
Interest	89,427	97,264	7,837
Total Revenues	<u>613,871</u>	<u>523,637</u>	<u>(90,234)</u>
<u>EXPENDITURES</u>			
Classified Salaries	10,307	10,306	1
Employee Benefits	3,210	3,210	
Books and Supplies	109	28	81
Services and Other			
Operating Expenditures	214,257	182,820	31,437
Capital Outlay	2,351,208	794,479	1,556,729
Debt Service:			
Principal Retirement	245,492	245,492	
Interest and Fiscal Charges	12,805	12,804	1
Total Expenditures	<u>2,837,388</u>	<u>1,249,139</u>	<u>1,588,249</u>
Excess of Revenues (Under) Expenditures	<u>\$ (2,223,517)</u>	(725,502)	<u>\$ 1,498,015</u>
Fund Balance - July 1, 2001		<u>2,485,716</u>	
Fund Balance - June 30, 2002		<u>\$ 1,760,214</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, 2002

	<u>STATE SCHOOL BUILDING</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 22,125	\$ 22,125	
Local Sources:			
Interest	<u>20,000</u>	<u>10,147</u>	\$ (9,853)
Total Revenues	<u>42,125</u>	<u>32,272</u>	<u>(9,853)</u>
<u>EXPENDITURES</u>			
Capital Outlay	<u>192,690</u>	<u>34,956</u>	<u>157,734</u>
Excess of Revenues (Under) Expenditures	(150,565)	(2,684)	147,881
Other Financing (Uses):			
Operating Transfers Out	<u>(46,083)</u>	<u>(46,082)</u>	<u>1</u>
Excess of Revenues (Under) Expenditures and Other Uses	<u>\$ (196,648)</u>	(48,766)	<u>\$ 147,882</u>
Fund Balance - July 1, 2001		<u>229,411</u>	
Fund Balance - June 30, 2002		<u>\$ 180,645</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, 2002

	BUILDING		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>REVENUES</b>			
Local Sources:			
Interest	\$ 510,000	\$ 462,924	\$ (47,076)
<b>EXPENDITURES</b>			
Classified Salaries	123,784	123,782	2
Employee Benefits	39,447	36,530	2,917
Books and Supplies	19,853	18,105	1,748
Services and Other			
Operating Expenditures	200,490	156,256	44,234
Capital Outlay	7,869,359	1,936,514	5,932,845
Debt Service:			
Principal Retirement	20,409	20,409	
Interest and Fiscal Charges	132	132	
 Total Expenditures	 8,273,474	 2,291,728	 5,981,746
Excess of Revenues (Under) Expenditures	<u>(7,763,474)</u>	<u>(1,828,804)</u>	<u>5,934,670</u>
Other Financing Sources (Uses):			
Operating Transfers In	46,083	46,082	(1)
Operating Transfers Out	(1,177,251)	(1,177,251)	
Other Sources	24,114	24,114	
 Total Other Financing Sources (Uses)	 (1,107,054)	 (1,107,055)	 (1)
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Uses	<u>\$ (8,870,528)</u>	<u>(2,935,859)</u>	<u>\$ 5,934,669</u>
Fund Balance - July 1, 2001		<u>12,212,871</u>	
Fund Balance - June 30, 2002		<u>\$ 9,277,012</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, 2002

	SPECIAL RESERVE		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Local Sources:			
Interest	\$ 2,697	\$ 2,697	
Other	9,600	9,600	
Total Revenues	<u>12,297</u>	<u>12,297</u>	
<u>EXPENDITURES</u>			
Capital Outlay	82,778	82,777	\$ 1
Debt Service:			
Principal Retirement	102,271	102,271	
Interest and Fiscal Charges	115,809	111,646	4,163
Total Expenditures	<u>300,858</u>	<u>296,694</u>	<u>4,164</u>
Excess of Revenues (Under) Expenditures	<u>(288,561)</u>	<u>(284,397)</u>	<u>4,164</u>
Other Financing Sources:			
Operating Transfers In	219,658	219,658	
Other Sources	543,500	371,000	(172,500)
Total Other Financing Sources	<u>763,158</u>	<u>590,658</u>	<u>(172,500)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>\$ 474,597</u>	306,261	<u>\$ (168,336)</u>
Fund Balance - July 1, 2001		<u>65,857</u>	
Fund Balance - June 30, 2002		<u>\$ 372,118</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, 2002

	<u>COUNTY SCHOOL FACILITIES</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 6,414,277	\$ 6,414,277	
Local Sources:			
Interest	109,014	109,015	\$ 1
Total Revenues	<u>6,523,291</u>	<u>6,523,292</u>	<u>1</u>
<u>EXPENDITURES</u>			
Capital Outlay	<u>8,022,485</u>	<u>4,033,406</u>	<u>3,989,079</u>
Excess of Revenues Over (Under) Expenditures	(1,499,194)	2,489,886	3,989,080
Other Financing Sources:			
Operating Transfers In	<u>1,094,836</u>	<u>1,094,836</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	<u>\$ (404,358)</u>	3,584,722	<u>\$ 3,989,080</u>
Fund Balance - July 1, 2001		<u>373,892</u>	
Fund Balance - June 30, 2002		<u>\$ 3,958,614</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, 2002

	<u>TOTAL CAPITAL PROJECTS FUNDS</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Sources:			
Other	\$ 6,436,402	\$ 6,436,402	
Local Sources:			
Developer Fees	524,444	426,373	\$ (98,071)
Interest	731,138	682,047	(49,091)
Other	9,600	9,600	
Total Revenues	<u>7,701,584</u>	<u>7,554,422</u>	<u>(147,162)</u>
<u>EXPENDITURES</u>			
Classified Salaries	134,091	134,088	3
Employee Benefits	42,657	39,740	2,917
Books and Supplies	19,962	18,133	1,829
Services and Other			
Operating Expenditures	414,747	339,076	75,671
Capital Outlay	18,518,520	6,882,132	11,636,388
Debt Service:			
Principal Retirement	368,172	368,172	
Interest and Fiscal Charges	128,746	124,582	4,164
Total Expenditures	<u>19,626,895</u>	<u>7,905,923</u>	<u>11,720,972</u>
Excess of Revenues (Under) Expenditures	<u>(11,925,311)</u>	<u>(351,501)</u>	<u>11,573,810</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,360,577	1,360,576	(1)
Operating Transfers Out	(1,223,334)	(1,223,333)	1
Other Sources	567,614	395,114	(172,500)
Total Other Financing Sources (Uses)	<u>704,857</u>	<u>532,357</u>	<u>(172,500)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ (11,220,454)</u>	180,856	<u>\$ 11,401,310</u>
Fund Balances - July 1, 2001		<u>15,367,747</u>	
Fund Balances - June 30, 2002		<u>\$ 15,548,603</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS  
 COMBINING BALANCE SHEET  
 TRUST AND AGENCY FUNDS  
 JUNE 30, 2002

	Expendable Trusts			Agency Funds	Totals
	Schwobeda Memorial Trust Fund	At Risk Youth Trust Fund	Total Trust Funds		
<u>ASSETS</u>					
Cash on Hand and in Bank	\$ 8,873	\$ 3,401	\$ 12,274	\$ 458,754	\$ 471,028
Investments	99,781		99,781		99,781
Accounts Receivable					
Interest	519		519		519
Total Assets	<u>\$ 109,173</u>	<u>\$ 3,401</u>	<u>\$ 112,574</u>	<u>\$ 458,754</u>	<u>\$ 571,328</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Due to Student Groups				\$ 458,754	\$ 458,754
Fund Balances:					
Reserved for Expendable Trusts	<u>\$ 109,173</u>	<u>\$ 3,401</u>	<u>\$ 112,574</u>		<u>112,574</u>
Total Liabilities and Fund Balances	<u>\$ 109,173</u>	<u>\$ 3,401</u>	<u>\$ 112,574</u>	<u>\$ 458,754</u>	<u>\$ 571,328</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, 2002

	<u>Balances</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2002</u>
<b><u>ASSETS</u></b>				
Cash:				
Petaluma High	\$ 221,942	\$ 571,714	\$ 613,312	\$ 180,344
Casa Grande High	189,392	548,389	557,296	180,485
Sonoma Mountain High	65	2,308	2,159	214
Carpe Diem High	277	3,210	3,281	206
Kenilworth Junior High	60,636	145,462	135,639	70,459
Petaluma Junior High	38,852	198,404	211,860	25,396
McDowell Elementary	1,938	10,618	10,906	1,650
Total Assets	<u>\$ 513,102</u>	<u>\$ 1,480,105</u>	<u>\$ 1,534,453</u>	<u>\$ 458,754</u>
<b><u>LIABILITIES</u></b>				
Due to Student Groups	<u>\$ 513,102</u>	<u>\$ 1,480,105</u>	<u>\$ 1,534,453</u>	<u>\$ 458,754</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, 2002 and have issued our report thereon dated September 19, 2002. 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 is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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

September 19, 2002

PETALUMA CITY SCHOOLS  
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION  
JUNE 30, 2002

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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>
Lou Steinberg	President	December, 2002
Carolyn Tennyson	Clerk	December, 2002
Christina Kauk	Member	December, 2002
Deborah Sloan	Member	December, 2004
Camille Sauv�	Member	December, 2004

ADMINISTRATION

Dr. Carl Wong  
Superintendent

Steve Bolman  
Deputy Superintendent, Business and Administration

Gerry Klor  
Interim Director, Human Services

Sue Olds  
Assistant Superintendent, Instruction and Curriculum

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	337	335
First through Third	892	892
Fourth through Sixth	1,062	1,062
Home and Hospital	0	1
Special Education	42	42
Subtotals	<u>2,333</u>	<u>2,332</u>
<u>Secondary</u>		
Seventh and Eighth	1,738	1,734
Ninth through Twelfth	3,057	3,017
Continuation Education	188	189
Home and Hospital	22	26
Special Education	45	43
Community Day School	10	11
Extended Year	3	3
Subtotals	<u>5,063</u>	<u>5,023</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	3	4
Not Concurrently Enrolled	460	485
Subtotals	<u>463</u>	<u>489</u>
Totals	<u><u>7,859</u></u>	<u><u>7,844</u></u>
<u>Community Day School</u>		
5th Hour	9	10
6th Hour	9	10
<u>Supplemental Instruction Hours</u>		<u>Hours of Attendance</u>
Elementary		43,458
Secondary		93,567
Total		<u><u>137,025</u></u>

PETALUMA CITY SCHOOLS  
 SCHEDULE OF INSTRUCTIONAL TIME  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>2001-02 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	36,000	36,000	180	180	In Compliance
Grades 1 – 3	42,000	50,400	50,600	180	180	In Compliance
Grades 4 – 6	49,875	54,000	54,035	180	180	In Compliance
Grades 7 – 8	49,875	54,000	54,665	180	180	In Compliance
Grades 9 – 12	56,525	64,800	65,234	180	180	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	03524	\$ 300,868
Basic School Breakfast	10.553	03525	4,835
Especially Needy Breakfast	10.553	03526	71,631
Meal Supplements	10.557	03755	3,728
U.S. Department of Education:			
Passed through CDE:			
IASA - Title I	84.010	03797	264,769
IASA - Title VI	84.298	03340	38,163
Special Education (PL 101-476)	84.027	03379	812,971
Special Education - Workability	84.027A	03705	113,220
Homeless Children Education	84.196	03699	28,649
Class Size Reduction	84.340	03073	90,720
Eisenhower	84.168	03207	22,202
Drug Free Schools	84.186	03453	35,293
Vocational Education Act - Carl Perkins	84.048	03577	48,647
Emergency Immigrant Education	84.162	03159	17,025
School To Career	84.048	10009	17,369
Adult Education:			
ABE ESL Priority 1-3	84.002A	13973	6,899
ABE ESL Service	84.002A	14302	33,526
ABE Family Literacy	84.002A	13977	7,038
ABE GED	84.002A	13978	3,037
Subtotal			1,920,590
Nonmonetary Assistance			
USDA Food Distribution	10.550		40,622
Total			<u>\$ 1,961,212</u>

PETALUMA CITY SCHOOLS  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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Auditor's Comments

The audited financial statements of all funds and total liabilities of the General Long-Term Debt Account Group were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2002.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GENERAL FUND			
	(Budget) 2002-03	2001-02	2000-01	1999-00
Revenues and Other Financial Sources	\$ 52,375,940	\$ 53,712,362	\$ 52,322,587	\$ 45,442,224
Expenditures	52,448,954	52,799,240	52,199,298	44,064,666
Other Uses and Transfers Out	400,000	398,791	384,999	199,256
Total Outgo	52,848,954	53,198,031	52,584,297	44,263,922
Change in Fund Balance	(473,014)	514,331	(261,710)	1,178,302
Ending Fund Balance	\$ 3,948,182	\$ 4,421,196	\$ 3,906,865	\$ 4,168,575
Available Reserves	\$ 2,122,585	\$ 2,595,599	\$ 1,520,512	\$ 2,459,951
Designated for Economic Uncertainties	\$ 1,585,469	\$ 1,646,064	\$ 1,520,512	\$ 1,357,366
Undesignated Fund Balance	\$ 537,116	\$ 949,535	\$ 0	\$ 1,102,585
Available Reserves as a Percentage of Total Outgo	4.0%	4.9%	2.9%	5.6%
Total Long-Term Debt	\$ 59,597,401	\$ 62,322,943	\$ 64,614,664	\$ 66,550,695
Average Daily Attendance at P-2 ( Exclusive of Adult ADA )	7,486	7,396	7,410	7,309

The fund balance of the General Fund has increased \$252,621 (6%) over the past two years. The fiscal year 2002-03 budget projects a decrease of \$473,014. 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's General Fund produced operating surpluses of \$1,178,302 and \$514,331 in fiscal years 1999-00 and 2001-02, respectively, and incurred an operating deficit of \$261,710 in fiscal year 2000-01.

Long-term debt has decreased \$4,227,752 over the past two years.

Average daily attendance has increased 87 ADA over the past two years. The fiscal year 2002-03 budget projects an increase of 90 ADA.

PETALUMA CITY SCHOOLS  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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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 46200 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, 2002, and have issued our report thereon dated September 19, 2002. 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 U.S. 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	4	Yes
Kindergarten Continuation	3	Yes
Independent Study	13	Yes
Continuation Education	11	Yes
Adult Education	8	Yes
Regional Occupational Center/Programs	4	Not Applicable
Staff Development Days	3	Yes

<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
Instructional Materials Fund State Instructional Materials K-8	10	Yes
9-12	7	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	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, 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 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's Board, management, California State Controller's Office, California Department of Finance, California 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

September 19, 2002

**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, 2002, and have issued our report thereon dated September 19, 2002. 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 U.S. 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's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

September 19, 2002

**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, 2002. 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 U.S. 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, 2002.

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's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

September 19, 2002



## FINDINGS AND RECOMMENDATIONS SECTION

PETALUMA CITY SCHOOLS  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2002

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**02 - 1 / 30000**

**STUDENT BODY – CASH DISBURSEMENTS**

Criteria: The District business office is responsible for the general oversight of the student body activities. In this capacity, the business office should ensure that appropriate internal controls are in place to:

- Safeguard the organization's assets
- Promote success of fund-raising ventures
- Promote reliable financial information
- Reduce the risk of fraud and abuse

Condition: The following conditions were noted during our testing of student body disbursements:

- Payments were made prior to receiving invoices or receipts.
- Payments were issued after receiving faxes or photocopies of invoices, in lieu of original invoices.
- A District employee was paid directly from a student body account for services provided at a student body function.
- Payments were issued prior to obtaining documented evidence that conforming goods or services had been received.
- Donations made to a school site were processed through the student body checking account.
- A reimbursement to a teacher was for goods delivered directly to the teacher's residence.
- A payment amount could not be reconciled to the attached receipts.

Questioned Cost: None.

Context: The conditions were noted at Petaluma Junior and Casa Grande High School.

Effects: Internal controls for student body disbursements do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.

Cause: The District business office has not performed internal audits of the student body accounts to ensure that proper procedures and policies are being followed.

Recommendation: Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site. In addition, the District business office should perform internal audits of the student body accounts to ensure that proper procedures and policies are being followed.

District Response: The District will monitor sites for internal control procedures. Also, sites with findings will be required to attend formal training of student body accounting procedures.

PETALUMA CITY SCHOOLS  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2002

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)**

**02 - 2 / 30000**

**INDEPENDENT CONTRACTOR REPORTING**

- Criteria:** In accordance with federal guidelines, districts are required to issue a Form 1099-MISC to all independent contractors totaling \$600 or more in a tax year. The Form 1099-MISC must be mailed to vendors by January 31<sup>st</sup> and filed with the Internal revenue Service by February 28<sup>th</sup>.
- In accordance with state guidelines, districts must report to the Employment Development Department within twenty (20) days of either making payments totaling \$600 or more, or entering into a contract for \$600 or more with an independent contractor. The required independent contractor information is reported on the "Report of Independent Contractors" form DE542.
- In order to comply with state and federal independent contractor reporting requirements, the District must have a mechanism in place for tracking and accumulating payments made to independent contractors from all funds maintained by the District, including payments issued from student body funds at all school sites.
- Condition:** The District does not have an effective mechanism in place to track and accumulate payments made to independent contractors from student body funds at all school sites.
- Questioned Cost:** None.
- Context:** The condition exists on a district-wide basis.
- Effect:** The District may not comply with state and federal independent contractor reporting requirements.
- Cause:** Federal independent contractor reporting requirements have not been actively enforced. State independent contractor reporting requirements became effective January 1, 2001.
- Recommendation:** The District should require that all payments made to independent contractors be processed through the District's financial system. The student body could then reimburse the District and shift the independent contractor reporting responsibility to the District Office, where they are better equipped to track and accumulate payments to independent contractors.
- District Response:** The District will work with the Student Body to develop a process whereby reporting of contracts and payments made to independent contractors is compliant.

PETALUMA CITY SCHOOLS  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2002

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no matters to report for the fiscal year ended June 30, 2002

PETALUMA CITY SCHOOLS  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2002

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**02 - 3 / 10000**

**KINDERGARTEN RETENTION**

- Criteria:** Education Code Section 46300(g) allows a district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to section 48011, approved in form and content by the California Department of Education (CDE), and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance.
- Condition:** The District retained one kindergarten student for a second year of kindergarten during fiscal year 2001-02; however, the school site could not locate the kindergarten retention form.
- Questioned Cost:** Average daily attendance (ADA) was overstated by .89 ADA. The estimated fiscal impact of this finding is a \$3,929 decrease in revenue limit funding, which was computed as follows:  
  
(.89 ADA x \$4,415 Per ADA District Revenue Limit)
- Context:** All students in the District, who were retained in kindergarten during fiscal year 2001-02, were tested for compliance with kindergarten retention form requirements.
- Effect:** The District incurred costs related to providing education to one kindergarten student, who was not ready for entry into first grade. The District does not, however, qualify to receive funding for the student, due to the absence of the kindergarten retention form, which could not be located by the school site.
- Cause:** The District was unaware that the school site misplaced the form used to document the kindergarten retention.
- Recommendation:** The District should amend the fiscal year 2001-02 J18/19 P-2 attendance report to exclude the .89 ADA generated by the one retained student.

PETALUMA CITY SCHOOLS  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2002

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)**

**KINDERGARTEN RETENTION (CONCLUDED)**

**District Response:**

The school sites are, in fact, implementing and using the proper forms for kindergarten students requiring retention. The site in question had other student letters on file. The Principal does recall specifically working with the family in question on this issue. The letter has been misplaced. The District will remind sites of the importance of proper filing of documents. However, since the resultant impact is less than 1 ADA, the District questions this finding to begin with.

PETALUMA CITY SCHOOLS  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
JUNE 30, 2002

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS</u></b>		
<b>01 - 1 / 30000</b>		
<b><u>CASH DISBURSEMENTS</u></b>		
Cafeteria invoices should not be processed for payment prior to obtaining documented evidence that goods have been received.	Implemented	
<b>01 - 2 / 30000</b>		
<b><u>STUDENT BODY - CASH DISBURSEMENTS</u></b>		
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.	Implemented	
Checks should not be issued prior to obtaining the signatures of two authorized signers.	Implemented	
<b>01 - 3 / 30000</b>		
<b><u>CASH RECEIPTS</u></b>		
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.	Implemented	
<b>01 - 4 / 30000</b>		
<b><u>CAFETERIA CASH RECEIPTS</u></b>		
Meal rosters and daily sales reports should be completed in ink, and should be signed by the individuals at the sites who prepared them.	Implemented	

PETALUMA CITY SCHOOLS  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
JUNE 30, 2002

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS (CONCLUDED)</u></b>		
<b>01 - 5 / 30000</b>		
<b><u>BANK ACCOUNTS</u></b>		
Revolving and abatement bank accounts should be reconciled on a monthly basis.	Implemented	
<b>01 - 6 / 30000</b>		
<b><u>VACATION CARRYOVER</u></b>		
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 Not Repeated. District will implement as time and resources allow.
<b><u>FEDERAL AWARDS</u></b>		
<b>01 - 7 / 50000</b>		
<b><u>FREE AND REDUCED MEAL APPLICATIONS</u></b>		
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.	Implemented	



PETALUMA CITY SCHOOLS  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
JUNE 30, 2002

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>STATE AWARDS</u></b>		
<b>01 - 8 / 10000</b>		
<b><u>HOME AND HOSPITAL ATTENDANCE</u></b>		
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.	Implemented	
Individuals who record student attendance should be informed of the proper procedures to follow when completing state school registers.	Implemented	
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.	Implemented	
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.	Implemented	

PETALUMA CITY SCHOOLS  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
JUNE 30, 2002

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>STATE AWARDS (CONCLUDED)</u></b>		
<b>01 - 9 / 40000</b>		
<b><u>MORGAN HART - CLASS SIZE REDUCTION</u></b>		
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.	Implemented	