

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

**AUDIT REPORT**

**JUNE 30, 2004**



# PETALUMA CITY SCHOOLS

JUNE 30, 2004

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PETALUMA CITY SCHOOLS

JUNE 30, 2004

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PETALUMA CITY SCHOOLS

JUNE 30, 2004

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FINANCIAL SECTION





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Petaluma City Schools  
200 Douglas Street  
Petaluma, CA 94952

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Petaluma City Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of June 30, 2004, and the changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 51 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2004, on our consideration of Petaluma City Schools' internal control over financial reporting and our tests of the District's 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Petaluma City Schools' basic financial statements. The accompanying supplementary information, including the combining statements and individual fund schedules, the schedule of expenditures of federal awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of Petaluma City Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

October 14, 2004

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities and business-type activities, presented on pages 16 through 25, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

**FINANCIAL HIGHLIGHTS**

*Governmental Activities:*

- The District's financial status remains positive. Over the course of the year, total net assets increased 73.5%, primarily due to the sale of the Kenilworth Junior High school site for \$22,000,000 during fiscal year 2003-04.
- Total current year revenues exceeded total current year expenses by \$18,669,692.
- Capital assets, net of depreciation, decreased \$285,507.
- Long-term liabilities increased \$1,215,642. During fiscal year 2003-04, the District issued \$7,260,000 of general obligation bonds, of which \$4,560,000 were used for the refunding and defeasement of the Election of 1991, outstanding Series B bonds.
- Average daily attendance (ADA), excluding adult ADA, in the District increased by 59 ADA less than 1% from 7,490 ADA in fiscal year 2002-03 to 7,549 ADA in fiscal year 2003-04.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2003-04, General Fund expenditures and other financing uses totaled \$55,038,633, exclusive of state on-behalf payments made by the State of California. At June 30, 2004, the District had available reserves of \$3,928,679 in the General Fund, which represents a reserve of 7.1%.

*Business-Type Activities:*

- This is the first year that the District is presenting a business-type activities fund, which was established for the purpose of appropriate and separate accounting for the Petaluma High School agreement with the City of Petaluma for the Downtown Project.
- Total current year revenues exceeded total current year expenses by \$2,989.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**THE FINANCIAL REPORT**

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
  - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
  - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
  - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

**Reporting the District as a Whole**

The District as a whole is reported in the District-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**THE FINANCIAL REPORT (CONCLUDED)**

**Reporting the District as a Whole (Concluded)**

*Governmental Activities:*

The basic services provided by the District, such as regular and special education, adult education, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal contracts and grants, and local revenues.

*Business-Type Activities:*

These activities are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's Downtown Project program is reported as business activities.

**Reporting the District's Most Significant Funds:**

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

*Governmental Funds*

The major governmental funds of Petaluma City Schools are the General Fund, Bond Interest and Redemption Fund, Building Fund, and Capital Projects - Special Reserve Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

*Proprietary Funds*

Proprietary funds are activities that a District operates similar to a business, in that it attempts to recover costs through charges to the user. Proprietary funds include internal service funds and enterprise funds, and are accounted for on the full accrual basis. Internal service funds account for goods or services that are provided to other funds in return for a fee to cover the cost of operations. The District has one fund of this type, the Self-Insurance Fund. Enterprise funds are used to account for any activity or service that charges a fee to external users to cover the cost of operations. The District has one fund of this type, the Downtown Project Fund.

*Fiduciary Funds*

The District is the trustee, or fiduciary, for its scholarship and student activity funds. All of the District's fiduciary activities are reported in separate fiduciary statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

The District's net assets increased from \$25,422,017 at June 30, 2003 to \$44,094,698 at June 30, 2004, or 73.5%.

<b><u>Comparative Statement of Net Assets</u></b>						
	Governmental Activities		Business-Type Activities		Totals	
	2003	2004	2003	2004	2003	2004
<b><u>Assets:</u></b>						
Cash	\$ 24,058,443	\$ 45,658,549	\$	\$ 4,097	\$ 24,058,443	\$ 45,662,646
Receivables	4,967,954	5,134,043			4,967,954	5,134,043
Internal Balances	0	70		(70)	0	0
Stores Inventory	79,050	79,198			79,050	79,198
Prepaid Expenses	1,518,048	1,538,431			1,518,048	1,538,431
Capital Assets, net	71,167,724	70,882,217			71,167,724	70,882,217
<b>Total Assets</b>	<b>101,791,219</b>	<b>123,292,508</b>	<b>****</b>	<b>4,027</b>	<b>101,791,219</b>	<b>123,296,535</b>
<b><u>Liabilities:</u></b>						
Current *	3,780,072	5,396,027		1,038	3,780,072	5,397,065
Long-Term *	72,589,130	73,804,772			72,589,130	73,804,772
<b>Total Liabilities *</b>	<b>76,369,202</b>	<b>79,200,799</b>	<b>****</b>	<b>1,038</b>	<b>76,369,202</b>	<b>79,201,837</b>
<b><u>Net Assets:</u></b>						
Invested in Capital Assets						
- Net of Related Debt *	11,331,703	10,901,489			11,331,703	10,901,489
Restricted	9,907,010	28,812,295			9,907,010	28,812,295
Unrestricted *	4,183,304	4,377,925		2,989	4,183,304	4,380,914
<b>Total Net Assets *</b>	<b>\$ 25,422,017</b>	<b>\$ 44,091,709</b>	<b>\$ ****</b>	<b>\$ 2,989</b>	<b>\$ 25,422,017</b>	<b>\$ 44,094,698</b>

*Table includes financial data of the combined governmental and proprietary funds*

\* The balances presented for fiscal year 2002-03 have been adjusted to reflect a restatement of the June 30, 2003 Net Asset Balance.  
(See Note 19)

\*\*\*\* The District did not have any Business-Type Activities for the year ended June 30, 2003.

The District invested \$4,006,556 in capital assets in 2003-04. The most significant investments were the modernization projects completed at Petaluma Junior High School, which were financed by a combination of school facilities apportionments received in the County School Facilities Fund and local general obligation bond funds, and the work in progress expenses incurred for the new Kenilworth Junior High School, which were financed by a combination of capital facilities funds and proceeds from the sale of the old Kenilworth Junior High School site.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)**

District net assets increased \$18,672,681 during fiscal year 2003-04.

<b>Comparative Statement of Changes in Net Assets</b>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
<b>Program Revenues:</b>						
Charges for Services	\$ 1,808,499	\$ 1,685,507	\$	\$ 25,000	\$ 1,808,499	\$ 1,710,507
Operating Grants and Contributions	10,942,934	10,786,295			10,942,934	10,786,295
Capital Grants and Contributions	2,267,226				2,267,226	
<b>General Revenues:</b>						
Taxes Levied	28,118,140	29,706,235			28,118,140	29,706,235
Federal and State Aid *	20,552,458	18,615,161			20,552,458	18,615,161
Interest and Investment Earnings	985,794	663,768		28	985,794	663,796
Transfers	665,937	838,351			665,937	838,351
Miscellaneous	2,092,583	2,271,211			2,092,583	2,271,211
<b>Total Revenues *</b>	<u>67,433,571</u>	<u>64,566,528</u>	****	25,028	<u>67,433,571</u>	<u>64,591,556</u>
<b>Expenses:</b>						
Instruction	37,668,656	38,152,492			37,668,656	38,152,492
Instruction Related Services	5,924,661	5,892,034			5,924,661	5,892,034
Pupil Services	7,003,061	7,381,727			7,003,061	7,381,727
General Administration	2,292,037	2,338,850			2,292,037	2,338,850
Plant Services	6,048,594	5,713,181			6,048,594	5,713,181
Ancillary Services	233,711	296,326			233,711	296,326
Community Services	440,258	385,857			440,258	385,857
Enterprise Activities	57,379	174,285		22,039	57,379	196,324
Interest on Long-Term Debt	3,472,439	3,257,964			3,472,439	3,257,964
Other Outgo	1,352,744	1,830,534			1,352,744	1,830,534
<b>Total Expenses</b>	<u>64,493,540</u>	<u>65,423,250</u>	****	22,039	<u>64,493,540</u>	<u>65,445,289</u>
<b>Changes in Net Assets Before Special Item *</b>	2,940,031	(856,722)			2,940,031	(856,722)
<b>Special Item</b>	<u>(27,500)</u>	19,526,414 **			<u>(27,500)</u>	19,526,414
<b>Changes in Net Assets *</b>	<u>\$ 2,912,531</u>	<u>\$ 18,669,692</u>	\$ ****	<u>\$ 2,989</u>	<u>\$ 2,912,531</u>	<u>\$ 18,672,681</u>

*Table includes financial data of the combined governmental and proprietary funds*

\* The balances presented for fiscal year 2002-03 have been adjusted to reflect a restatement of the June 30, 2003 Net Asset Balance. (See Note 19)

\*\* The special item relates to the gain recognized by the District on the sale of the old Kenilworth Junior High School site.

\*\*\*\* The District did not have any Business-Type Activities for the year ended June 30, 2003.

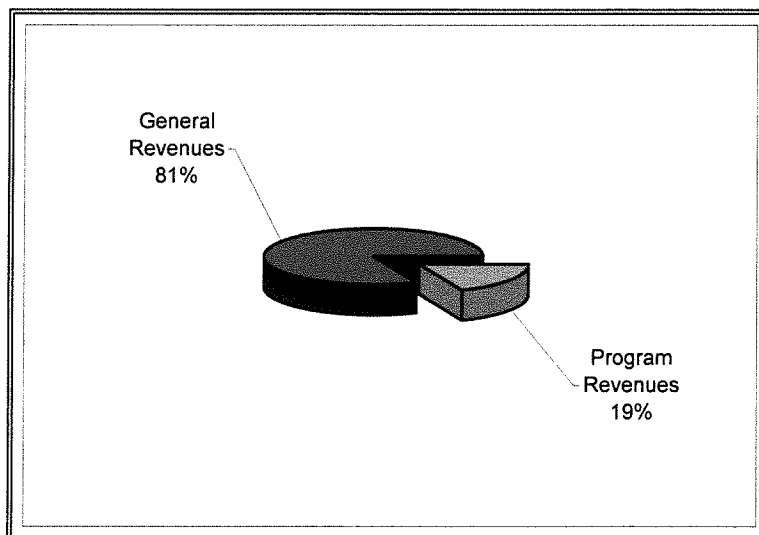
**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>			Percentage Change	<u>Net Cost of Services</u>		Percentage Change
	2003	2004			2003	2004	
Instruction	\$ 37,668,656	\$ 38,152,492	-1.28%	\$ 27,866,927	\$ 31,190,834	-11.93%	
Instruction Related Services	5,924,661	5,892,034	0.55%	5,224,594	5,220,265	0.08%	
Pupil Services	7,003,061	7,381,727	-5.41%	3,162,124	3,728,430	-17.91%	
General Administration	2,292,037	2,338,850	-2.04%	2,158,819	2,208,968	-2.32%	
Plant Services	6,048,594	5,713,181	5.55%	5,704,684	4,752,155	16.70%	
Ancillary Services	233,711	296,326	-26.79%	233,711	296,326	-26.79%	
Community Services	440,258	385,857	12.36%	440,258	385,857	12.36%	
Enterprise Activities	57,379	174,285	-203.74%	57,379	174,285	-203.74%	
Interest on Long-Term Debt	3,472,439	3,257,964	6.18%	3,472,439	3,257,964	6.18%	
Other Outgo	1,352,744	1,830,534	-35.32%	1,153,946	1,736,364	-50.47%	
<b>Totals</b>	<b>\$ 64,493,540</b>	<b>\$ 65,423,250</b>	<b>-1.44%</b>	<b>\$ 49,474,881</b>	<b>\$ 52,951,448</b>	<b>-7.03%</b>	

*Table includes financial data of the combined governmental and proprietary funds*

The table above presents the cost of major District governmental activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$52,951,448 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed above. Further detail is available on page 15.



Program revenues financed 19% of the total cost of providing the services listed above, while the remaining 81% was financed by the general revenues of the District.



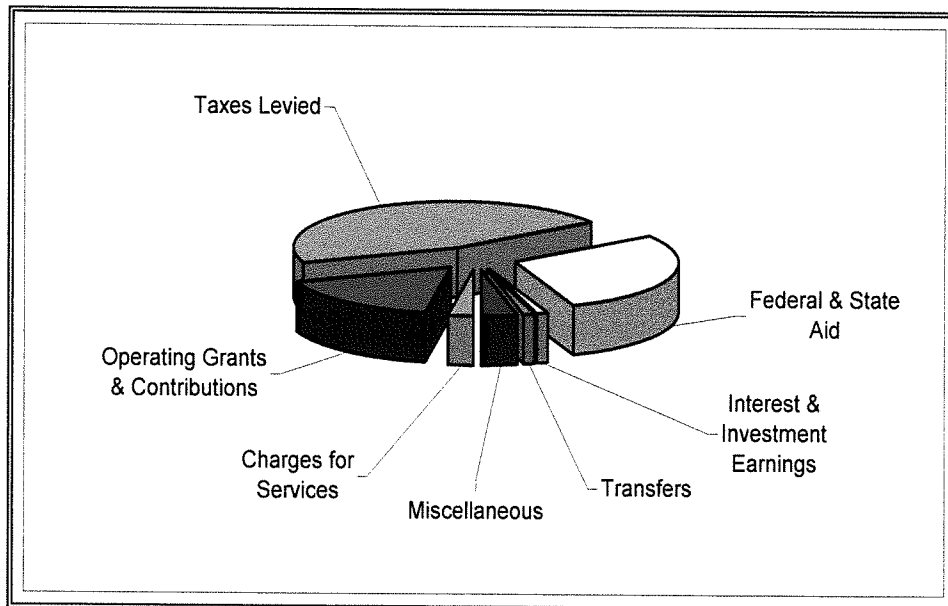
**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)**

**Summary of Revenues For Governmental Functions**

	<u>FYE 2003 Amount</u>	<u>Percent of Total</u>	<u>FYE 2004 Amount</u>	<u>Percent of Total</u>
<b>Program Revenues:</b>				
Charges for Services	\$ 1,808,499	2.68%	\$ 1,685,507	2.61%
Operating Grants & Contributions	10,942,934	16.23%	10,786,295	16.71%
Capital Grants & Contributions	2,267,226	3.36%		
<b>General Revenues:</b>				
Taxes Levied	28,118,140	41.70%	29,706,235	46.01%
Federal and State Aid *	20,552,458	30.48%	18,615,161	28.83%
Interest and Investment Earnings	985,794	1.46%	663,768	1.03%
Transfers	665,937	0.99%	838,351	1.30%
Miscellaneous	2,092,583	3.10%	2,271,211	3.52%
<b>Total Revenues *</b>	<b>\$ 67,433,571</b>	<b>100.00%</b>	<b>\$ 64,566,528</b>	<b>100.00%</b>

\* The balances presented for fiscal year 2002-03 have been adjusted to reflect a restatement of the June 30, 2003 Net Asset Balance. (See Note 19)

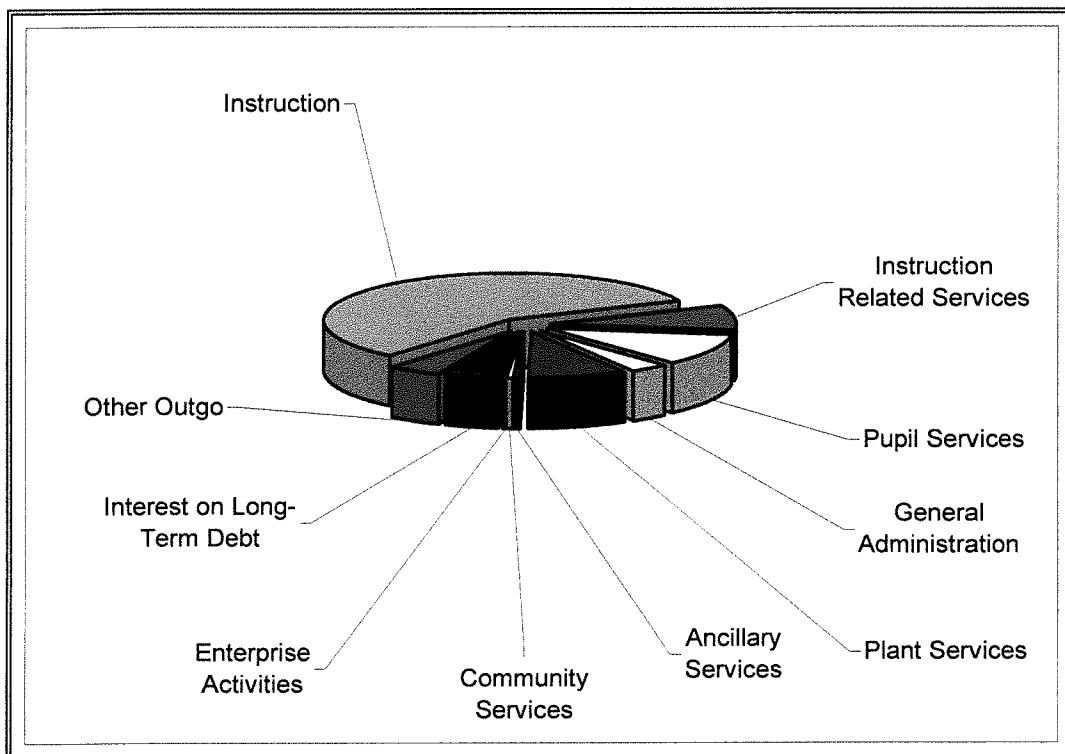


**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONCLUDED)**

**Schedule of Expenses For Governmental Functions**

	<u>FYE 2003 Amount</u>	<u>Percent of Total</u>	<u>FYE 2004 Amount</u>	<u>Percent of Total</u>
<b>Expenses:</b>				
Instruction	\$ 37,668,656	58.41%	\$ 38,152,492	58.32%
Instruction Related Services	5,924,661	9.19%	5,892,034	9.01%
Pupil Services	7,003,061	10.86%	7,381,727	11.28%
General Administration	2,292,037	3.55%	2,338,850	3.57%
Plant Services	6,048,594	9.38%	5,713,181	8.73%
Ancillary Services	233,711	0.36%	296,326	0.45%
Community Services	440,258	0.68%	385,857	0.59%
Enterprise Activities	57,379	0.09%	174,285	0.27%
Interest on Long-Term Debt	3,472,439	5.38%	3,257,964	4.98%
Other Outgo	1,352,744	2.10%	1,830,534	2.80%
<b>Total Expenses</b>	<b>\$ 64,493,540</b>	<b>100.00%</b>	<b>\$ 65,423,250</b>	<b>100.00%</b>



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE CAPITAL ASSETS AND LONG-TERM LIABILITIES**

GOVERNMENTAL ACTIVITIES

<b><u>Comparative Schedule of Capital Assets</u></b>		
	Governmental Activities	
	2003	2004
Land	\$ 4,375,201	\$ 4,266,886
Sites and Improvements	4,590,540	5,539,109
Buildings and Improvements	82,101,679	82,889,115
Furniture and Equipment	4,173,513	4,195,165
Work in Progress	3,579,386	2,875,372
Subtotals	98,820,319	99,765,647
Less: Accumulated Depreciation	(27,652,595)	(28,883,430)
Capital Assets, net	<u>\$ 71,167,724</u>	<u>\$ 70,882,217</u>

The District invested \$4,006,556 in capital assets in 2003-04. The most significant investments were the modernization projects completed at Petaluma Junior High School, which were financed by a combination of school facilities apportionments received in the County School Facilities Fund and local general obligation bond funds, and the work in progress expenses incurred for the new Kenilworth Junior High School, which were financed by a combination of capital facilities funds and proceeds from the sale of the old Kenilworth Junior High School site.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	Governmental Activities	
	2003	2004
Compensated Absences	\$ 480,128	\$ 483,113
General Obligation Bonds	68,577,988	69,894,176
Capital Leases *	2,138,173	1,798,183
Other Post Employment Benefits	1,392,841	1,629,300
Totals	<u>\$ 72,589,130</u>	<u>\$ 73,804,772</u>

\* The July 1, 2003 balance has been adjusted to reflect an \$18,284 understatement of capital lease liability.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)**

The general obligation bonds are financed by the local taxpayers and represent 95% of the District's long-term liabilities. During fiscal year 2003-04, the District issued \$7,260,000 of general obligation bonds, of which \$4,560,000 were used for the refunding and defeasement of the Election of 1991, outstanding Series B bonds. The remaining portion of long-term liabilities is to be paid by the District and includes other post employment benefits, capital leases, and the value of vacation earned, but not taken as of June 30, 2004.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**FINANCIAL ANALYSIS OF DISTRICT'S FUNDS**

<b><u>Comparative Schedule of Governmental and Business-Type Activities Balances</u></b>			
	Fund Balances June 30, 2003	Fund Balances June 30, 2004	Increase (Decrease)
General *	\$ 5,878,408	5,682,107	\$ (196,301)
Deferred Maintenance	644,151	831,569	187,418
Cafeteria	58,725	54,196	(4,529)
Adult Education	102,820	169,570	66,750
Bond Interest & Redemption	5,953,120	5,827,534	(125,586)
Capital Facilities	2,085,742	2,679,148	593,406
Building	10,437,099	11,133,681	696,582
Capital Projects - Special Reserve	93,146	19,808,920	19,715,774
County School Facilities	877,986	0	(877,986)
Self-Insurance	5,141	18,551	13,410
Downtown Project	0	2,989	2,989
<b>Totals</b>	<b><u>\$ 26,136,338</u></b>	<b><u>\$ 46,208,265</u></b>	<b><u>\$ 20,071,927</u></b>

\* The balances presented have been adjusted to reflect a restatement of the June 30, 2003 fund balance of the General Fund. (See Note 19)

The increase in the fund balance of the Capital Projects - Special Reserve Fund is a result of the sale of the old Kenilworth High School site for \$22,000,000.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The Original budget presented on page 51 includes only new revenues for 2003-04.

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

- The State's economic situation is a major factor affecting the District's future. The financial well being of the District is tied, in large measure, to the State funding formula. Although committed to education, the State suffers from a structural budget imbalance threatening funding stability in all sectors, including education.
- Student enrollment and average daily attendance (ADA) are primary factors in the computation of most funding formulas for public schools in the State of California. ADA continues to decline for the elementary District through 2004-05. The secondary District is leveling off with decline beginning in 2006-07.
- Projected health and welfare benefit costs continue to have double-digit impact each year for the foreseeable future.
- Together, these three factors require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Petaluma City Schools, 200 Douglas Street, Petaluma, California 94952.

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b><u>Assets</u></b>			
Cash (Note 2)	\$ 45,658,549	\$ 4,097	\$ 45,662,646
Receivables (Note 4)	5,134,043		5,134,043
Internal Balances	70	(70)	0
Stores Inventory (Note 1J)	79,198		79,198
Prepaid Expenses (Note 1J)	1,538,431		1,538,431
Capital Assets: (Note 6)			
Land	4,266,886		4,266,886
Sites and Improvements	5,539,109		5,539,109
Buildings and Improvements	82,889,115		82,889,115
Furniture and Equipment	4,195,165		4,195,165
Work in Progress	2,875,372		2,875,372
Less: Accumulated Depreciation	(28,883,430)		(28,883,430)
Total Assets	<u>123,292,508</u>	<u>4,027</u>	<u>123,296,535</u>
<b><u>Liabilities</u></b>			
Accounts Payable and Other Current Liabilities	5,009,158	1,038	5,010,196
Deferred Revenue (Note 1J)	386,869		386,869
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
General Obligation Bonds (Note 7)			
Current Interest	1,440,000		1,440,000
Capital Appreciation	1,199,873		1,199,873
Capital Leases (Note 8)	288,286		288,286
Other Post Employment Benefits (Note 10)	302,186		302,186
<i>Portion Due or Payable After One Year:</i>			
Compensated Absences (Note 1J)	483,113		483,113
General Obligation Bonds (Note 7)			
Current Interest	50,220,000		50,220,000
Capital Appreciation	17,034,303		17,034,303
Capital Leases (Note 8)	1,509,897		1,509,897
Other Post Employment Benefits (Note 10)	1,327,114		1,327,114
Total Liabilities	<u>79,200,799</u>	<u>1,038</u>	<u>79,201,837</u>
<b><u>Net Assets</u></b>			
Investment in Capital Assets, Net of Related Debt	10,901,489		10,901,489
Restricted:			
For Capital Projects	22,488,068		22,488,068
For Debt Service	5,827,534		5,827,534
For Educational Programs	397,195		397,195
For Other Purposes	99,498		99,498
Unrestricted	4,377,925	2,989	4,380,914
Total Net Assets	<u>\$ 44,091,709</u>	<u>\$ 2,989</u>	<u>\$ 44,094,698</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<b><u>Governmental Activities:</u></b>							
Instruction	\$ 38,152,492	\$ 147,186	\$ 6,814,472		\$ (31,190,834)		\$ (31,190,834)
<b>Instruction-Related Services:</b>							
Supervision of Instruction	702,417		258,360		(444,057)		(444,057)
Instructional Library, Media, Technology	677,231		18,500		(658,731)		(658,731)
School Site Administration	4,512,386	9,125	385,784		(4,117,477)		(4,117,477)
<b>Pupil Services:</b>							
Home-to-School Transportation	1,204,474	84,995	677,239		(442,240)		(442,240)
Food Services	1,991,435	1,412,420	520,769		(58,246)		(58,246)
Other Pupil Services	4,185,818	14,324	943,550		(3,227,944)		(3,227,944)
<b>General Administration:</b>							
Other General Administration	2,338,850	1,732	128,150		(2,208,968)		(2,208,968)
Plant Services	5,713,181	9,413	951,613		(4,752,155)		(4,752,155)
Ancillary Services	296,326				(296,326)		(296,326)
Community Services	385,857				(385,857)		(385,857)
Enterprise Activities	174,285				(174,285)		(174,285)
Interest on Long-Term Debt	3,257,964				(3,257,964)		(3,257,964)
Other Outgo	1,830,534	6,312	87,858		(1,736,364)		(1,736,364)
<b>Total Governmental Activities</b>	<b>65,423,250</b>	<b>1,685,507</b>	<b>10,786,295</b>		<b>(52,951,448)</b>		<b>(52,951,448)</b>
<b><u>Business-Type Activities:</u></b>							
Enterprise Activities	22,039	25,000				\$ 2,961	2,961
<b>Totals</b>	<b>\$ 65,445,289</b>	<b>\$ 1,710,507</b>	<b>\$ 10,786,295</b>	<b>\$ 0</b>	<b>(52,951,448)</b>	<b>2,961</b>	<b>(52,948,487)</b>
<b><u>General Revenues:</u></b>							
Taxes Levied for General Purposes					25,180,769		25,180,769
Taxes Levied for Debt Service					4,525,466		4,525,466
Federal and State Aid - Unrestricted					18,615,161		18,615,161
Interest and Investment Earnings					663,768	28	663,796
Transfers					838,351		838,351
Miscellaneous					2,271,211		2,271,211
<b>Special Item</b>					<b>19,526,414</b>		<b>19,526,414</b>
<b>Total General Revenues and Special Item</b>					<b>71,621,140</b>	<b>28</b>	<b>71,621,168</b>
<b>Changes in Net Assets</b>					<b>18,669,692</b>	<b>2,989</b>	<b>18,672,681</b>
Net Assets - July 1, 2003 (As restated - Note 19)					25,422,017	0	25,422,017
Net Assets - June 30, 2004					<b>\$ 44,091,709</b>	<b>\$ 2,989</b>	<b>\$ 44,094,698</b>

**PETALUMA CITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b><u>Assets</u></b>		
Cash in County Treasury (Note 2)	\$ 4,204,658	\$ 5,827,534
Cash in Banks	2,000	
Cash in Revolving Fund	20,000	
Accounts Receivable (Note 4)		
Federal Government	771,744	
State Government	2,944,225	
Local Governments	559,653	
Miscellaneous	384,776	
Due from Other Funds (Note 5)	408,819	
Stores Inventory (Note 1J)	51,283	
	<u>9,347,158</u>	
Total Assets	<u>\$ 9,347,158</u>	<u>\$ 5,827,534</u>
<b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts Payable	\$ 2,828,554	
Due to Other Funds (Note 5)	252,293	
Deferred Revenue (Note 1J)	584,204	
	<u>3,665,051</u>	
Fund Balances: (Note 13)		
Reserved	468,478	\$ 5,827,534
Unreserved:		
Designated	2,936,109	
Undesignated	2,277,520	
	<u>5,682,107</u>	<u>5,827,534</u>
Total Fund Balances	<u>5,682,107</u>	<u>5,827,534</u>
Total Liabilities and Fund Balances	<u>\$ 9,347,158</u>	<u>\$ 5,827,534</u>



<u>Building Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 11,170,233	\$ 20,856,935	\$ 3,560,461	\$ 45,619,821
		300	2,000
		212,243	20,300
		193,228	983,987
		40,346	3,137,453
20	1,400	26,258	599,999
3,940	9,758	74,882	412,454
		27,915	497,399
<u>\$ 11,174,193</u>	<u>\$ 20,868,093</u>	<u>\$ 4,135,633</u>	<u>\$ 51,352,611</u>
\$ 39,698	\$ 971,466	\$ 216,928	\$ 4,056,646
814	87,707	166,570	507,384
		17,652	601,856
<u>40,512</u>	<u>1,059,173</u>	<u>401,150</u>	<u>5,165,886</u>
		28,215	6,324,227
11,133,681	19,808,920	50,000	2,986,109
		3,656,268	36,876,389
<u>11,133,681</u>	<u>19,808,920</u>	<u>3,734,483</u>	<u>46,186,725</u>
<u>\$ 11,174,193</u>	<u>\$ 20,868,093</u>	<u>\$ 4,135,633</u>	<u>\$ 51,352,611</u>

**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

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**Total Fund Balances - Governmental Funds** \$ 46,186,725

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$99,765,647, and the accumulated depreciation is \$28,883,430. 70,882,217

Unamortized premiums: In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, premiums are amortized over the life of the bond obligation. Unamortized premiums at year-end consist of:

Deferred Asset - Bond premiums (16,051)

Unamortized costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the obligation. Unamortized debt issue costs, reported as prepaid expenses, at year-end consist of:

Deferred Charges - Discount	\$ 132,526	
Deferred Charges - Costs of Issuance	311,873	
Deferred Charges - Refunding	<u>1,094,032</u>	
		1,538,431

Unmatured interest on long-term debt: In governmental funds, interest is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owed at the end of the period was: (944,430)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available", meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements is: 231,038

An internal service fund is used by District management to charge all cost of vision insurance to the individuals funds. The assets and liabilities of the internal service fund are included in governmental activities. 18,551

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	\$ 483,113	
General Obligation Bonds		
Current Interest	51,660,000	
Capital Appreciation	18,234,176	
Capital Leases	1,798,183	
Other Post Employment Benefits	<u>1,629,300</u>	
		<u>(73,804,772)</u>

**Total Net Assets - Governmental Activities** \$ 44,091,709



**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b><u>Revenues</u></b>		
Revenue Limit Sources:		
State Apportionment	\$ 15,646,623	
Local Taxes	25,180,771	
Total Revenue Limit Sources	40,827,394	
Federal Revenue	2,256,363	
State Revenue	5,757,273	\$ 56,965
State On-Behalf Payments	593,282	
Local Revenue	6,001,302	4,560,636
Total Revenues	55,435,614	4,617,601
<b><u>Expenditures</u></b>		
Instruction	35,422,523	
Supervision of Instruction	669,906	
Instructional Library, Media and Technology	551,558	
School Site Administration	4,013,721	
Home-to-School Transportation	1,115,903	
Food Services	83	
Other Pupil Services	3,961,718	
Other General Administration	2,141,783	
Plant Services	4,792,173	
Facilities Acquisition and Construction	91,101	
Ancillary Services	237,992	
Community Services	369,377	
Enterprise Activities	55,322	
Debt Service: Principal	186,188	6,930,000
Debt Service: Interest	17,566	2,390,056
Other Outgo	1,738,514	
Total Expenditures	55,365,428	9,320,056
Excess of Revenues Over (Under) Expenditures	70,186	(4,702,455)
<b><u>Other Financing Sources (Uses):</u></b>		
Operating Transfers In		
Operating Transfers Out	(266,487)	
Other Sources		4,576,869
Total Other Financing Sources (Uses)	(266,487)	4,576,869
Net Change in Fund Balances	(196,301)	(125,586)
Fund Balances - July 1, 2003 (As restated - Note 19)	5,878,408	5,953,120
Fund Balances - June 30, 2004	\$ 5,682,107	\$ 5,827,534

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$ 1,165,417	\$ 16,812,040
		1,165,417	25,180,771
	\$ 249,090	713,161	41,992,811
		273,107	3,218,614
\$ 210,583	53,989	2,355,316	6,087,345
210,583	303,079	4,507,001	593,282
			13,181,826
			65,073,878
		1,210,763	36,633,286
		3,109	673,015
		238,392	551,558
		1,970,656	4,252,113
		94	1,115,903
		58,289	1,970,739
47,311	6,363	454,406	3,961,812
1,810,648	1,338,713	950,055	2,200,072
			5,300,253
			4,190,517
			237,992
			369,377
			55,322
	143,296	10,506	7,269,990
	105,420	1,714	2,514,756
	1,260,000		2,998,514
1,857,959	2,853,792	4,897,984	74,295,219
(1,647,376)	(2,550,713)	(390,983)	(9,221,341)
	266,487	356,042	622,529
(356,042)			(622,529)
2,700,000	22,000,000		29,276,869
2,343,958	22,266,487	356,042	29,276,869
696,582	19,715,774	(34,941)	20,055,528
10,437,099	93,146	3,769,424	26,131,197
\$ 11,133,681	\$ 19,808,920	\$ 3,734,483	\$ 46,186,725

**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>20,055,528</b>
<p>Amounts reported for governmental activities in the statement of activities are different due to the following:</p>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeded depreciation during the fiscal year.</p>		
Depreciation Expense	\$ (3,078,477)	
Capital Outlays	<u>4,006,556</u>	928,079
<p>Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue and closing costs associated with the disposal are recorded as expenditures. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds and closing costs from the disposal of capital assets and the net book value is:</p>		
		(1,213,586)
<p>Earned but unavailable revenue is reported in governmental funds only to the extent that they are "available", meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the statement of activities, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is:</p>		
		(33,006)
<p>Debt issue and refunding costs are recognized as expenditures in the period they are incurred in governmental funds. In the government-wide statements, issue and refunding costs are amortized over the life of the debt. The difference between debt issue and refunding costs recognized in the current period and issue and refunding costs amortized for the period are:</p>		
Costs of Issuance and Refunding	\$ 176,869	
Costs of Issuance and Refunding Amortized	<u>(92,020)</u>	84,849
<p>In the statement of activities, certain operating expenses-compensated absences (vacations) and other post employment benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amount earned exceeded amounts used by:</p>		
		(239,444)
<p>Bond premiums are recognized as Other Financing Sources in the period they are received in governmental funds. In the government-wide statements, premiums are amortized over the life of the debt. The difference between premiums recognized in the current</p>		
Bond Premiums	\$ (16,869)	
Bond Premiums Amortized	<u>818</u>	(16,051)
<p>Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:</p>		
General Obligation Bonds		
Current Interest	\$ 5,685,000	
Capital Appreciation	1,245,000	
Capital Leases	<u>339,990</u>	7,269,990
<p>Proceeds from debt issuance are recognized as Other Financing Sources in governmental funds. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of premiums, were:</p>		
		(7,260,000)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued and accreted interest on bonds and leases increased by:</p>		
		(920,077)
<p>An internal service fund is used by District management to charge the costs of vision insurance to the individual funds. The net revenue of the internal service fund is reported with governmental activities.</p>		
		<u>13,410</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>18,669,692</u></b>

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2004**

	Governmental Activities	Business-Type Activities
	Internal Service Fund	Enterprise Fund
<b><u>Assets</u></b>		
Cash in County Treasury (Note 2)	\$ 16,428	\$ 4,097
Receivables (Note 4)	150	
Due from Other Funds (Note 5)	10,055	
Total Assets	26,633	4,097
<b><u>Liabilities</u></b>		
Accounts Payable	8,082	1,038
Intergovernmental Payable		70
Total Liabilities	8,082	1,108
<b><u>Net Assets</u></b>		
Unrestricted	\$ 18,551	\$ 2,989

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Internal Service Fund</u>	<u>Enterprise Fund</u>
<b><u>Operating Revenues</u></b>		
Self-Insurance Premiums	\$ 132,373	
Charges for Services		\$ 25,000
Total Operating Revenues	<u>132,373</u>	<u>25,000</u>
<b><u>Operating Expenses</u></b>		
Salaries		2,700
Fringe Benefits		330
Materials and Supplies		16,587
Payments for Contracted Services	118,963	2,422
Total Operating Expenses	<u>118,963</u>	<u>22,039</u>
Operating Gain	13,410	2,961
<b><u>Non-Operating Revenues</u></b>		
Interest		28
Changes in Net Assets	13,410	2,989
Net Assets - July 1, 2003	5,141	0
Net Assets - June 30, 2004	<u>\$ 18,551</u>	<u>\$ 2,989</u>



**PETALUMA CITY SCHOOLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Internal Service Fund</b>	<b>Enterprise Fund</b>
<b><i>Cash Flows from Operating Activities:</i></b>		
Cash Received from Customers		\$ 25,000
Cash Received from Premiums	\$ 122,470	
Cash Payments to Employees for Services		(2,700)
Cash Payments for Employee Benefits		(330)
Cash Payments for Goods and Services		(16,153)
Cash Paid for Contracted Services	(118,176)	(1,748)
Net Cash Provided by Operating Activities	4,294	4,069
<b><i>Cash Flows from Investing Activities:</i></b>		
Interest		28
Net Increase in Cash	4,294	4,097
Cash Balance - July 1, 2003	12,134	0
Cash Balance - June 30, 2004	\$ 16,428	\$ 4,097
 <b><i>Reconciliation of Operating Gain to Net Cash Provided by Operating Activities:</i></b>		
Operating Gain	\$ 13,410	\$ 2,961
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Increase in Accounts Receivables	(52)	
Increase in Accounts Payable	787	1,038
Increase in Intergovernmental Payables		70
Increase in Due From Other Funds	(9,851)	
Net Adjustments	(9,116)	1,108
Net Cash Provided by Operating Activities	\$ 4,294	\$ 4,069

**PETALUMA CITY SCHOOLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<u>Private-Purpose Trust Scholarship Fund</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<b><u>Assets</u></b>			
Cash in County Treasury (Note 2)	\$ 1		\$ 1
Cash in Banks	7,845	\$ 386,617	394,462
Investments (Note 2)	99,781		99,781
Receivables (Note 4)	283		283
Total Assets	<u>107,910</u>	<u>386,617</u>	<u>494,527</u>
<b><u>Liabilities</u></b>			
Due to Student Groups		386,617	386,617
<b><u>Net Assets</u></b>			
Restricted for Scholarships	<u>107,910</u>		<u>107,910</u>
Total Net Assets	<u>\$ 107,910</u>	<u>\$ 0</u>	<u>\$ 107,910</u>

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Private-Purpose Trust
	Scholarship Fund
<b><u>Additions</u></b>	
Gifts and Contributions	\$ 6,036
Interest	1,215
Total Additions	7,251
<b><u>Deductions</u></b>	
Scholarships Awarded	6,305
Change in Net Assets	946
<b><u>Net Assets</u></b>	
Net Assets - July 1, 2003	106,964
Net Assets - June 30, 2004	\$ 107,910

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Accounting Policies**

Petaluma City Schools (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 activities of the "Petaluma City Elementary School District" and the "Petaluma Joint Union High School District". The districts share a common governing board, administration, and staff as permitted and recognized under California Education Code Section 35110. These two entities are referred to collectively as Petaluma City Schools, and for purposes of these financial statement notes, will be referred to collectively as the District.

The 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. Basis of Presentation**

*Government-wide Financial Statements:*

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

PETALUMA CITY SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

*Government-wide Financial Statements (Concluded):*

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

*Fund Financial Statements:*

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. The Enterprise Fund and the Internal Service Fund are presented on the proprietary fund financial statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance premiums. Operating expenses for the internal service fund include the costs of providing vision benefits to District employees. The principal operating revenues of the enterprise fund are charges to the City of Petaluma for benches and trash receptacles. Operating expenses for the enterprise fund include the costs of salaries, fringe benefits, materials and supplies, and contracted services.

Fiduciary funds are reported using the economic resources measurement focus.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

**Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred Revenue:**

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures:**

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

PETALUMA CITY SCHOOLS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting

The accounts of the District are organized on the basis of funds, 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 or retained earnings, 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 into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

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

The *Building Fund* is used to account for the proceeds of funds generated by the sale of Election 1991 and Election 1992 General Obligation Bonds. Expenditures are made from this fund for acquisition of major governmental facilities.

The *Capital Projects - Special Reserve Fund* is used to account for special building projects as determined by the District.

Non-major Governmental Funds:

*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 non-major 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 received and expenditures made to operate adult education programs maintained by the District.

*Capital Projects Funds* are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains three non-major 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).

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Fund Accounting (Concluded)**

Non-major Governmental Funds (Concluded):

*Capital Projects Funds (Concluded):*

3. County School Facilities Fund is used to account for revenue received from state allocations for construction projects and the expenditures made for those projects (Education Code Sections 17009.5 and 17070.10-17076.10).

*Proprietary Funds* focus on the determination of the changes in net assets, financial position and cash flows and are classified as either internal service or enterprise. The District maintains one internal service fund and one enterprise fund:

1. 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.
2. Enterprise Fund was established for the purpose of appropriate and separate accounting for the Petaluma High School agreement with the City of Petaluma for the Downtown Project.

Fiduciary Funds:

*Expendable Trust Funds* are used to account for assets held by the District as trustee. The District maintains two private-purpose trust funds, the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, collectively the Scholarship Fund, 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 an agency fund for the six student body accounts. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

**F. 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 final 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. The original and final revised budget is presented for the General Fund as required supplementary information on page 51.

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).



PETALUMA CITY SCHOOLS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. 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.

I. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows for the District's proprietary funds, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

J. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation (FDIC).

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

2. Inventories and Prepaid Expenses

Inventory is 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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Assets, Liabilities and Equity (Continued)**

**2. Inventories and Prepaid Expenses (Concluded)**

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred. Prepaid expenses include the costs associated with the bonds issued and refunded in the current year. The costs will be amortized over the life of the bond obligations.

Reported inventories and prepaid expenses are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

**3. Capital Assets**

There are two thresholds established for capital assets. The first tier includes furniture and equipment purchased or acquired with an original cost of \$ 5,000 or more, and are reported at historical cost or estimated historical cost. The second tier includes capital improvements or building projects with an original cost of \$50,000 or more, and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market values as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on capital assets have been computed using the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	15
Buildings and Improvements	25-40
Furniture and Equipment	5-10

**4. Deferred Revenue**

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue includes the premiums associated with the bonds issued in the current year, and will be amortized over the life of the bond obligation.

**5. Compensated Absences**

All vacation pay is accrued when incurred in the government-wide financial statements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**J. Assets, Liabilities and Equity (Concluded)**

**6. Long-term Liabilities**

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as long-term liabilities in the Statement of Net Assets. Premiums and discounts as well as issuance costs, related to long-term debt issued since the implementation of GASB Statement No. 34, are deferred and amortized over the life of the debt. Long-term debt is reported net of the applicable premiums or discounts.

In the fund financial statements, governmental funds recognize premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

**7. Fund Balance Reserves and Designations**

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

**8. Revenue Limit/Property Tax**

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 15 and March 15, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 2 - CASH AND INVESTMENTS**

**Cash in County Treasury**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates fair value. The difference between cost and fair value of the District's share of pooled investments in the Sonoma County Treasury was not material throughout fiscal year 2003-04. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Investments by the District in pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

**Cash in Banks and in Revolving Fund**

Cash balances in Banks and in the Revolving Fund are insured up to \$100,000 by the Federal Depository Insurance Corporation.

**Cash Balances**

Cash at June 30, 2004, consisted of the following:

	<u>Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:					
Cash in County Treasury	\$ 45,619,821	\$ 16,428	\$ 45,636,249	\$ 4,097	\$ 1
Deposits:					
Cash in Banks	2,000		2,000		394,462
Cash in Revolving Fund	<u>20,300</u>		<u>20,300</u>		
Total Cash	<u>\$ 45,642,121</u>	<u>\$ 16,428</u>	<u>\$ 45,658,549</u>	<u>\$ 4,097</u>	<u>\$ 394,463</u>

**Investments**

Investments as of June 30, 2004, are presented below:

	<u>Category</u>				<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>		
Certificates of Deposit	<u>\$ 99,781</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,781</u>	<u>\$ 99,781</u>

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the District's name.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

Excess of expenditures over appropriations in individual funds are as follows:

<u>Funds</u>	<u>Excess Expenditures</u>
<b>General Fund:</b>	
Debt Service: Principal Retirement	\$ 7,949
Other Expenditures	1,464,680
<b>Deferred Maintenance Fund:</b>	
Classified Salaries	2,344
Employee Benefits	585
<b>Cafeteria Fund:</b>	
Classified Salaries	705
Employee Benefits	9,720
Food and Supplies	4,997
<b>Bond Interest and Redemption Fund:</b>	
Debt Service: Interest and Fiscal Charges	2,390,056
Debt Service: Principal Retirement	6,930,000
<b>Capital Facilities Fund:</b>	
Classified Salaries	48
Services and Other Operating Expenditures	1,889
Debt Service: Interest and Fiscal Charges	781
Debt Service: Principal Retirement	3,511
<b>Special Reserve Fund:</b>	
Services and Other Operating Expenditures	74,414
Capital Outlay	49,505

The District incurred unanticipated expenditures in the above expenditure classifications for which the budgets were not revised. The District does not adopt a budget for the Bond Interest and Redemption Fund, which is under the control of the Sonoma County Auditor.

PETALUMA CITY SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 consist of the following:

	General Fund	Building Fund	Capital Projects - Special Reserve Fund	Other Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Activities
Federal Government							
Categorical Programs	\$ 771,744			\$ 212,243		\$ 983,987	
State Government							
State Aid	1,217,482			77,450		1,294,932	
Categorical Programs	1,102,700			5,060		1,107,760	
Lottery	370,317					370,317	
Other Allowances	<u>253,726</u>			<u>110,718</u>		<u>364,444</u>	
Total State	2,944,225			193,228		3,137,453	
Local Governments	559,653			40,346		599,999	
Interest							\$ 283
Miscellaneous	<u>384,776</u>	\$ 20	\$ 1,400	<u>26,258</u>	\$ 150	<u>412,604</u>	
Totals	<u>\$ 4,660,398</u>	<u>\$ 20</u>	<u>\$ 1,400</u>	<u>\$ 472,075</u>	<u>\$ 150</u>	<u>\$ 5,134,043</u>	<u>\$ 283</u>

NOTE 5 - INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2004 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Governmental Activities</u>		
General	\$ 408,819	\$ 252,293
Deferred Maintenance		5,046
Cafeteria	7,225	81,591
Adult Education	66,843	79,930
Capital Facilities	814	
State School Building		2
Capital Projects - Special Reserve	9,758	87,707
Building	3,940	814
County School Facilities		1
Self-Insurance	<u>10,055</u>	
Total Governmental Activities	507,454	507,384
<u>Business-Type Activities</u>		
Enterprise		<u>70</u>
Totals	<u>\$ 507,454</u>	<u>\$ 507,454</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)**

**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 fiscal year 2003-04 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 266,487
Deferred Maintenance	\$ 356,042	
Building		356,042
Capital Projects - Special Reserve	<u>266,487</u>	
Totals	<u>\$ 622,529</u>	<u>\$ 622,529</u>

Transfer of \$356,042 from the Building Fund to the Deferred Maintenance Fund to match state allocation.

Transfer of \$266,487 from the General Fund to the Capital Projects - Special Reserve Fund for redevelopment funds to pay for District Office facility.

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2004, are shown below:

	<u>Balances</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2004</u>
Land	\$ 4,375,201		\$ 108,315	\$ 4,266,886
Sites and Improvements	4,590,540	\$ 1,229,666	281,097	5,539,109
Buildings and Improvements	82,101,679	3,459,252	2,671,816	82,889,115
Furniture and Equipment	4,173,513	21,652		4,195,165
Work in Progress	<u>3,579,386</u>	<u>2,875,372</u>	<u>3,579,386</u>	<u>2,875,372</u>
Totals at Historical Cost	<u>98,820,319</u>	<u>7,585,942</u>	<u>6,640,614</u>	<u>99,765,647</u>
Less Accumulated Depreciation for:				
Sites and Improvements	2,926,556	303,172	281,097	2,948,631
Buildings and Improvements	21,937,441	2,466,479	1,566,545	22,837,375
Furniture and Equipment	<u>2,788,598</u>	<u>308,826</u>		<u>3,097,424</u>
Total Accumulated Depreciation	<u>27,652,595</u>	<u>3,078,477</u>	<u>1,847,642</u>	<u>28,883,430</u>
Governmental Activities				
Capital Assets, net	<u>\$ 71,167,724</u>	<u>\$ 4,507,465</u>	<u>\$ 4,792,972</u>	<u>\$ 70,882,217</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 1,744,430
Supervision of Instruction	32,437
Instructional Library, Media and Technology	126,216
School Site Administration	266,972
Home to School Transportation	159,133
Food Services	23,355
Other Pupil Services	221,202
Other General Administration	87,923
Plant Services	333,214
Ancillary Services	58,343
Community Services	<u>25,252</u>
Total Depreciation Expense	<u>\$ 3,078,477</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 7 - GENERAL OBLIGATION BONDS**

On October 29, 2003, the District issued general obligation bonds in the amount of \$4,560,000, with interest rates from 3.00% to 4.00%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1991, outstanding Series B bonds, and to pay the costs of issuance of the bonds. The refunding bonds were issued as \$4,560,000 of current interest bonds.

On April 6, 2004, the District issued general obligation bonds in the amount of \$2,700,000, with interest rates from 4.00% to 8.00%. The proceeds from the sale of the bonds are to be used to acquire school sites, build or purchase school buildings, make permanent alterations or additions to school buildings for health and safety purposes, and make permanent improvements to the school grounds and carry out necessary sewage and drainage projects. The bonds were issued as \$2,700,000 of current interest bonds.

The outstanding General Obligation debt of the District as of June 30, 2004 is as follows:

**A. Current Interest Bonds**

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2003	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2004
<b>Elementary</b>						
<b>1991 Series</b>						
1993 B	5.00-8.00	\$ 5,600,000	\$ 4,575,000		\$ 4,575,000	\$ 0
1995 D	4.80-7.50	2,000,000	65,000		65,000	0
1997 E	5.10-7.00	2,000,000	55,000		55,000	0
1997 F	5.15-6.15	4,500,000	265,000		130,000	135,000
1999 G	4.20-7.20	1,500,000	1,405,000		35,000	1,370,000
2000 H	5.00-8.00	2,000,000	1,930,000		40,000	1,890,000
2002 I	1.70-5.00	3,500,000	3,500,000			3,500,000
1991 J	4.00-8.00	2,700,000	0	\$ 2,700,000		2,700,000
<b>1998 Series</b>						
(Refunding)	4.00-4.60	7,530,000	6,970,000		270,000	6,700,000
<b>2003 Series</b>						
(Refunding)	2.75-4.30	5,895,000	5,895,000		100,000	5,795,000
<b>2003 Series B</b>						
(Refunding)	3.00-4.00	<u>4,560,000</u>	<u>0</u>	<u>4,560,000</u>		<u>4,560,000</u>
Total Elementary		<u>41,785,000</u>	<u>24,660,000</u>	<u>7,260,000</u>	<u>5,270,000</u>	<u>26,650,000</u>
<b>High School</b>						
<b>1992 Series</b>						
1999 D	4.25-7.25	3,900,000	3,505,000		115,000	3,390,000
1999 E	4.50-7.00	2,600,000	2,430,000		65,000	2,365,000
2000 F	5.00-8.00	9,400,000	9,055,000		190,000	8,865,000
<b>2002 Series</b>						
(Refunding)	2.00-4.75	<u>10,435,000</u>	<u>10,435,000</u>		<u>45,000</u>	<u>10,390,000</u>
Total High School		<u>26,335,000</u>	<u>25,425,000</u>	<u>0</u>	<u>415,000</u>	<u>25,010,000</u>
Total Current Interest Bonds		<u>\$ 68,120,000</u>	<u>\$ 50,085,000</u>	<u>\$ 7,260,000</u>	<u>\$ 5,685,000</u>	<u>\$ 51,660,000</u>



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)**

**A. Current Interest Bonds (Concluded)**

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2004, are as follows:

Year Ended June 30	Principal	Interest	Totals
2005	\$ 1,440,000	\$ 2,471,471	\$ 3,911,471
2006	2,095,000	2,207,824	4,302,824
2007	2,180,000	2,124,489	4,304,489
2008	2,260,000	2,035,141	4,295,141
2009	2,340,000	1,939,796	4,279,796
2010-2014	13,085,000	8,160,336	21,245,336
2015-2019	13,395,000	5,153,370	18,548,370
2020-2024	12,305,000	1,738,863	14,043,863
2025-2029	<u>2,560,000</u>	<u>208,941</u>	<u>2,768,941</u>
Totals	<u>\$ 51,660,000</u>	<u>\$ 26,040,231</u>	<u>\$ 77,700,231</u>

**B. Capital Appreciation Bonds**

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2003	Accreted Interest Current Year	Redeemed Current Year	Outstanding June 30, 2004
<b>High School</b>						
<b>1992 Series</b>						
1997 C	4.50-6.20	\$ 10,623,276	\$ 3,414,544	\$ 142,717	\$ 1,075,000	\$ 2,482,261
<b>1995 Series</b>						
(Refunding)	4.65-5.80	8,972,019	13,525,718	755,060	170,000	14,110,778
<b>2002 Series</b>						
(Refunding)	5.60	<u>1,508,021</u>	<u>1,552,726</u>	<u>88,411</u>		<u>1,641,137</u>
<b>Total Capital</b>						
Appreciation Bonds		<u>\$ 21,103,316</u>	<u>\$ 18,492,988</u>	<u>\$ 986,188</u>	<u>\$ 1,245,000</u>	<u>\$ 18,234,176</u>

The outstanding obligation for the 1992 Series C capital appreciation bonds at June 30, 2004, is as follows:

Maturity Date	Interest Rate %	Amount of Original Issue (Principal)	Accreted Interest	Outstanding June 30, 2004
2005	5.10	\$ 636,355	\$ 274,663	\$ 911,018
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009		0	0	0
2010-2014		0	0	0
2015-2019		0	0	0
2020-2024	6.20	<u>1,016,969</u>	<u>554,274</u>	<u>1,571,243</u>
Totals		<u>\$ 1,653,324</u>	<u>\$ 828,937</u>	<u>\$ 2,482,261</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)**

**B. Capital Appreciation Bonds (Continued)**

The annual requirements to amortize the 1992 Series C capital appreciation bonds at June 30, 2004, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 636,355	\$ 278,645	\$ 915,000
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010-2014	0	0	0
2015-2019	0	0	0
2020-2024	<u>1,016,969</u>	<u>3,443,031</u>	<u>4,460,000</u>
Totals	<u>\$ 1,653,324</u>	<u>\$ 3,721,676</u>	<u>\$ 5,375,000</u>

The outstanding obligation for the 1995 Series capital appreciation bonds at June 30, 2004, is as follows:

<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate %</u>	<u>Amount of</u> <u>Original Issue</u> <u>(Principal)</u>	<u>Accreted</u> <u>Interest</u>	<u>Outstanding</u> <u>June 30, 2004</u>
2005	4.85	\$ 191,359	\$ 97,496	\$ 288,855
2006	5.00	257,358	136,035	393,393
2007	5.10	327,119	177,125	504,244
2008	5.20	384,419	213,132	597,551
2009	5.30	443,141	251,482	694,623
2010-2014	5.40-5.80	2,845,719	1,741,557	4,587,276
2015-2019	5.65-5.70	<u>4,352,831</u>	<u>2,692,005</u>	<u>7,044,836</u>
Totals		<u>\$ 8,801,946</u>	<u>\$ 5,308,832</u>	<u>\$ 14,110,778</u>

The annual requirements to amortize the 1995 Series capital appreciation bonds at June 30, 2004, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 191,359	\$ 98,641	\$ 290,000
2006	257,358	157,642	415,000
2007	327,119	232,881	560,000
2008	384,419	315,581	700,000
2009	443,141	416,859	860,000
2010-2014	2,845,719	4,049,281	6,895,000
2015-2019	<u>4,352,831</u>	<u>9,697,169</u>	<u>14,050,000</u>
Totals	<u>\$ 8,801,946</u>	<u>\$ 14,968,054</u>	<u>\$ 23,770,000</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)**

**B. Capital Appreciation Bonds (Concluded)**

The outstanding obligation for the 2002 Series capital appreciation bonds at June 30, 2004, is as follows:

<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Outstanding June 30, 2004</u>
2005		\$ 0	\$ 0	\$ 0
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009		0	0	0
2010-2014		0	0	0
2015-2019		0	0	0
2020-2024	5.60	<u>1,508,021</u>	<u>133,116</u>	<u>1,641,137</u>
Totals		<u>\$ 1,508,021</u>	<u>\$ 133,116</u>	<u>\$ 1,641,137</u>

The annual requirements to amortize the 2002 Series capital appreciation bonds at June 30, 2004, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 0	\$ 0	\$ 0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010-2014	0	0	0
2015-2019	0	0	0
2020-2024	<u>1,508,021</u>	<u>2,481,979</u>	<u>3,990,000</u>
Totals	<u>\$ 1,508,021</u>	<u>\$ 2,481,979</u>	<u>\$ 3,990,000</u>

**NOTE 8 - CAPITAL LEASES**

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

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2005	\$ 394,341
2006	298,678
2007	277,205
2008	240,951
2009	249,950
2010-2014	<u>807,273</u>
Total payments	2,268,398
Less amounts representing interest	<u>(470,215)</u>
Present value of net minimum lease payments	<u>\$ 1,798,183</u>

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 9 - 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 Project 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.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS**

In addition to the benefits described in Note 14, 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 the age of 65. For the year ended June 30, 2004, 104 employees were eligible to receive retiree benefits. Future estimated payments required under the plan are as follows:

Year Ended <u>June 30</u>	Other Post Employment <u>Benefits</u>
2005	\$ 302,186
2006	280,501
2007	252,510
2008	223,604
2009	173,879
2010-2014	<u>396,620</u>
Total payments	<u>\$ 1,629,300</u>

**NOTE 11 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2004, is shown below.

	<u>Balances</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 480,128	\$ 2,985		\$ 483,113	
General Obligation Bonds					
Current Interest	50,085,000	7,260,000	\$ 5,685,000	51,660,000	\$ 1,440,000
Capital Appreciation	18,492,988	986,188	1,245,000	18,234,176	1,199,873
Capital Leases *	2,138,173		339,990	1,798,183	288,286
Other Post Employment Benefits	<u>1,392,841</u>	<u>510,832</u>	<u>274,373</u>	<u>1,629,300</u>	<u>302,186</u>
Totals	<u>\$ 72,589,130</u>	<u>\$ 8,760,005</u>	<u>\$ 7,544,363</u>	<u>\$ 73,804,772</u>	<u>\$ 3,230,345</u>

\* The July 1, 2003 balance has been adjusted to include the understatement of \$18,284 in the capital leases balance.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 12 - DEFEASED DEBT**

Certain general obligation bonds of the District have been defeased by placing the proceeds of refunding bonds in irrevocable escrow accounts held and managed by bank trustees, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the District's financial statements. The defeased bonds outstanding at June 30, 2004 considered extinguished are as follows:

<u>Bond Series</u>	<u>Maturities Refunded</u>	<u>Principal Refunded</u>
1991 Election, Series B	2005-2018	\$ 4,560,000

**NOTE 13 - FUND BALANCES**

A. Reservations of fund balances as of June 30, 2004 are as follows:

	<u>General Fund</u>	<u>Bond Interest &amp; Redemption Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revolving Fund	\$ 20,000		\$ 300	\$ 20,300
Stores Inventory	51,283		27,915	79,198
Debt Service		\$ 5,827,534		5,827,534
Restricted Programs	397,195			397,195
<b>Totals</b>	<u>\$ 468,478</u>	<u>\$ 5,827,534</u>	<u>\$ 28,215</u>	<u>\$ 6,324,227</u>

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 Debt Service represents the ending fund balance, which is reserved for future payment of interest and redemption of bond principal.

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

Restricted program balances at June 30, 2004 are as follows:

Cal-safe Supportive Services	\$ 980
Cal-safe Child Care and Development	23,727
English Language Acquisition Program	40,967
California Public School Library	9,513
Lottery - Instructional Materials	154,926
School Safety	14,152
Gifted and Talented	28,243
Instructional Materials K-8	26,466
Instructional Materials Realignment Program	68,056
Peer Assistance and Review	21,268
Tenth Grade Counseling	8,897
<b>Total</b>	<u>\$ 397,195</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 13 - FUND BALANCES (CONCLUDED)**

B. Designations of ending fund balances as of June 30, 2004 are as follows:

***MAJOR FUNDS:***

General Fund:

Economic Uncertainties	\$ 1,651,159
Charter Conversion	999,526
School Site Carryovers	<u>285,424</u>
Total	<u>\$ 2,936,109</u>

***NON-MAJOR FUNDS:***

Special Revenue Funds:

Adult Education:

Economic Uncertainties	<u>\$ 50,000</u>
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**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer contributory 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 Public Employees' Retirement System (PERS).

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 2003-04 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 ended June 30, 2004, 2003, and 2002, were \$2,159,791, \$2,184,952, and \$2,062,976, respectively, and equal 100% of the required contributions for each year.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 14 - 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 2003-04 was 10.42%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$996,228, \$666,595, and \$0, respectively, and equal 100% of the required contributions for each year.

**NOTE 15 - 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) and to the California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$593,282 to STRS (2.28% of salaries subject to STRS) and \$0 to CalPERS (0% of salaries subject to CalPERS).

**NOTE 16 - 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 2003-04, 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.

**NOTE 17 - JOINT VENTURES**

The District participates in three joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools' Insurance Group (RESIG) and the Schools Excess Liability Fund (SELF) for common risk management of property & liability and workers' compensation coverage; and the School Project for Utility Rate Reduction (SPURR) for direct purchase of gas, electricity, and other utility services. SPURR also provides advisory services relative to utilities. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 17 - JOINT VENTURES (CONCLUDED)**

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.

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

**NOTE 18 - 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 various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

**NOTE 19 - RESTATEMENT OF FUND BALANCE / NET ASSETS**

The July 1, 2003 fund balance of the General Fund and the government-wide net assets balance have been restated to reflect the correction of a prior year understatement of state apportionment revenues, and the understatement of the outstanding balance for capital leases.

The effect of the restatement on the current year financial statements is as follows:

	<u>General Fund</u>	<u>Statement of Governmental Activities</u>
Fund Balance / Net Assets - July 1, 2003 (as originally stated)	\$ <u>5,479,597</u>	\$ <u>25,041,490</u>
Understatement of Capital Leases		(18,284)
Understatement of State Apportionment Revenue	<u>398,811</u>	<u>398,811</u>
Net Restatements	<u>398,811</u>	<u>380,527</u>
Fund Balance / Net Assets - July 1, 2003 (as restated)	\$ <u><u>5,878,408</u></u>	\$ <u><u>25,422,017</u></u>



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 20 - CHARTER SCHOOLS**

In accordance with Education Code Section 47605, the District had approved 2003-04 charter school agreements with Live Oak Charter School, Petaluma Charter School, and Mary Collins School at Cherry Valley Charter School. The financial activities of the Mary Collins School at Cherry Valley Charter School are presented in the District's General Fund, and under the terms of the agreements with the Live Oak and Petaluma Charter Schools, each charter school is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted governmental accounting principles. Therefore, the financial activities of these charter schools are not included in these financial statements; however, the financial transactions between these charter schools and the District are included.

The District approved an agreement with Live Oak Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006.

The District approved an agreement with Petaluma Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006. The Petaluma Charter School ceased operations and closed as of June 30, 2004.

The District approved an agreement with Mary Collins School at Cherry Valley Charter School in 2002 to serve students in kindergarten through eighth grade. Renewal of the charter for succeeding years is subject to approval of the Petaluma City Schools Governing Board and determined on an annual basis.

**NOTE 21 - SUBSEQUENT EVENTS**

**A. Tax and Revenue Anticipation Notes (TRANS)**

On July 1, 2004, the District issued tax and revenue anticipation notes (TRANS) for \$5,230,000. The notes mature on June 30, 2005 and bear interest at 3.0%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

**B. Sale of Land**

On July 20, 2004, the District entered into an agreement to sell property to Centex Homes, a Nevada general partnership for \$25,300,000. The District received \$132,000 as a deposit, and the buyer has a 180-day feasibility period to review the title, soils, environmental and engineering studies regarding the property. In the event the buyer determines during the feasibility period, that it does not wish to proceed with agreement, it shall give the District notice in writing, and the deposit shall remain with the District as a non-refundable deposit.

**C. Capital Lease**

On August 15, 2004, the District entered into a three-year lease agreement for \$68,702 to purchase a school bus.



SUPPLEMENTARY INFORMATION SECTION



**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b><u>Revenues:</u></b>				
Revenue Limit Sources:				
State Apportionment	\$ 18,565,916	\$ 18,947,654	\$ 15,646,623	\$ (3,301,031)
Local Sources	21,488,778	21,561,959	25,180,771	3,618,812
Total Revenue Limit Sources	40,054,694	40,509,613	40,827,394	317,781
Federal Revenue	1,978,909	2,631,692	2,256,363	(375,329)
Other State Revenue	4,613,703	5,772,715	5,757,273	(15,442)
Other Local Revenue	4,626,395	5,136,002	6,001,302	865,300
Total Revenues	51,273,701	54,050,022	54,842,332	792,310
<b><u>Expenditures:</u></b>				
Certificated Salaries	25,214,531	26,079,612	25,966,078	113,534
Classified Salaries	8,616,652	8,975,625	8,864,312	111,313
Employee Benefits	9,411,761	9,836,875	9,643,642	193,233
Books and Supplies	1,488,784	2,901,477	2,154,909	746,568
Services and Other				
Operating Expenditures	5,777,975	6,842,658	6,147,538	695,120
Capital Outlay	191,400	140,067	96,661	43,406
Debt Service:				
Interest and Fiscal Charges	60,818	19,482	17,566	1,916
Principal Retirement	3,650	178,239	186,188	(7,949)
Other Expenditures	185,454	230,572	1,695,252	(1,464,680)
Total Expenditures	50,951,025	55,204,607	54,772,146	432,461
Excess of Revenues Over (Under) Expenditures	322,676	(1,154,585)	70,186	1,224,771
<b><u>Other Financing (Uses):</u></b>				
Operating Transfers Out	(242,148)	(266,487)	(266,487)	
Net Change in Fund Balances	80,528	(1,421,072)	(196,301)	\$ 1,224,771
Fund Balances - July 1, 2003 (As restated - Note 19)	5,878,408	5,878,408	5,878,408	
Fund Balances - June 30, 2004	\$ 5,958,936	\$ 4,457,336	\$ 5,682,107	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>Total Non-Major Special Revenue Funds</u>	<u>Total Non-Major Capital Projects Funds</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Assets</u></b>			
Cash in County Treasury	\$ 894,316	\$ 2,666,145	\$ 3,560,461
Cash in Revolving Fund	300		300
Accounts Receivable			
Federal Government	212,243		212,243
State Government	193,228		193,228
Local Governments	30,681	9,665	40,346
Miscellaneous	16,169	10,089	26,258
Due from Other Funds	74,068	814	74,882
Stores Inventory	27,915		27,915
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 1,448,920</u>	<u>\$ 2,686,713</u>	<u>\$ 4,135,633</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts Payable	\$ 209,366	\$ 7,562	\$ 216,928
Due to Other Funds	166,567	3	166,570
Deferred Revenue	17,652		17,652
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>393,585</u>	<u>7,565</u>	<u>401,150</u>
Fund Balances:			
Reserved	28,215		28,215
Unreserved:			
Designated	50,000		50,000
Undesignated	977,120	2,679,148	3,656,268
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	<u>1,055,335</u>	<u>2,679,148</u>	<u>3,734,483</u>
Total Liabilities and Fund Balances	<u>\$ 1,448,920</u>	<u>\$ 2,686,713</u>	<u>\$ 4,135,633</u>

**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Total Non-Major Special Revenue Funds</u>	<u>Total Non-Major Capital Projects Funds</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,165,417		\$ 1,165,417
Federal Sources:			
Child Nutrition Program	489,951		489,951
Other	223,210		223,210
Other State Sources:			
State Nutrition Program	31,726		31,726
Other	241,381		241,381
Local Sources:			
Food Service Sales	1,457,044		1,457,044
Developer Fees		\$ 746,346	746,346
Interest	15,459	53,331	68,790
Other	83,136		83,136
<b>Total Revenues</b>	<u>3,707,324</u>	<u>799,677</u>	<u>4,507,001</u>
<b><u>Expenditures</u></b>			
Certificated Salaries	790,137		790,137
Classified Salaries	1,052,609	11,393	1,064,002
Employee Benefits	583,470	3,635	587,105
Books and Supplies	922,350		922,350
Services and Other			
Operating Expenditures	407,721	138,014	545,735
Capital Outlay	6,250	926,923	933,173
Debt Service:			
Interest and Fiscal Charges	933	781	1,714
Principal Retirement	6,995	3,511	10,506
Other Expenditures	43,262		43,262
<b>Total Expenditures</b>	<u>3,813,727</u>	<u>1,084,257</u>	<u>4,897,984</u>
Excess of Revenues (Under) Expenditures	(106,403)	(284,580)	(390,983)
<b><u>Other Financing Sources:</u></b>			
Operating Transfers In	356,042		356,042
Net Change in Fund Balances	249,639	(284,580)	(34,941)
Fund Balances - July 1, 2003	805,696	2,963,728	3,769,424
Fund Balances - June 30, 2004	<u>\$ 1,055,335</u>	<u>\$ 2,679,148</u>	<u>\$ 3,734,483</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2004**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>	<u>Total Non-Major Special Revenue Funds</u>
<b><u>Assets</u></b>				
Cash in County Treasury	\$ 838,593	\$ 14,176	\$ 41,547	\$ 894,316
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		77,649	134,594	212,243
State Government		5,060	188,168	193,228
Local Governments		30,681		30,681
Miscellaneous		10,388	5,781	16,169
Due from Other Funds		7,225	66,843	74,068
Stores Inventory		27,915		27,915
Total Assets	<u>\$ 838,593</u>	<u>\$ 173,094</u>	<u>\$ 437,233</u>	<u>\$ 1,448,920</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 1,978	\$ 37,307	\$ 170,081	\$ 209,366
Due to Other Funds	5,046	81,591	79,930	166,567
Deferred Revenue			17,652	17,652
Total Liabilities	<u>7,024</u>	<u>118,898</u>	<u>267,663</u>	<u>393,585</u>
Fund Balances:				
Reserved		27,915	300	28,215
Unreserved:				
Designated			50,000	50,000
Undesignated	831,569	26,281	119,270	977,120
Total Fund Balances	<u>831,569</u>	<u>54,196</u>	<u>169,570</u>	<u>1,055,335</u>
Total Liabilities and Fund Balances	<u>\$ 838,593</u>	<u>\$ 173,094</u>	<u>\$ 437,233</u>	<u>\$ 1,448,920</u>



**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>	<u>Total Non-Major Special Revenue Funds</u>
<b><u>Revenues</u></b>				
Revenue Limit Sources:				
State Apportionment			\$ 1,165,417	\$ 1,165,417
Federal Sources:				
Child Nutrition Program		\$ 489,951		489,951
Other			223,210	223,210
Other State Sources:				
State Nutrition Program		31,726		31,726
Other	\$ 98,212		143,169	241,381
Local Sources:				
Food Service Sales		1,457,044		1,457,044
Interest	11,568	455	3,436	15,459
Other			83,136	83,136
<b>Total Revenues</b>	<u>109,780</u>	<u>1,979,176</u>	<u>1,618,368</u>	<u>3,707,324</u>
<b><u>Expenditures</u></b>				
Certificated Salaries			790,137	790,137
Classified Salaries	51,367	776,627	224,615	1,052,609
Employee Benefits	16,427	311,956	255,087	583,470
Books and Supplies		868,949	53,401	922,350
Services and Other				
Operating Expenditures	204,360	18,245	185,116	407,721
Capital Outlay	6,250			6,250
Debt Service:				
Interest and Fiscal Charges		933		933
Principal Retirement		6,995		6,995
Other Expenditures			43,262	43,262
<b>Total Expenditures</b>	<u>278,404</u>	<u>1,983,705</u>	<u>1,551,618</u>	<u>3,813,727</u>
Excess of Revenues Over (Under) Expenditures	(168,624)	(4,529)	66,750	(106,403)
<b><u>Other Financing Sources:</u></b>				
Operating Transfers In	356,042			356,042
<b>Net Change in Fund Balances</b>	187,418	(4,529)	66,750	249,639
Fund Balances - July 1, 2003	644,151	58,725	102,820	805,696
<b>Fund Balances - June 30, 2004</b>	<u>\$ 831,569</u>	<u>\$ 54,196</u>	<u>\$ 169,570</u>	<u>\$ 1,055,335</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR CAPITAL PROJECTS FUNDS  
JUNE 30, 2004**

	<u>Capital Facilities</u>	<u>State School Building</u>	<u>County School Facilities</u>	<u>Total Non-Major Capital Projects Funds</u>
<b><u>Assets</u></b>				
Cash in County Treasury	\$ 2,666,142	\$ 2	\$ 1	\$ 2,666,145
Accounts Receivable				
Local Governments	9,665			9,665
Miscellaneous	10,089			10,089
Due from Other Funds	814			814
	<u>814</u>			<u>814</u>
Total Assets	<u>\$ 2,686,710</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 2,686,713</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 7,562			\$ 7,562
Due to Other Funds		\$ 2	\$ 1	3
	<u>7,562</u>	<u>2</u>	<u>1</u>	<u>7,565</u>
Total Liabilities	7,562	2	1	7,565
Fund Balances:				
Unreserved:				
Undesignated	<u>2,679,148</u>	<u>0</u>	<u>0</u>	<u>2,679,148</u>
Total Liabilities and Fund Balances	<u>\$ 2,686,710</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>2,686,713</u>

**PETALUMA CITY SCHOOLS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR CAPITAL PROJECTS FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Total Non-Major Capital Projects Funds</u>
<b><u>Revenues</u></b>			
Local Sources:			
Developer Fees	\$ 746,346		\$ 746,346
Interest	50,112	\$ 3,219	53,331
Total Revenues	<u>796,458</u>	<u>3,219</u>	<u>799,677</u>
<b><u>Expenditures</u></b>			
Classified Salaries	11,393		11,393
Employee Benefits	3,635		3,635
Services and Other			
Operating Expenditures	138,014		138,014
Capital Outlay	45,718	881,205	926,923
Debt Service:			
Interest and Fiscal Charges	781		781
Principal Retirement	3,511		3,511
Total Expenditures	<u>203,052</u>	<u>881,205</u>	<u>1,084,257</u>
Net Change in Fund Balances	593,406	(877,986)	(284,580)
Fund Balances - July 1, 2003	<u>2,085,742</u>	<u>877,986</u>	<u>2,963,728</u>
Fund Balances - June 30, 2004	<u>\$ 2,679,148</u>	<u>\$ 0</u>	<u>\$ 2,679,148</u>

**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND - STUDENT BODY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Balances</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2004</u>
<b><u>Assets</u></b>				
Cash:				
Petaluma High	\$ 119,422	\$ 486,726	\$ 454,589	\$ 151,559
Casa Grande High	141,709	593,760	576,357	159,112
Sonoma Mountain High	773	1,932	2,219	486
Carpe Diem High	1,199	1,254	1,026	1,427
Kenilworth Junior High	53,199	169,005	167,650	54,554
Petaluma Junior High	17,163	187,035	184,719	19,479
Total Assets	<u>\$ 333,465</u>	<u>\$ 1,439,712</u>	<u>\$ 1,386,560</u>	<u>\$ 386,617</u>
<b><u>Liabilities</u></b>				
Due to Student Groups	<u>\$ 333,465</u>	<u>\$ 1,439,712</u>	<u>\$ 1,386,560</u>	<u>\$ 386,617</u>

**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>DEFERRED MAINTENANCE</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b><u>Revenues</u></b>			
Other State Sources:			
Other	\$ 408,212	\$ 98,212	\$ (310,000)
Local Sources:			
Interest	15,000	11,568	(3,432)
Total Revenues	<u>423,212</u>	<u>109,780</u>	<u>(313,432)</u>
<b><u>Expenditures</u></b>			
Classified Salaries	49,023	51,367	(2,344)
Employee Benefits	15,842	16,427	(585)
Services and Other			
Operating Expenditures	855,976	204,360	651,616
Capital Outlay	6,250	6,250	
Total Expenditures	<u>927,091</u>	<u>278,404</u>	<u>648,687</u>
Excess of Revenues (Under) Expenditures	(503,879)	(168,624)	335,255
<b><u>Other Financing Sources:</u></b>			
Operating Transfers In	354,500	356,042	1,542
Net Change in Fund Balance	<u>\$ (149,379)</u>	187,418	<u>\$ 336,797</u>
Fund Balance - July 1, 2003		<u>644,151</u>	
Fund Balance - June 30, 2004		<u>\$ 831,569</u>	

**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>CAFETERIA</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Federal Sources:			
Child Nutrition Program	\$ 446,056	\$ 489,951	\$ 43,895
Other State Sources:			
State Nutrition Program	30,253	31,726	1,473
Local Sources:			
Food Service Sales	1,505,434	1,457,044	(48,390)
Interest		455	455
Total Revenues	<u>1,981,743</u>	<u>1,979,176</u>	<u>(2,567)</u>
<b><u>Expenditures</u></b>			
Classified Salaries	775,922	776,627	(705)
Employee Benefits	302,236	311,956	(9,720)
Food and Supplies	863,952	868,949	(4,997)
Services and Other			
Operating Expenditures	19,967	18,245	1,722
Debt Service:			
Interest and Fiscal Charges	933	933	
Principal Retirement	6,995	6,995	
Total Expenditures	<u>1,970,005</u>	<u>1,983,705</u>	<u>(13,700)</u>
Net Change in Fund Balance	<u>\$ 11,738</u>	<u>(4,529)</u>	<u>\$ (16,267)</u>
Fund Balance - July 1, 2003		<u>58,725</u>	
Fund Balance - June 30, 2004		<u>\$ 54,196</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>ADULT EDUCATION</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,230,412	\$ 1,165,417	\$ (64,995)
Federal Sources:			
Other	223,210	223,210	
Other State Sources:			
Other	161,472	143,169	(18,303)
Local Sources:			
Interest		3,436	3,436
Other	97,850	83,136	(14,714)
<b>Total Revenues</b>	<u>1,712,944</u>	<u>1,618,368</u>	<u>(94,576)</u>
<b><u>Expenditures</u></b>			
Certificated Salaries	866,061	790,137	75,924
Classified Salaries	225,598	224,615	983
Employee Benefits	277,915	255,087	22,828
Books and Supplies	86,803	53,401	33,402
Services and Other			
Operating Expenditures	214,005	185,116	28,889
Other Expenditures	45,099	43,262	1,837
<b>Total Expenditures</b>	<u>1,715,481</u>	<u>1,551,618</u>	<u>163,863</u>
Net Change in Fund Balance	<u>\$ (2,537)</u>	66,750	<u>\$ 69,287</u>
Fund Balance - July 1, 2003		<u>102,820</u>	
Fund Balance - June 30, 2004		<u>\$ 169,570</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>BOND INTEREST AND REDEMPTION</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Other State Sources:			
Other		\$ 56,965	\$ 56,965
Local Sources:			
Interest		92,106	92,106
Other		4,468,530	4,468,530
Total Revenues		<u>4,617,601</u>	<u>4,617,601</u>
<b><u>Expenditures</u></b>			
Debt Service:			
Interest and Fiscal Charges		2,390,056	(2,390,056)
Principal Retirement		6,930,000	(6,930,000)
Total Expenditures		<u>9,320,056</u>	<u>(9,320,056)</u>
Excess of Revenues (Under) Expenditures		(4,702,455)	(4,702,455)
<b><u>Other Financing Sources:</u></b>			
Other Sources		4,576,869	4,576,869
Net Change in Fund Balance	<u>\$ 0</u>	(125,586)	<u>\$ (125,586)</u>
Fund Balance - July 1, 2003		<u>5,953,120</u>	
Fund Balance - June 30, 2004		<u>\$ 5,827,534</u>	



**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>CAPITAL FACILITIES</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b><u>Revenues</u></b>			
Local Sources:			
Developer Fees	\$ 715,000	\$ 746,346	\$ 31,346
Interest	105,000	50,112	(54,888)
Total Revenues	<u>820,000</u>	<u>796,458</u>	<u>(23,542)</u>
<b><u>Expenditures</u></b>			
Classified Salaries	11,345	11,393	(48)
Employee Benefits	3,686	3,635	51
Services and Other			
Operating Expenditures	136,125	138,014	(1,889)
Capital Outlay	826,325	45,718	780,607
Debt Service:			
Interest and Fiscal Charges		781	(781)
Principal Retirement		3,511	(3,511)
Total Expenditures	<u>977,481</u>	<u>203,052</u>	<u>774,429</u>
Net Change in Fund Balance	<u>\$ (157,481)</u>	593,406	<u>\$ 750,887</u>
Fund Balance - July 1, 2003		<u>2,085,742</u>	
Fund Balance - June 30, 2004		<u>\$ 2,679,148</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>BUILDING</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b><u>Revenues</u></b>			
Local Sources:			
Interest	\$ 300,000	\$ 210,583	\$ (89,417)
<b><u>Expenditures</u></b>			
Classified Salaries	137,762	134,095	3,667
Employee Benefits	48,836	45,981	2,855
Books and Supplies	75,631	44,078	31,553
Services and Other			
Operating Expenditures	157,916	106,237	51,679
Capital Outlay	5,433,456	1,527,568	3,905,888
Total Expenditures	5,853,601	1,857,959	3,995,642
Excess of Revenues (Under) Expenditures	(5,553,601)	(1,647,376)	3,906,225
<b><u>Other Financing Sources (Uses):</u></b>			
Operating Transfers Out	(354,500)	(356,042)	(1,542)
Other Sources		2,700,000	2,700,000
Total Other Financing Sources (Uses)	(354,500)	2,343,958	2,698,458
Net Change in Fund Balance	\$ (5,908,101)	696,582	\$ 6,604,683
Fund Balance - July 1, 2003		10,437,099	
Fund Balance - June 30, 2004		\$ 11,133,681	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>SPECIAL RESERVE</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Federal Sources:			
Other	\$ 249,091	\$ 249,090	\$ (1)
Local Sources:			
Interest		44,221	44,221
Other	9,600	9,768	168
Total Revenues	<u>258,691</u>	<u>303,079</u>	<u>44,388</u>
<b><u>Expenditures</u></b>			
Books and Supplies	890	890	
Services and Other			
Operating Expenditures	1,276,430	1,350,844	(74,414)
Capital Outlay	1,203,837	1,253,342	(49,505)
Debt Service:			
Interest and Fiscal Charges	105,421	105,420	1
Principal Retirement	143,296	143,296	
Total Expenditures	<u>2,729,874</u>	<u>2,853,792</u>	<u>(123,918)</u>
Excess of Revenues (Under) Expenditures	<u>(2,471,183)</u>	<u>(2,550,713)</u>	<u>(79,530)</u>
<b><u>Other Financing Sources:</u></b>			
Operating Transfers In	266,486	266,487	1
Other Sources	2,203,366	22,000,000	19,796,634
Total Other Financing Sources	<u>2,469,852</u>	<u>22,266,487</u>	<u>19,796,635</u>
Net Change in Fund Balance	<u>\$ (1,331)</u>	19,715,774	<u>\$ 19,717,105</u>
Fund Balance - July 1, 2003		93,146	
Fund Balance - June 30, 2004		<u>\$ 19,808,920</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
CAPITAL PROJECTS FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>COUNTY SCHOOL FACILITIES</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Local Sources:			
Interest	\$ 30,000	\$ 3,219	\$ (26,781)
<b><u>Expenditures</u></b>			
Capital Outlay	881,207	881,205	2
Net Change in Fund Balance	<u>\$ (851,207)</u>	<u>(877,986)</u>	<u>\$ (26,779)</u>
Fund Balance - July 1, 2003		<u>877,986</u>	
Fund Balance - June 30, 2004		<u>\$ 0</u>	

**PETALUMA CITY SCHOOLS**  
**ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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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>
Camille Sauv�	President	December, 2008
Christina Kauk	Clerk	December, 2006
Carolyn Tennyson	Member	December, 2006
Lou Steinberg	Member	December, 2006
Mary Schafer	Member	December, 2008

ADMINISTRATION

Margaret Viguie, Ed. D.  
Superintendent

Steve Bolman  
Deputy Superintendent, Business and Administration

Sandra Hill  
Assistant Superintendent, Human Resources

Sue Olds  
Assistant Superintendent, Curriculum and Instruction

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	319	319
First through Third	927	927
Fourth through Sixth	931	931
Home and Hospital	2	2
Special Education	30	30
Special Education - Nonpublic	1	2
Subtotals	<u>2,210</u>	<u>2,211</u>
<u>Secondary</u>		
Seventh and Eighth	1,852	1,849
Ninth through Twelfth	3,232	3,194
Continuation Education	172	173
Home and Hospital	20	22
Special Education	39	38
Special Education - Nonpublic	15	16
Community Day School	8	9
Extended Year	1	2
Subtotals	<u>5,339</u>	<u>5,303</u>
<u>Courses for Adults</u>		
Concurrently Enrolled	1	1
Not Concurrently Enrolled	<u>530</u>	<u>546</u>
Subtotals	<u>531</u>	<u>547</u>
Totals	<u><u>8,080</u></u>	<u><u>8,061</u></u>
<u>Community Day School</u>		
5th Hour		9
6th Hour		9
<u>Supplemental Hours</u>		<u>Hours of Attendance</u>
Elementary		40,012
Secondary		127,803

PETALUMA CITY SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>2003-04 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	N/A	In Compliance
Grades 1 – 3	42,000	50,400	50,430	180	N/A	In Compliance
Grades 4 – 6	49,875	54,000	54,058	180	N/A	In Compliance
Grades 7 – 8	49,875	54,000	54,398	180	N/A	In Compliance
Grades 9 – 12	56,525	64,800	65,154	180	N/A	In Compliance

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<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	13524	\$ 380,424
Basic School Breakfast	10.553	13525	9,939
Especially Needy Breakfast	10.553	13526	91,923
Meal Supplements	10.555	13755	7,665
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I	84.010	14329	552,942
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	13,324
NCLB: Title V	84.298	14354	25,577
NCLB: Title III - Language Acquisition	84.365	14346	16,852
NCLB: Title III - Limited English Proficiency	84.365	10084	75,599
NCLB: Title II - Improving Teacher Quality	84.367	14341	132,977
NCLB: Title X - McKinney Homeless Assistance	84.196	13697	34,604
Eisenhower	84.281A	13207	17,631
NCLB: Title IV - Drug Free Schools	84.186	14347	33,600
High School Pupil Success Act	n/a	14496	82,004
Special Education:			
IDEA Part B Local Assistance	84.027	13379	1,075,002
Vocational Education	84.048	13924	52,403
Adult Education:			
Priority 1-3, ABE	84.002A	13973	11,700
Priority 5, ASE	84.002A	13978	5,850
English Literacy & Civics	84.002A	14109	137,935
ESL	84.002A	14302	67,725
Federal School Renovation Program	84.352	14313	249,090
Charter School Grant	84.282	13150	139,940
Corporation for National & Community			
Service Agency:			
CalServe: Learn & Serve America	94.004	13161	<u>3,908</u>
Subtotal			3,218,614
Nonmonetary Assistance			
USDA Food Distribution	10.550	*	<u>41,559</u>
Total			<u>\$ 3,260,173</u>

\* Pass through number is not available.



**PETALUMA CITY SCHOOLS  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General Fund	Deferred Maintenance Fund	Scholarship Fund
June 30, 2004 Annual Financial and Budget Report Fund Balances	\$ 5,450,530	\$ 1,141,569	\$ 102,868
Adjustments Increasing (Decreasing) Fund Balances:			
Understatement of Other State Revenues	231,577		
Overstatement of Other State Revenues		(310,000)	
Understatement of Cash in Banks			5,042
Net Adjustments	231,577	(310,000)	5,042
June 30, 2004 Audited Financial Statements Fund Balances	\$ 5,682,107	\$ 831,569	\$ 107,910
			Capital Assets
June 30, 2004 Annual Financial and Budget Report Total Capital Assets, net			\$ 0
Adjustments Increasing (Decreasing) Total Capital Assets, net:			
Understatement of Capital Assets:			
Land			4,266,886
Sites and Improvements			5,539,109
Buildings and Improvements			82,889,115
Furniture and Equipment			4,195,165
Work In Progress			2,875,372
Understatement of Accumulated Depreciation for:			
Sites and Improvements			(2,948,631)
Buildings and Improvements			(22,837,375)
Furniture and Equipment			(3,097,424)
Net Adjustments			70,882,217
June 30, 2004 Audited Financial Statement, Total Capital Assets, net			\$ 70,882,217

**Auditor's Comments**

The audited financial statements of all other funds and the total long-term liabilities in the Statement of Net Assets were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2004.

**PETALUMA CITY SCHOOLS**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	GENERAL FUND			
	(Budget)** 2004-05*	2003-04*	2002-03*	2001-02*
Revenues and Other Financial Sources	\$ 55,154,612	\$ 54,842,332	\$ 55,707,915	\$ 53,712,362
Expenditures	54,967,095	54,772,146	54,008,555	52,799,240
Other Uses and Transfers Out	315,000	266,487	242,148	398,791
Total Outgo	55,282,095	55,038,633	54,250,703	53,198,031
Change in Fund Balance	(127,483)	(196,301)	1,457,212	514,331
Ending Fund Balance ***	\$ 5,554,624	\$ 5,682,107	\$ 5,878,408	\$ 4,421,196
Available Reserves	\$ 3,569,619	\$ 3,928,679	\$ 3,073,142	\$ 2,595,599
Designated for Economic Uncertainties	\$ 1,658,463	\$ 1,651,159	\$ 1,621,971	\$ 1,646,064
Undesignated Fund Balance	\$ 1,911,156	\$ 2,277,520	\$ 1,451,171	\$ 949,535
Available Reserves as a Percentage of Total Outgo	6.5%	7.1%	5.7%	4.9%
Average Daily Attendance at P-2 (Exclusive of Adult ADA)	7,351	7,549	7,490	7,396
Total Long-Term Liabilities ****	\$ 70,574,427	\$ 73,804,772	\$ 72,589,130	\$ 68,809,232

\* On-behalf payments, made by the State of California, have been excluded from the above financial presentation in order to maintain comparability between fiscal years.

\*\* Amounts reported for the 2004-05 budget are presented for analytical purposes only and have not been audited.

\*\*\* The June 30, 2003 fund balance has been restated. (See Note 19)

\*\*\*\* The June 30, 2003 total long-term liabilities balance has been to adjusted to include a \$18,284 understatement of the capital leases balance.

The fund balance of the General Fund increased \$1,260,911 (28.5%) over the past two years. The fiscal year 2004-05 budget projects a decrease of \$127,483. For a district 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 produced operating surpluses of \$1,457,212 and \$514,331 during fiscal years 2002-03 and 2001-02, respectively, and incurred an operating deficit of \$196,301 during fiscal year 2003-04.

Average daily attendance increased 153 ADA over the past two years. The District projects a decrease of 198 ADA during fiscal year 2004-05.

Total long-term liabilities increased \$4,995,540 over the past two years, due primarily to the \$2,700,000 bond issuance in fiscal year 2003-04 and accreted interest on capital appreciation bonds.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF CHARTER SCHOOLS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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<u><b>Charter Schools</b></u>	<u><b>District Audit</b></u>
Live Oak Charter School	Excluded
Petaluma Charter School	Excluded
Mary Collins School at Cherry Valley	Included

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES**

**A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

**B. Combining Statements and Individual Fund Schedules**

Combining statements and individual fund schedules are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements and schedules present more detailed information about the financial position and financial activities of the District's individual funds.

**C. 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.

**D. 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.

**E. Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**F. 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, the total net assets of the Schedule of Capital Assets, and the total liabilities of the Schedule of Long-Term Liabilities, as reported in the Annual Financial and Budget Report to the audited financial statements.

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)**

**G. Schedule of Financial Trends and Analysis**

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

**H. Schedule of Charter Schools**

This schedule lists all charter schools chartered by the District and identifies whether or not the charter schools were included or excluded from the audit of the District.



OTHER INDEPENDENT AUDITORS REPORTS SECTION





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Education  
Petaluma City Schools  
200 Douglas Street  
Petaluma, CA 94952

We have audited the financial statements of Petaluma City Schools, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. 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 Education Audit Appeals Panel'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 Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Center/Programs	6	Not Applicable
Instructional Time and Staff		
Development Reform Program	7	Yes

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Incentive for longer instructional day:		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
GANN Limit Calculation	1	Yes
Early Retirement Incentive Program	4	Not Applicable
Community Day Schools	9	Yes
Class Size Reduction Program:		
General Requirement	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving Grades K-3	4	Not Applicable
Instructional Materials Realignment Program		
General Requirements	9	Yes
Grades K-8	1	Yes
Grades 9-12	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

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 Questioned Costs 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

October 14, 2004

**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  
200 Douglas Street  
Petaluma, CA 94952

We have audited the financial statements of Petaluma City Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. 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 matter 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 Questioned Costs 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

October 14, 2004

**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  
200 Douglas Street  
Petaluma, CA 94952

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, 2004. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Petaluma City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with 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, 2004.

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

October 14, 2004

FINDINGS AND QUESTIONED COSTS SECTION





**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Reportable conditions identified not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

**Federal Awards**

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Reportable conditions identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)

	_____ Yes	_____ <u>X</u> No	
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
10.553 & 10.555	Child Nutrition Cluster
84.010	NCLB: Title I
84.027	Special Education

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

Auditee qualified as low-risk auditee?	_____ Yes	_____ <u>X</u> No	
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**State Awards**

Internal control over state programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Reportable conditions identified not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ None reported	

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

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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SECTION II - FINANCIAL STATEMENT FINDINGS

04 - 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

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

- Reimbursement to one parent (team parent) was for goods delivered directly to the parent's residence.
- Reimbursement claims are not being submitted to the school office within a reasonable period of time after incurring expenses. One employee submitted a reimbursement claim to the school office five months after incurring the expenses.
- The total of the receipts attached to one reimbursement claim did not agree to the total of the amount reimbursed.

Questioned Cost: None.

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

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

Cause: Site personnel are not following District policies and procedures.

Recommendation: Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site.

District Response: All student body account clerks are required to attend training provided by the California Association of School Business Officials (CASBO). The Director of Budget & Accounting will schedule regular meetings with student body account clerks to review proper procedures as provided by this training and ensure implementation.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

**04 - 2 / 30000**

**CASH RECEIPTS - STUDENT STORE**

**Criteria:** Cash collected from student store sales should be reconciled to the inventory items sold, counted and summarized by denomination on a deposit slip, and signed by the leadership director, prior to being submitted to the school secretary.

**Condition:** Cash collected from student store operations is not reconciled to inventory items sold, and is not counted prior to submitting the money to the school secretary. In addition, the deposit slip is not signed by the leadership director.

**Questioned Cost:** None.

**Context:** The condition was present at Petaluma Junior High School.

**Effect:** There is an inadequate audit trail between student store cash receipts and inventory items sold. As a result, errors or irregularities involving missing cash or inventory may occur and not be detected in a timely manner.

**Cause:** Site personnel are not following District policies and procedures.

**Recommendation:** The leadership director should maintain an inventory log to track student store inventory purchases and sales. The inventory log should be reconciled to student store sales on a weekly basis. All cash collected at the student store should be counted and summarized by denomination on a deposit slip, and signed by the leadership director, prior to being submitted to the school secretary.

**District Response:** The student store is no longer in operation. However, the Director of Budget & Accounting will instruct site personnel to contact the Business Office prior to opening any other type of student store so proper internal controls can be implemented.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**04 - 3 / 30000**

CASH RECEIPTS - BUS FEES

- Criteria:
1. Deposits made to the County Treasury should reconcile to the deposit amounts recorded on the bus tickets and passes log.
  2. Bus ticket sales forms should be signed by the preparer, and reviewed and signed by the person responsible for verifying the mathematical accuracy of the form.
  3. Fees charged should be supported by schedules that have been reviewed and approved by the Governing Board.

- Conditions:
1. Deposits recorded on the bus tickets and passes log could not be reconciled to the actual deposits made to the County Treasury. As a result, there is an inadequate audit trail between cash and checks received and cash and checks deposited.
  2. Bus ticket sales forms were not signed by the preparer or the reviewer during fiscal year 2003-04.
  3. Fees collected from parents for bus fees could not be traced to any schedule or other supporting documentation.

Questioned Cost: None.

Context: The conditions were present during fiscal year 2003-04.

- Effects:
1. There is no way to determine the propriety or completeness of bus ticket and passes deposits without a proper audit trail. As a result, errors or irregularities may occur and not be detected, in a timely manner.
  2. Accountability for errors or irregularities that might occur cannot be traced to a particular person when the bus ticket sales forms are not signed.
  3. Errors in charges could be made and not detected in a timely manner. Also, the validity of the rate charged cannot be tested without adequate supporting documentation to support it.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

**CASH RECEIPTS - BUS FEES (CONCLUDED)**

**Causes:**

1. Deposits made to the County Treasury are not adequately cross referenced to the bus tickets and passes log.
2. The District has never been notified of the importance of requiring individuals to complete and sign all bus ticket sales forms.
3. Supporting documentation was not maintained to show how the rates charged were computed.

**Recommendations:**

1. All deposits made to the County Treasury should be supported by documentation that identifies all of the individual deposit items included in the deposit, from the bus tickets and passes log.
2. Bus ticket sales forms should be signed by the preparer, and reviewed and signed by the person responsible for verifying the mathematical accuracy of the form.
3. Fees charged should agree to the schedule(s) that have been reviewed and approved by the Governing Board.

**District Response:**

The process has been reviewed and a new log form developed. Appropriate changes have been implemented to properly account for bus ticket sales.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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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, 2004.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

**04 - 4 / 10000**

**ATTENDANCE**

**Criteria:** Due to the relationship between attendance and state apportionments, each LEA must develop and maintain accurate attendance records to support the attendance reported to the State.

**Condition:** Teachers are not taking attendance in a consistent manner. Students were not marked as absent for days when the students were ill and out of school for the entire day.

**Questioned Costs:** None. The students were accurately marked absent by the school secretaries.

**Context:** The condition was present in 10 of 140 student periods tested at Kenilworth Junior High and Casa Grande High Schools.

**Effect:** Students out of school for illness or personal reasons could conceivably generate apportionment attendance.

**Cause:** The importance of accurate attendance reporting and maintenance of auditable attendance records has not been stressed to the school teachers.

**Recommendation:** Site administration should inform all school staff on the importance of accurate attendance reporting.

**District Response:** The District will provide information on policy and procedures to teaching staff regarding the importance of accurate attendance records.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**04 - 5 / 10000**

KINDERGARTEN CONTINUATION

- 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: One kindergarten student continued in kindergarten for a second year during fiscal year 2003-04. A detailed analysis of the student's physical maturity, social and emotional maturity, and academic performance were considered during parent conferences, where the student continuation decision was made. The reason for the continuation was adequately documented on standardized forms, which were signed by the parents, teacher, and principal. The District did not, however, utilize the pre-approved continuation form included in CDE Management Advisory 90-10, and was unable to provide evidence that the District form had been approved by the CDE.
- Questioned Cost: Average daily attendance (ADA), for the P-2 attendance period, was overstated by one (1) ADA. The estimated fiscal impact of this finding is a \$4,452 decrease in revenue limit funding, which was computed as follows:
- (1 ADA x \$4,452 Per ADA Base Revenue Limit)
- Context: This was the only instance noted during our testing at Grant and Valley Vista Elementary Schools.
- 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 use of a non-approved continuation form.
- Cause: Site administration was unaware that the form used to document kindergarten continuation did not meet state requirements that are a condition of apportionment.
- Recommendation: The District should amend the 2003-04 Petaluma City Elementary School District's P-2 attendance report to exclude the 1 ADA generated by the kindergarten student, and report 271.63 ADA on line A-1, and 1,949.74 on line B-6.
- District Response: The District agrees with the recommendation and will amend the P-2 attendance report as recommended.



**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS</u></b>		
<b>03 - 1 / 30000</b>		
<b><u>CAFETERIA - CASH RECEIPTS VARIANCES</u></b>		
Significant differences noted between reported sales on the daily sales deposit worksheet, and the amounts actually deposited should be investigated, resolved, documented, and retained for audit.	Implemented	
<b>03 - 2 / 30000</b>		
<b><u>STUDENT BODY - CASH DISBURSEMENTS</u></b>		
Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site.	Implemented	
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.	Not Implemented	Comment Repeated <b>(See 04 - 1 / 30000)</b>
<b>03 - 3 / 30000</b>		
<b><u>STUDENT BODY - CASH RECEIPTS</u></b>		
Cash receipts collected from student body athletic events should be counted and summarized on an athletic ticket report that is signed by the individual(s) who counted the cash, prior to being submitted to the student body clerk for deposit. The student body clerk should verify the cash count, sign, and note any differences on the athletic ticket report. Significant over/short amounts noted should be brought to the attention of the Principal immediately.	Implemented	

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>FINANCIAL STATEMENTS</u></b> <b><u>(CONCLUDED)</u></b>		
<b>03 - 4 / 30000</b>		
<b><u>ATHLETIC EVENTS CASH BOXES</u></b>		
The amount of cash maintained on hand for cash boxes used for athletic events should be supported by a schedule or ledger that reconciles to the amounts in all cash boxes.	Implemented	
Also, the high schools should establish an imprest balance for the cash boxes and should not increase or decrease the amount without the prior approval of the school's Principal.	Implemented	
<b><u>FEDERAL AWARDS</u></b>		
<b>03 - 5 / 50000</b>		
<b><u>FEDERAL CERTIFICATIONS</u></b>		
The District should implement procedures that will ensure that the required certifications are prepared on a semi-annual basis. The certifications should be signed by the employee and the supervisor having first hand knowledge of the work performed. These certifications should be completed and forwarded to the business office.	Implemented	

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<b><u>STATE AWARDS</u></b>		
<b>03 - 6 / 10000</b>		
<b><u>ATTENDANCE - CASA GRANDE HIGH</u></b>		
Students that are absent for all odd/even periods on block scheduled days should be manually coded as absent for the entire day, in the computer system, by the attendance clerks. The attendance clerks should review all absences on block scheduled days to ensure accuracy and completeness.	Implemented	
In addition, the District should amend the P-2 attendance report to report 3,124.76 ADA on line A-5.	Implemented	

