

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

**AUDIT REPORT**

**JUNE 30, 2005**



PETALUMA CITY SCHOOLS

JUNE 30, 2005

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TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Net Assets - Fiduciary Funds	26
Statement of Changes in Net Assets - Fiduciary Funds	27
Notes to the Basic Financial Statements	28
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	51

PETALUMA CITY SCHOOLS

JUNE 30, 2005

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TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION (CONCLUDED)</u>	
Combining Statements and Individual Fund Schedules:	
Combining Statements - Non-Major Funds:	
Combining Balance Sheet - Non-Major Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	53
Combining Balance Sheet - Non-Major Special Revenue Funds	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Special Revenue Funds	55
Combining Balance Sheet - Non-Major Capital Projects Funds	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Capital Projects Funds	57
Combining Statement of Changes in Assets and Liabilities - Agency Fund - Student Body	58
Individual Fund Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Non-Major Special Revenue Funds	59
Debt Service Funds	62
Capital Projects Funds	63
Organization/Board of Education/Administration	66
Schedule of Average Daily Attendance	67
Schedule of Instructional Time	68
Schedule of Expenditures of Federal Awards	69
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	70
Schedule of Financial Trends and Analysis	71
Schedule of Charter Schools	72
Notes to Supplementary Information	73

PETALUMA CITY SCHOOLS

JUNE 30, 2005

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TABLE OF CONTENTS (CONCLUDED)

	<u>Page</u>
<u>OTHER INDEPENDENT AUDITORS REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	75
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77
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	79
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Audit Results	81
Section II - Financial Statement Findings	82
Section III - Federal Award Findings and Questioned Costs	86
Section IV - State Award Findings and Questioned Costs	88
Status of Prior Year Recommendations	94



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, 2005, 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; 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 Education Agencies 2004-05*. 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 Petaluma City Schools, as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 51 are not required parts of the basic financial statements, but are 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.

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 as required by the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies 2004-05*, 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 13, 2005

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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, 2005. 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 improved slightly during the 2004-05 fiscal year.
- On the Statement of Activities, total current year revenues and the gain from the disposition of capital assets exceeded total current expenses by \$51,428.
- Capital assets, net of depreciation, increased \$21,824,674, due to current year acquisitions, construction, and improvements.
- Long-term liabilities increased \$7,650,028, due primarily to the issuance of \$8,450,000 of Certificates of Participation in June 2005.
- The District's P-2 ADA, excluding the adult ADA, decreased from 7,549 ADA in fiscal year 2003-04, down to 7,530 ADA in fiscal year 2004-05, a decrease of 19 ADA.
- 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 2004-05, General Fund expenditures and other financing uses totaled \$57,982,495. At June 30, 2005, the District has available reserves of \$4,024,789 in the General Fund, which represents a reserve of 6.9%.

*Business-Type Activities:*

- This is the second year that the District is presenting business-type activities. The activities reflected are for the Downtown Project.
- On the Statement of Activities, total current year revenues exceeded total current expenses by \$18,063.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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, 2005**

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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 contract 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, 2005**

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

The District's net assets increased from \$44,094,698 at June 30, 2004 to \$44,164,189 at June 30, 2005.

<b><u>Comparative Statement of Net Assets</u></b>						
	Governmental Activities		Business-Type Activities		Totals	
	2004	2005	2004	2005	2004	2005
<b>Assets:</b>						
Cash	\$ 45,658,549	\$ 35,540,356	\$ 4,097	\$ 8,559	\$ 45,662,646	\$ 35,548,915
Receivables	5,134,043	4,879,102		34,272	5,134,043	4,913,374
Internal Balances	70	15,085	(70)	(15,085)	0	0
Stores Inventory	79,198	70,800			79,198	70,800
Prepaid Expenses	1,538,431	1,436,477			1,538,431	1,436,477
Capital Assets, net	70,882,217	92,706,891			70,882,217	92,706,891
<b>Total Assets</b>	<b>123,292,508</b>	<b>134,648,711</b>	<b>4,027</b>	<b>27,746</b>	<b>123,296,535</b>	<b>134,676,457</b>
<b>Liabilities:</b>						
Current	8,626,372	12,391,802	1,038	6,694	8,627,410	12,398,496
Long-Term	70,574,427	78,113,772			70,574,427	78,113,772
<b>Total Liabilities</b>	<b>79,200,799</b>	<b>90,505,574</b>	<b>1,038</b>	<b>6,694</b>	<b>79,201,837</b>	<b>90,512,268</b>
<b>Net Assets:</b>						
Invested in Capital Assets						
- Net of Related Debt	10,901,489	20,597,858			10,901,489	20,597,858
Restricted	28,812,295	17,272,411			28,812,295	17,272,411
Unrestricted	4,377,925	6,272,868	2,989	21,052	4,380,914	6,293,920
<b>Total Net Assets</b>	<b>\$ 44,091,709</b>	<b>\$ 44,143,137</b>	<b>\$ 2,989</b>	<b>\$ 21,052</b>	<b>\$ 44,094,698</b>	<b>\$ 44,164,189</b>

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

The District invested \$24,913,518 in capital assets during fiscal year 2004-05, increasing total capital assets, net of depreciation, by \$21,824,674. Most of the asset increases are reflected in several work in progress (WIP) projects. Over 80% of this relates to the new construction of Kenilworth Jr. High School (\$22.5M). The remainder of the WIP projects include elementary stage projects at McDowell, McKinley, McNear, Penngrove and Valley Vista schools; solar projects at McDowell Elementary and Petaluma High School; field renovations at McDowell and McNear Elementary sites; growth portables at Mary Collins' at Cherry Valley Charter; D-wing at Petaluma High School.

Kenilworth Jr. High construction is financed with a combination of the proceeds from the sale of the old Kenilworth Jr. High School site and capital facility funds. Certificates of Participation (COPs) were issued in the amount of \$8,450,000 for cash flow purposes in order to complete the new construction. However, it is anticipated that a portion of the proceeds from the sale of surplus property at Casa Grande High School (\$25.3M) will be used to eliminate this debt issuance within a year to eighteen months. Other secondary projects are funded with High School Bond Funds, County School Facilities Funds, Capital Facility Funds or a combination thereof. Elementary projects are funded with Elementary Bond Funds.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

District net assets increased \$69,491 during fiscal year 2004-05.

<b><u>Comparative Statement of Changes in Net Assets</u></b>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
<b>Program Revenues:</b>						
Charges for Services	\$ 1,685,507	\$ 1,513,394	\$ 25,000	\$ 73,576	\$ 1,710,507	\$ 1,586,970
Operating Grants and Contributions	10,786,295	11,888,642			10,786,295	11,888,642
<b>General Revenues:</b>						
Taxes Levied	29,706,235	28,302,977			29,706,235	28,302,977
Federal and State Aid	18,615,161	22,762,379			18,615,161	22,762,379
Interest and Investment Earnings	663,768	1,019,079	28		663,796	1,019,079
Transfers	838,351	813,394			838,351	813,394
Miscellaneous	2,271,211	2,083,316			2,271,211	2,083,316
<b>Total Revenues</b>	<b>64,566,528</b>	<b>68,383,181</b>	<b>25,028</b>	<b>73,576</b>	<b>64,591,556</b>	<b>68,456,757</b>
<b>Expenses:</b>						
Instruction	38,152,492	39,577,573			38,152,492	39,577,573
Instruction Related Services	5,892,034	6,450,465			5,892,034	6,450,465
Pupil Services	7,381,727	7,607,464			7,381,727	7,607,464
General Administration	2,338,850	2,428,472			2,338,850	2,428,472
Plant Services	5,713,181	6,820,582			5,713,181	6,820,582
Ancillary Services	296,326	280,341			296,326	280,341
Community Services	385,857	446,169			385,857	446,169
Enterprise Activities	174,285	35,080	22,039	55,513	196,324	90,593
Interest on Long-Term Debt	3,257,964	3,372,728			3,257,964	3,372,728
Other Outgo	1,830,534	1,705,999			1,830,534	1,705,999
<b>Total Expenses</b>	<b>65,423,250</b>	<b>68,724,873</b>	<b>22,039</b>	<b>55,513</b>	<b>65,445,289</b>	<b>68,780,386</b>
Changes in Net Assets Before Special Item	(856,722)	(341,692)	2,989	18,063	(853,733)	(323,629)
Special Item	19,526,414	393,120			19,526,414	393,120
<b>Changes in Net Assets</b>	<b>\$ 18,669,692</b>	<b>\$ 51,428</b>	<b>\$ 2,989</b>	<b>\$ 18,063</b>	<b>\$ 18,672,681</b>	<b>\$ 69,491</b>

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

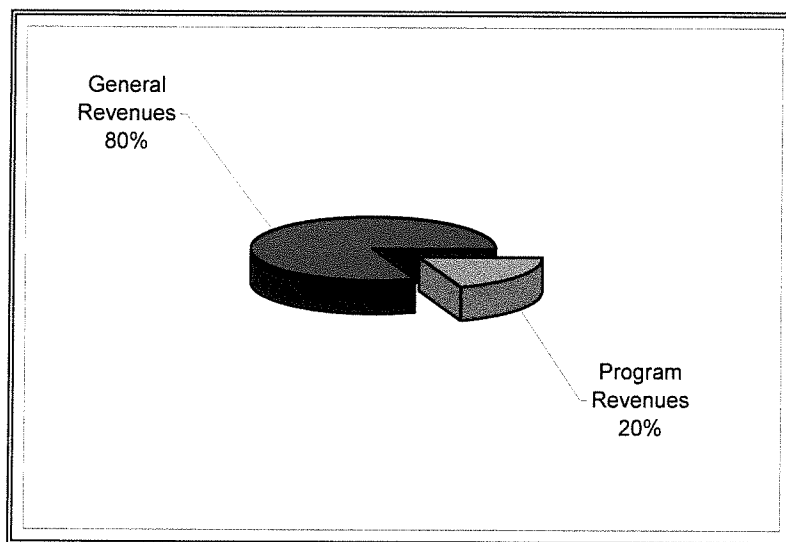
**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>		Percentage Change	<u>Net Cost of Services</u>		Percentage Change
	2004	2005		2004	2005	
	Instruction	\$ 38,152,492		\$ 39,577,573	-3.74%	
Instruction Related Services	5,892,034	6,450,465	-9.48%	5,220,265	5,443,750	-4.28%
Pupil Services	7,381,727	7,607,464	-3.06%	3,728,430	4,142,834	-11.11%
General Administration	2,338,850	2,428,472	-3.83%	2,208,968	2,262,446	-2.42%
Plant Services	5,713,181	6,820,582	-19.38%	4,752,155	6,096,630	-28.29%
Ancillary Services	296,326	280,341	5.39%	296,326	280,341	5.39%
Community Services	385,857	446,169	-15.63%	385,857	446,169	-15.63%
Enterprise Activities	174,285	35,080	79.87%	174,285	35,080	79.87%
Interest on Long-Term Debt	3,257,964	3,372,728	-3.52%	3,257,964	3,372,728	-3.52%
Other Outgo	1,830,534	1,705,999	6.80%	1,736,364	1,490,369	14.17%
<b>Totals</b>	<b>\$ 65,423,250</b>	<b>\$ 68,724,873</b>	<b>-5.05%</b>	<b>\$ 52,951,448</b>	<b>\$ 55,322,837</b>	<b>-4.48%</b>

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

The table above presents the cost of major District 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 \$55,322,837 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed below. Further detail is available on page 15.



Program revenues financed 20% of the total cost of providing the services listed above, while the remaining 80% was financed by the general revenues of the District.

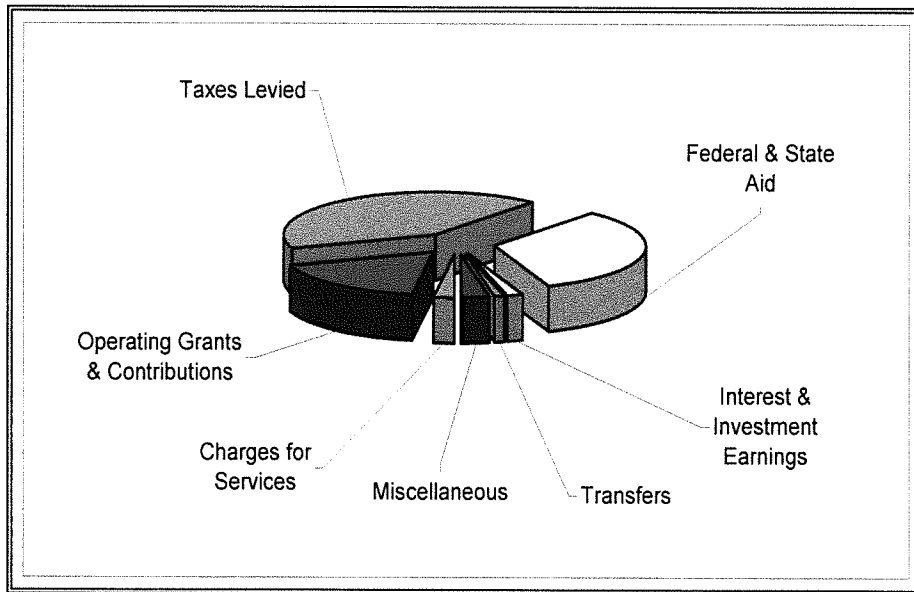


**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

<b><u>Summary of Revenues For Governmental Functions</u></b>				
	FYE 2004 Amount	Percent of Total	FYE 2005 Amount	Percent of Total
<b>Program Revenues:</b>				
Charges for Services	\$ 1,685,507	2.61%	\$ 1,513,394	2.21%
Operating Grants & Contributions	10,786,295	16.71%	11,888,642	17.39%
<b>General Revenues:</b>				
Taxes Levied	29,706,235	46.01%	28,302,977	41.39%
Federal and State Aid	18,615,161	28.83%	22,762,379	33.29%
Interest and Investment Earnings	663,768	1.03%	1,019,079	1.49%
Transfers	838,351	1.30%	813,394	1.19%
Miscellaneous	2,271,211	3.52%	2,083,316	3.05%
<b>Total Revenues</b>	<b>\$ 64,566,528</b>	<b>100.00%</b>	<b>\$ 68,383,181</b>	<b>100.00%</b>

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



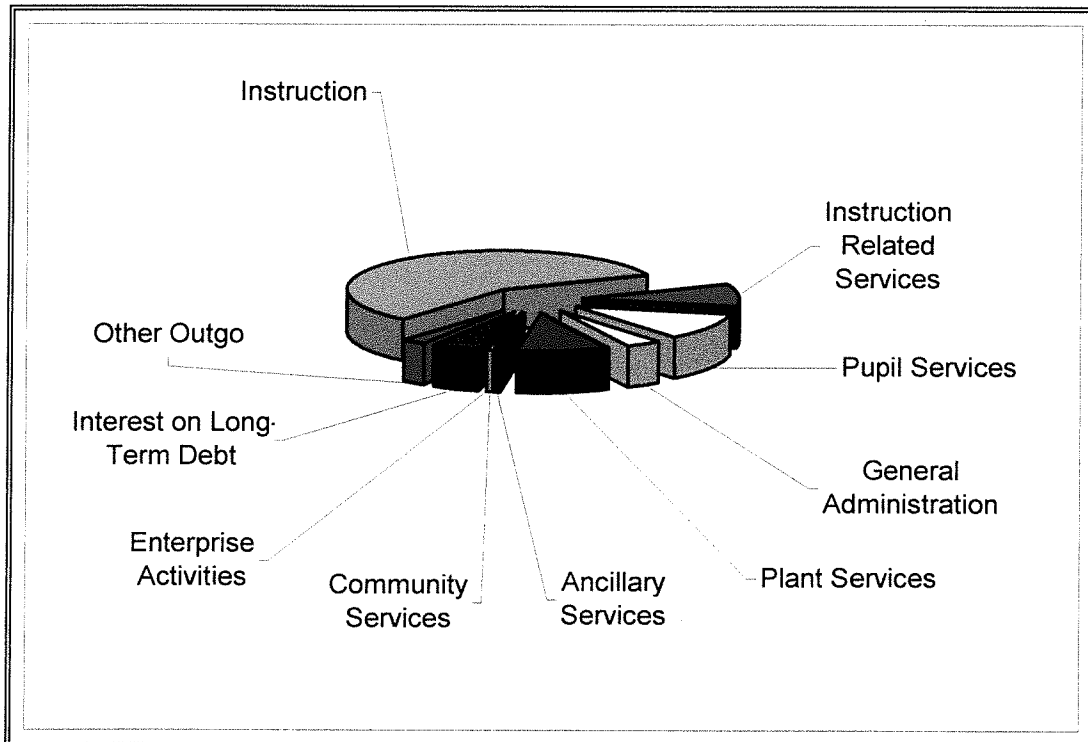
**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**Schedule of Expenses For Governmental Functions**

	<u>FYE 2004 Amount</u>	<u>Percent of Total</u>	<u>FYE 2005 Amount</u>	<u>Percent of Total</u>
<b>Expenses:</b>				
Instruction	\$ 38,152,492	58.32%	\$ 39,577,573	57.59%
Instruction Related Services	5,892,034	9.01%	6,450,465	9.39%
Pupil Services	7,381,727	11.28%	7,607,464	11.07%
General Administration	2,338,850	3.57%	2,428,472	3.53%
Plant Services	5,713,181	8.73%	6,820,582	9.92%
Ancillary Services	296,326	0.45%	280,341	0.41%
Community Services	385,857	0.59%	446,169	0.65%
Enterprise Activities	174,285	0.27%	35,080	0.05%
Interest on Long-Term Debt	3,257,964	4.98%	3,372,728	4.91%
Other Outgo	1,830,534	2.80%	1,705,999	2.48%
<b>Total Expenses</b>	<b>\$ 65,423,250</b>	<b>100.00%</b>	<b>\$ 68,724,873</b>	<b>100.00%</b>

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



**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**GOVERNMENTAL ACTIVITIES**

<b><u>Comparative Schedule of Capital Assets</u></b>		
	Governmental Activities	
	2004	2005
Land	\$ 4,266,886	\$ 4,266,886
Sites and Improvements	5,539,109	5,539,109
Buildings and Improvements	82,889,115	83,043,661
Furniture and Equipment	4,195,165	4,217,755
Work in Progress	2,875,372	27,526,922
Subtotals	99,765,647	124,594,333
Less: Accumulated Depreciation	(28,883,430)	(31,887,442)
Capital Assets, net	<u>\$ 70,882,217</u>	<u>\$ 92,706,891</u>

The District invested \$24,913,518 in capital assets during fiscal year 2004-05, increasing total capital assets, net of depreciation, by \$21,824,674. Most of the asset increases are reflected in several work in progress (WIP) projects. Over 80% of this relates to the new construction of Kenilworth Jr. High School (\$22.5M). The remainder of the WIP projects include elementary stage projects at McDowell, McKinley, McNear, Penngrove and Valley Vista schools; solar projects at McDowell Elementary and Petaluma High School; field renovations at McDowell and McNear Elementary sites; growth portables at Mary Collins at Cherry Valley Charter; D-wing at Petaluma High School.

Kenilworth Jr. High construction is financed with a combination of the proceeds from the sale of the old Kenilworth Jr. High School site and capital facility funds. Certificates of Participation (COPs) were issued in the amount of \$8,450,000 for cash flow purposes in order to complete the new construction. However, it is anticipated that a portion of the proceeds from the sale of surplus property at Casa Grande High School (\$25.3M) will be used to eliminate this debt issuance within a year to eighteen months. Other secondary projects are funded with High School Bond Funds, County School Facilities Funds, Capital Facility Funds or a combination thereof. Elementary projects are funded with Elementary Bond Funds.

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**FINANCIAL ANALYSIS OF THE CAPITAL ASSETS & LONG-TERM LIABILITIES (CONCLUDED)**

GOVERNMENTAL ACTIVITIES (CONCLUDED)

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	Governmental Activities	
	2004	2005
Compensated Absences	\$ 483,113	\$ 432,352
Certificates of Participation	0	8,450,000
General Obligation Bonds	69,894,176	68,228,923
Capital Leases	1,798,183	2,763,546
Other Post Employment Benefits	1,629,300	1,579,979
Totals	<u>\$ 73,804,772</u>	<u>\$ 81,454,800</u>

The general obligation bonds are financed by the local taxpayers and represent 84% of the District's long-term liabilities. During fiscal year 2004-05, the District issued \$8,450,000 of certificates of participation. The remaining portion of long-term liabilities is to be paid by the District and includes certificate of participation, other post employment benefits, capital leases, and the value of vacation earned, but not taken as of June 30, 2005.

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 Fund Balances</u></b>			
	Fund Balances June 30, 2004	Fund Balances June 30, 2005	Increase (Decrease)
General	5,682,107	7,431,205	\$ 1,749,098
Deferred Maintenance	831,569	1,303,161	471,592
Cafeteria	54,196	40,897	(13,299)
Adult Education	169,570	254,159	84,589
Bond Interest & Redemption	5,827,534	5,714,676	(112,858)
Capital Facilities	2,679,148	2,273,124	(406,024)
Building	11,133,681	6,853,671	(4,280,010)
Capital Projects - Special Reserve	19,808,920	8,310,305	(11,498,615)
Totals	<u>\$ 46,186,725</u>	<u>\$ 32,181,198</u>	<u>\$ (14,005,527)</u>

**PETALUMA CITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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 2004-05.

**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. Elementary ADA shows growth of 30 for 2005-06. It is anticipated that growth will gradually diminish within the following two years, leveling off thereafter. Secondary ADA indicates a decline of 40 in 2005-06 with a further decline of 110 in 2006-07. Projections are very conservative and currently do not take into account building projects that are currently underway. Due to the cost of housing, it is unlikely that there will be growth in the elementary levels, but we may see additional enrollment in secondary levels.
- Projected health and welfare benefit costs continue to have a 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, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b><u>Assets</u></b>			
Cash (Note 2)	\$ 35,540,356	\$ 8,559	\$ 35,548,915
Receivables (Note 4)	4,879,102	34,272	4,913,374
Internal Balances	15,085	(15,085)	0
Stores Inventory (Note 1J)	70,800		70,800
Prepaid Expenses (Note 1J)	1,436,477		1,436,477
Capital Assets: (Note 6)			
Land	4,266,886		4,266,886
Sites and Improvements	5,539,109		5,539,109
Buildings and Improvements	83,043,661		83,043,661
Furniture and Equipment	4,217,755		4,217,755
Work in Progress	27,526,922		27,526,922
Less: Accumulated Depreciation	(31,887,442)		(31,887,442)
<b>Total Assets</b>	<b>134,648,711</b>	<b>27,746</b>	<b>134,676,457</b>
<b><u>Liabilities</u></b>			
Accounts Payable and Other Current Liabilities	8,655,543	6,694	8,662,237
Deferred Revenue (Note 1J)	395,231		395,231
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
General Obligation Bonds (Note 8)			
Current Interest	2,095,000		2,095,000
Capital Appreciation	415,000		415,000
Capital Leases (Note 9)	514,563		514,563
Other Post Employment Benefits (Note 11)	316,465		316,465
<i>Portion Due or Payable After One Year:</i>			
Compensated Absences (Note 1J)	432,352		432,352
Certificates of Participation (Note 7)	8,450,000		8,450,000
General Obligation Bonds (Note 8)			
Current Interest	48,125,000		48,125,000
Capital Appreciation	17,593,923		17,593,923
Capital Leases (Note 9)	2,248,983		2,248,983
Other Post Employment Benefits (Note 11)	1,263,514		1,263,514
<b>Total Liabilities</b>	<b>90,505,574</b>	<b>6,694</b>	<b>90,512,268</b>
<b><u>Net Assets</u></b>			
Investment in Capital Assets, Net of Related Debt	20,597,858		20,597,858
Restricted:			
For Capital Projects	10,583,429		10,583,429
For Debt Service	5,714,676		5,714,676
For Educational Programs	883,206		883,206
For Other Purposes	91,100		91,100
Unrestricted	6,272,868	21,052	6,293,920
<b>Total Net Assets</b>	<b>\$ 44,143,137</b>	<b>\$ 21,052</b>	<b>\$ 44,164,189</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b><u>Governmental Activities</u></b>						
Instruction	\$ 39,577,573	\$ 51,161	\$ 7,773,922	\$ (31,752,490)		\$ (31,752,490)
Instruction Related Services:						
Supervision of Instruction	1,006,376		446,561	(559,815)		(559,815)
Instructional Library, Media, Technology	696,057		41,786	(654,271)		(654,271)
School Site Administration	4,748,032	10,731	507,637	(4,229,664)		(4,229,664)
Pupil Services:						
Home-to-School Transportation	1,266,852	67,148	795,544	(404,160)		(404,160)
Food Services	2,017,147	1,356,808	525,080	(135,259)		(135,259)
Other Pupil Services	4,323,465	272	719,778	(3,603,415)		(3,603,415)
General Administration:						
Other General Administration	2,428,472	2,397	163,629	(2,262,446)		(2,262,446)
Plant Services	6,820,582	9,626	714,326	(6,096,630)		(6,096,630)
Ancillary Services	280,341			(280,341)		(280,341)
Community Services	446,169			(446,169)		(446,169)
Enterprise Activities	35,080			(35,080)		(35,080)
Interest on Long-Term Debt	3,372,728			(3,372,728)		(3,372,728)
Other Outgo	1,705,999	15,251	200,379	(1,490,369)		(1,490,369)
Total Governmental Activities	68,724,873	1,513,394	11,888,642	(55,322,837)		(55,322,837)
<b><u>Business-Type Activities</u></b>						
Enterprise Activities	55,513	73,576			\$ 18,063	18,063
Totals	\$ 68,780,386	\$ 1,586,970	\$ 11,888,642	(55,322,837)	18,063	(55,304,774)
<b><u>General Revenues</u></b>						
Taxes Levied for General Purposes				22,873,981		22,873,981
Taxes Levied for Debt Service				4,698,739		4,698,739
Taxes Levied for Specific Purposes				730,257		730,257
Federal and State Aid - Unrestricted				22,762,379		22,762,379
Interest and Investment Earnings				1,019,079		1,019,079
Transfers				813,394		813,394
Miscellaneous				2,083,316		2,083,316
Total General Revenues				54,981,145	0	54,981,145
<b><u>Special Item</u></b>						
Gain from Disposition of Capital Assets				393,120		393,120
Changes in Net Assets				51,428	18,063	69,491
Net Assets - July 1, 2004				44,091,709	2,989	44,094,698
Net Assets - June 30, 2005				\$ 44,143,137	\$ 21,052	\$ 44,164,189

**PETALUMA CITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<b>General Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b><u>Assets</u></b>		
Cash in County Treasury (Note 2)	\$ 4,325,698	\$ 5,714,676
Cash on Hand and in Banks	2,000	
Cash in Revolving Fund	20,000	
Cash with Fiscal Agent	1,204,907	
Accounts Receivable (Note 4)		
Federal Government	1,087,790	
State Government	3,114,747	
Local Governments	217,123	
Miscellaneous	19,521	
Due from Other Funds (Note 5)	566,453	
Stores Inventory (Note 1J)	39,783	
	<b>\$ 10,598,022</b>	<b>\$ 5,714,676</b>
<b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts Payable	\$ 2,112,030	
Due to Other Funds (Note 5)	476,348	
Deferred Revenue (Note 1J)	578,439	
	<b>3,166,817</b>	
Fund Balances: (Note 13)		
Reserved	942,989	\$ 5,714,676
Unreserved:		
Designated	4,200,826	
Undesignated	2,287,390	
	<b>7,431,205</b>	<b>5,714,676</b>
<b>Total Fund Balances</b>	<b>7,431,205</b>	<b>5,714,676</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,598,022</b>	<b>\$ 5,714,676</b>



<u>Building Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 8,129,421	\$ 2,023,348	\$ 3,666,332	\$ 23,859,475
		300	2,000
	10,416,263		20,300
			11,621,170
		187,474	1,275,264
		135,752	3,250,499
		33,475	250,598
		83,220	102,741
	26,296	627,998	1,220,747
		31,017	70,800
<u>\$ 8,129,421</u>	<u>\$ 12,465,907</u>	<u>\$ 4,765,568</u>	<u>\$ 41,673,594</u>
\$ 910,750	\$ 4,155,602	\$ 529,623	\$ 7,708,005
365,000		364,604	1,205,952
			578,439
<u>1,275,750</u>	<u>4,155,602</u>	<u>894,227</u>	<u>9,492,396</u>
		31,317	6,688,982
6,853,671	8,310,305	3,840,024	4,200,826
<u>6,853,671</u>	<u>8,310,305</u>	<u>3,871,341</u>	<u>21,291,390</u>
<u>\$ 8,129,421</u>	<u>\$ 12,465,907</u>	<u>\$ 4,765,568</u>	<u>\$ 41,673,594</u>

**PETALUMA CITY SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

**Total Fund Balances - Governmental Funds** **\$ 32,181,198**

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 \$124,594,333, and the accumulated depreciation is \$31,887,442. 92,706,891

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 (14,824)

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	\$ 134,813	
Deferred Charges - Costs of Issuance	470,469	
Deferred Charges - Refunding	831,195	
		1,436,477

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: (941,888)

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: 198,032

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. 32,051

Long-term liabilities 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	\$ 432,352	
Certificates of Participation	8,450,000	
General Obligation Bonds		
Current Interest	50,220,000	
Capital Appreciation	18,008,923	
Capital Leases	2,763,546	
Other Post Employment Benefits	1,579,979	
		(81,454,800)

**Total Net Assets - Governmental Activities** **\$ 44,143,137**



**PETALUMA CITY SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b><u>Revenues</u></b>		
Revenue Limit Sources:		
State Apportionment	\$ 19,463,632	
Local Taxes	22,873,982	
Total Revenue Limit Sources	42,337,614	
Federal Revenue	3,006,203	
State Revenue	6,366,603	\$ 54,531
Local Revenue	6,756,291	4,743,530
Total Revenues	58,466,711	4,798,061
<b><u>Expenditures</u></b>		
Instruction	36,679,596	
Supervision of Instruction	972,556	
Instructional Library and Technology	577,210	
School Site Administration	4,221,467	
Home-To-School Transportation	1,135,405	
Food Services	7,197	
Other Pupil Services	4,118,057	
Other General Administration	2,238,549	
Plant Services	5,094,290	
Facilities Acquisition and Construction	53,000	
Ancillary Services	249,125	
Community Services	414,135	
Enterprise Activities	35,080	
Debt Service:		
Principal Retirement	258,654	2,645,000
Interest and Issuance Costs	29,215	2,265,919
Other Outgo	1,604,045	
Total Expenditures	57,687,581	4,910,919
Excess of Revenues Over (Under) Expenditures	779,130	(112,858)
<b><u>Other Financing Sources (Uses)</u></b>		
Operating Transfers In		
Operating Transfers Out	(294,914)	
Other Sources	1,264,882	
Total Other Financing Sources (Uses)	969,968	0
Net Change in Fund Balances	1,749,098	(112,858)
Fund Balances - July 1, 2004	5,682,107	5,827,534
Fund Balances - June 30, 2005	\$ 7,431,205	\$ 5,714,676

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Building Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
		\$ 1,424,707	\$ 20,888,339
			22,873,982
		1,424,707	43,762,321
		592,848	3,599,051
		421,030	6,842,164
\$ 229,377	\$ 254,636	2,238,710	14,222,544
229,377	254,636	4,677,295	68,426,080
		1,172,593	37,852,189
			972,556
			577,210
		252,989	4,474,456
			1,135,405
		1,986,550	1,993,747
			4,118,057
		65,838	2,304,387
50,991	279,865	629,458	6,054,604
4,082,684	20,473,812	793,955	25,403,451
			249,125
			414,135
			35,080
	159,727	11,138	3,074,519
	96,761	3,628	2,395,523
			1,604,045
4,133,675	21,010,165	4,916,149	92,658,489
(3,904,298)	(20,755,529)	(238,854)	(24,232,409)
	294,914	375,712	670,626
(375,712)			(670,626)
	8,962,000		10,226,882
(375,712)	9,256,914	375,712	10,226,882
(4,280,010)	(11,498,615)	136,858	(14,005,527)
11,133,681	19,808,920	3,734,483	46,186,725
\$ 6,853,671	\$ 8,310,305	\$ 3,871,341	\$ 32,181,198

**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, 2005**

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>(14,005,527)</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	\$ (3,088,844)	
Capital Outlays	<u>24,913,518</u>	21,824,674
<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 costs are recognized as expenditures in the period they are incurred in governmental funds. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period are:</p>		
Costs of Issuance	\$ 190,000	
Costs of Issuance Amortized	<u>(291,954)</u>	(101,954)
<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, amounts used exceeded amounts earned by:</p>		
		100,082
<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 premiums amortized in the current year are:</p>		
Bond Premiums Amortized		1,227
<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	\$ 1,440,000	
Capital Appreciation	1,205,000	
Capital Leases	<u>429,519</u>	3,074,519
<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>		
		(9,844,882)
<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 increased by:</p>		
		(977,205)
<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>13,500</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>51,428</u></b>

**PETALUMA CITY SCHOOLS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Internal Service Fund</u>	<u>Enterprise Fund</u>
<b><u>Assets</u></b>		
Cash in County Treasury (Note 2)	\$ 37,411	\$ 8,559
Receivables (Note 4)		34,272
Due from Other Funds (Note 5)	290	
Total Assets	<u>37,701</u>	<u>42,831</u>
<b><u>Liabilities</u></b>		
Accounts Payable	5,650	6,694
Intergovernmental Payable		15,085
Total Liabilities	<u>5,650</u>	<u>21,779</u>
<b><u>Net Assets</u></b>		
Unrestricted	<u>\$ 32,051</u>	<u>\$ 21,052</u>

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<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	\$ 104,598	
Charges for Services		\$ 73,576
Total Operating Revenues	<u>104,598</u>	<u>73,576</u>
<b><u>Operating Expenses</u></b>		
Salaries		14,404
Fringe Benefits		3,024
Materials and Supplies		20,056
Payments for Contracted Services	91,098	17,852
Total Operating Expenses	<u>91,098</u>	<u>55,336</u>
Operating Gain	13,500	18,240
<b><u>Non-Operating Expenses</u></b>		
Interest		(177)
Changes in Net Assets	13,500	18,063
Net Assets - July 1, 2004	<u>18,551</u>	<u>2,989</u>
Net Assets - June 30, 2005	<u>\$ 32,051</u>	<u>\$ 21,052</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**PETALUMA CITY SCHOOLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Internal Service Fund</u>	<u>Enterprise Fund</u>
<b><i>Cash Flows from Operating Activities:</i></b>		
Cash Received from Customers		\$ 39,304
Cash Received from Premiums	\$ 114,513	
Cash Payments to Employees for Services		(14,404)
Cash Payments for Employee Benefits		(2,968)
Cash Payments for Goods and Services		(10,962)
Cash Paid for Contracted Services	(93,530)	(6,331)
Net Cash Provided by Operating Activities	20,983	4,639
<b><i>Cash Flows from Investing Activities:</i></b>		
Interest		(177)
Net Increase in Cash	20,983	4,462
Cash Balance - July 1, 2004	16,428	4,097
Cash Balance - June 30, 2005	\$ 37,411	\$ 8,559
<b><i>Reconciliation of Operating Gain to Net Cash Provided by Operating Activities:</i></b>		
Operating Gain	\$ 13,500	\$ 18,240
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivables	150	(34,272)
Increase (Decrease) in Accounts Payable	(2,432)	5,656
Increase in Intergovernmental Payables		15,015
Decrease in Due From Other Funds	9,765	
Net Adjustments	7,483	(13,601)
Net Cash Provided by Operating Activities	\$ 20,983	\$ 4,639

**PETALUMA CITY SCHOOLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<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 on Hand and in Banks	6,650	\$ 383,354	390,004
Investments (Note 2)	99,781		99,781
Receivables (Note 4)	677		677
Total Assets	<u>107,109</u>	<u>383,354</u>	<u>490,463</u>
<b><u>Liabilities</u></b>			
Due to Student Groups		383,354	383,354
<b><u>Net Assets</u></b>			
Restricted for Scholarships	<u>107,109</u>		<u>107,109</u>
Total Net Assets	<u>\$ 107,109</u>	<u>\$ 0</u>	<u>\$ 107,109</u>

**PETALUMA CITY SCHOOLS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Private-Purpose Trust
	Scholarship Fund
<b><u>Additions</u></b>	
Interest	\$ 2,199
<b><u>Deductions</u></b>	
Scholarships Awarded	3,000
Change in Net Assets	(801)
<b><u>Net Assets</u></b>	
Net Assets - July 1, 2004	107,910
Net Assets - June 30, 2005	\$ 107,109

PETALUMA CITY SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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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, 2005

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (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 and enterprise 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 and the Internal Service Funds are presented on the proprietary fund 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 increases (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 related to the production of benches and trash receptacles.

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, 2005**

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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, 2005

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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 one 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).

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**E. Fund Accounting (Concluded)**

*Proprietary Funds* focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. 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 Downtown Project Fund was established for the purpose of appropriate and separate accounting for the Petaluma High School's 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 a \$99,781 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).

**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.



PETALUMA CITY SCHOOLS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Prepaid expenses include the costs associated with the bonds and certificates of participation issued since the implementation of GASB Statement No. 34. These costs will be amortized over the life of the obligation.

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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

**3. Capital Assets**

There are two thresholds established for capital assets. The first tier includes capital assets purchased or acquired (e.g., equipment, vehicles and the like) 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.

**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.

**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 after 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 premium, discount.

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

**7. Fund Balance Reserves and Designations**

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

**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.

**NOTE 2 - CASH AND INVESTMENTS**

**Policies and Practices**

The District is considered to be an involuntary participant in an external investment pool since it is required to deposit all receipts and collections of monies with the County Treasury (Education Code Section 41001).

The District and County Treasury are authorized and restricted by Government Code Section 53635 pursuant to Section 53601 to invest in local agency bonds or notes; U.S. Treasury bonds or notes; U.S. government securities; state registered warrants, bonds or notes; State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

Policies and Practices (Concluded)

The District is also authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

Cash in County Treasury

The District maintains substantially all of its cash with the Sonoma County Treasury as part of the common investment pool. The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned to the funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments. These pooled funds are carried at cost, which approximates fair value. These pooled funds are also 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

The District maintains cash balances within various financial institutions. All cash held by these financial institutions is fully insured or collateralized, except for the portion of the cash balances that exceed \$100,000 in the District's student body accounts. At year-end, the amount of uninsured cash balances maintained by the District totaled \$91,577.

Derivative Investments

The District did not directly enter into any derivative investments. Information relating to the use of derivative investments by the County was not available.

Cash Balances

Cash at June 30, 2005, 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	\$ 23,859,475	\$ 37,411	\$ 23,896,886	\$ 8,559	\$ 1
Deposits:					
Cash On Hand and in Banks	2,000		2,000		390,004
Cash in Revolving Fund	20,300		20,300		
Cash with Fiscal Agent	<u>11,621,170</u>	<u>          </u>	<u>11,621,170</u>	<u>          </u>	<u>          </u>
Total Cash	<u>\$ 35,502,945</u>	<u>\$ 37,411</u>	<u>\$ 35,540,356</u>	<u>\$ 8,559</u>	<u>\$ 390,005</u>

Cash with Fiscal agent consists of \$1,204,907, held by Sun Trust, as an escrow agent for the District for the future purchase of buses, \$130,000 held by Municipal Finance Corporation, as an escrow agent for the District for the future purchase of equipment, \$8,260,000 of unspent proceeds from the certificates of participation held by Zions Bank, as trustee for the District, and \$2,026,263 of earned retention funds, held in various escrow accounts, will be released to contractors at the completion of the various building projects.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)**

Investments

Investments as of June 30, 2005, 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.

Certificates of Deposit

The certificates of deposit account is maintained at Bank of America, and is insured up to \$100,000, by the Federal Deposit Insurance Corporation (FDIC).

**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>
General Fund:	
Capital Outlay	\$ 33,607
Debt Service: Principal Retirement	509
Bond Interest and Redemption Fund:	
Debt Service: Interest and Fiscal Charges	5,350
Capital Facilities Fund:	
Classified Salaries	100
Employee Benefits	25

The District incurred unanticipated expenditures in the above expenditure classifications for which the budgets were not revised. The Bond Interest and Redemption Fund 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, 2005**

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2005 consist of the following:

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Federal Government					
Categorical Programs	\$ 1,087,790	\$ 187,474	\$ 1,275,264		
State Government					
State Aid	1,233,632		1,233,632		
Categorical Programs	884,127	135,752	1,019,879		
Lottery	621,459		621,459		
Other Allowances	<u>375,529</u>		<u>375,529</u>		
Total State	3,114,747	135,752	3,250,499		
Local Governments	217,123	33,475	250,598		
Interest					\$ 677
Miscellaneous	<u>19,521</u>	<u>83,220</u>	<u>102,741</u>	\$ 34,272	
Totals	<u>\$ 4,439,181</u>	<u>\$ 439,921</u>	<u>\$ 4,879,102</u>	<u>\$ 34,272</u>	<u>\$ 677</u>

**NOTE 5 - INTERFUND ACTIVITIES**

**A. Due From/Due To Other Funds**

Individual fund interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Governmental Activities</u>		
General	\$ 566,453	\$ 476,348
Deferred Maintenance	365,000	
Cafeteria	80,806	270,016
Adult Education	138,393	91,388
Capital Facilities	43,799	3,200
Capital Projects - Special Reserve	26,296	
Building		365,000
Self-Insurance	<u>290</u>	
Total Governmental Activities	1,221,037	1,205,952
<u>Business-Type Activities</u>		
Enterprise		<u>15,085</u>
Totals	<u>\$ 1,221,037</u>	<u>\$ 1,221,037</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**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 2004-05 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 294,914
Deferred Maintenance	\$ 375,712	
Building		375,712
Capital Projects - Special Reserve	<u>294,914</u>	<u>                    </u>
Totals	<u>\$ 670,626</u>	<u>\$ 670,626</u>

Transfer of \$375,712 from the Building Fund to the Deferred Maintenance Fund to match state allocation.

Transfer of \$294,914 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, 2005, are shown below:

	<u>Balances</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2005</u>
Land	\$ 4,266,886			\$ 4,266,886
Sites and Improvements	5,539,109			5,539,109
Buildings and Improvements	82,889,115	\$ 154,546		83,043,661
Furniture and Equipment	4,195,165	107,422	\$ 84,832	4,217,755
Work in Progress	<u>2,875,372</u>	<u>24,651,550</u>	<u>                    </u>	<u>27,526,922</u>
Totals at Historical Cost	<u>99,765,647</u>	<u>24,913,518</u>	<u>84,832</u>	<u>124,594,333</u>
Less Accumulated Depreciation for:				
Sites and Improvements	2,948,631	280,183		3,228,814
Buildings and Improvements	22,837,375	2,563,493		25,400,868
Furniture and Equipment	<u>3,097,424</u>	<u>245,168</u>	<u>84,832</u>	<u>3,257,760</u>
Total Accumulated Depreciation	<u>28,883,430</u>	<u>3,088,844</u>	<u>84,832</u>	<u>31,887,442</u>
Governmental Activities				
Capital Assets, net	<u>\$ 70,882,217</u>	<u>\$ 21,824,674</u>	<u>\$ 0</u>	<u>\$ 92,706,891</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)**

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 1,804,205
Supervision of Instruction	35,270
Instructional Library and Technology	127,926
School Site Administration	282,646
Home to School Transportation	128,478
Food Services	23,355
Other Pupil Services	232,108
Other General Administration	83,998
Plant Services	312,858
Ancillary Services	31,216
Community Services	<u>26,784</u>
 Total Depreciation Expense	 <u>\$ 3,088,844</u>

**NOTE 7 - CERTIFICATES OF PARTICIPATION**

In June 2005, the District issued certificates of participation in the amount of \$8,450,000, with variable interest rates. The proceeds from the sale of the certificates will be used for the construction of a new Kenilworth Junior High School campus, and to pay off the financing lease of the District's administration building.

At June 30, 2005, the principal balance outstanding was \$8,450,000. Interest requirements for variable rate debt are calculated using the interest rate effective at the end of the reporting year. The certificates mature through 2031 as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 0	\$ 218,010	\$ 218,010
2007	205,000	213,162	418,162
2008	210,000	207,755	417,755
2009	220,000	202,100	422,100
2010	230,000	196,188	426,188
2011-2015	1,295,000	883,338	2,178,338
2016-2020	1,560,000	696,987	2,256,987
2021-2025	1,900,000	471,065	2,371,065
2026-2030	2,310,000	196,015	2,506,015
2031-2035	<u>520,000</u>	<u>1,118</u>	<u>521,118</u>
Totals	<u>\$ 8,450,000</u>	<u>\$ 3,285,738</u>	<u>\$ 11,735,738</u>



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 8 - GENERAL OBLIGATION BONDS**

The outstanding general obligation debt of the District as of June 30, 2005 is as follows:

**A. Current Interest Bonds**

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2004	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2005
<b>Elementary</b>						
<b>1991 Series</b>						
1997 F	5.15-6.15	\$ 4,500,000	\$ 135,000		\$ 135,000	\$ 0
1999 G	4.20-7.20	1,500,000	1,370,000		40,000	1,330,000
2000 H	5.00-8.00	2,000,000	1,890,000		45,000	1,845,000
2002 I	1.70-5.00	3,500,000	3,500,000		85,000	3,415,000
1991 J	4.00-8.00	2,700,000	2,700,000			2,700,000
<b>1998 Series</b>						
(Refunding)	4.00-4.60	7,530,000	6,700,000		330,000	6,370,000
<b>2003 Series</b>						
(Refunding)	2.75-4.30	5,895,000	5,795,000		125,000	5,670,000
<b>2003 Series B</b>						
(Refunding)	3.00-4.00	<u>4,560,000</u>	<u>4,560,000</u>		<u>235,000</u>	<u>4,325,000</u>
Total Elementary		<u>32,185,000</u>	<u>26,650,000</u>	<u>\$ 0</u>	<u>995,000</u>	<u>25,655,000</u>
<b>High School</b>						
<b>1992 Series</b>						
1999 D	4.25-7.25	3,900,000	3,390,000		120,000	3,270,000
1999 E	4.50-7.00	2,600,000	2,365,000		70,000	2,295,000
2000 F	5.00-8.00	9,400,000	8,865,000		205,000	8,660,000
<b>2002 Series</b>						
(Refunding)	2.00-4.75	<u>10,435,000</u>	<u>10,390,000</u>		<u>50,000</u>	<u>10,340,000</u>
Total High School		<u>26,335,000</u>	<u>25,010,000</u>	<u>0</u>	<u>445,000</u>	<u>24,565,000</u>
Total Current Interest Bonds		<u>\$ 58,520,000</u>	<u>\$ 51,660,000</u>	<u>\$ 0</u>	<u>\$ 1,440,000</u>	<u>\$ 50,220,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2005, are as follows:

Year Ended June 30	Principal	Interest	Totals
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	2,415,000	1,842,636	4,257,636
2011-2015	13,465,000	7,604,303	21,069,303
2016-2020	16,210,000	4,466,134	20,676,134
2021-2025	7,925,000	1,235,056	9,160,056
2026-2030	<u>1,330,000</u>	<u>113,380</u>	<u>1,443,380</u>
Totals	<u>\$ 50,220,000</u>	<u>\$ 23,568,759</u>	<u>\$ 73,788,759</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 8 - GENERAL OBLIGATION BONDS (CONTINUED)**

**B. Capital Appreciation Bonds**

<u>Description and Date</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued &amp; Accreted Interest Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2005</u>
<b>High School</b>						
<b>1992 Series</b>						
1997 C	4.50-6.20	\$ 10,623,276	\$ 2,482,261	\$ 102,757	\$ 915,000	\$ 1,670,018
<b>1995 Series</b>						
(Refunding)	4.65-5.80	8,972,019	14,110,778	784,086	290,000	14,604,864
<b>2002 Series</b>						
(Refunding)	5.60	<u>1,508,021</u>	<u>1,641,137</u>	<u>92,904</u>		<u>1,734,041</u>
Total Capital Appreciation Bonds		<u>\$ 21,103,316</u>	<u>\$ 18,234,176</u>	<u>\$ 979,747</u>	<u>\$ 1,205,000</u>	<u>\$ 18,008,923</u>

The outstanding obligation for the 1992 Series C capital appreciation bonds at June 30, 2005, 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, 2005</u>
2006		\$ 0	\$ 0	\$ 0
2007		0	0	0
2008		0	0	0
2009		0	0	0
2010		0	0	0
2011-2015		0	0	0
2016-2020		0	0	0
2021-2025	6.20	<u>1,016,969</u>	<u>653,049</u>	<u>1,670,018</u>
Totals		<u>\$ 1,016,969</u>	<u>\$ 653,049</u>	<u>\$ 1,670,018</u>

The annual requirements to amortize the 1992 Series C capital appreciation bonds at June 30, 2005, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 0	\$ 0	\$ 0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011-2015	0	0	0
2016-2020	0	0	0
2021-2025	<u>1,016,969</u>	<u>3,443,031</u>	<u>4,460,000</u>
Totals	<u>\$ 1,016,969</u>	<u>\$ 3,443,031</u>	<u>\$ 4,460,000</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 8 - GENERAL OBLIGATION BONDS (CONTINUED)**

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

The outstanding obligation for the 1995 Series capital appreciation bonds at June 30, 2005, 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, 2005</u>
2006	5.00	\$ 257,358	\$ 155,951	\$ 413,309
2007	5.10	327,118	203,171	530,289
2008	5.20	384,419	244,606	629,025
2009	5.30	443,141	288,787	731,928
2010	5.40	494,614	330,002	824,616
2011-2015	5.45-5.80	3,101,804	2,204,161	5,305,965
2016-2020	5.65-5.70	<u>3,602,133</u>	<u>2,567,599</u>	<u>6,169,732</u>
<b>Totals</b>		<b><u>\$ 8,610,587</u></b>	<b><u>\$ 5,994,277</u></b>	<b><u>\$ 14,604,864</u></b>

The annual requirements to amortize the 1995 Series capital appreciation bonds at June 30, 2005, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 257,358	\$ 157,642	\$ 415,000
2007	327,118	232,882	560,000
2008	384,419	315,581	700,000
2009	443,141	416,859	860,000
2010	494,614	530,386	1,025,000
2011-2015	3,101,804	4,893,196	7,995,000
2016-2020	<u>3,602,133</u>	<u>8,322,867</u>	<u>11,925,000</u>
<b>Totals</b>	<b><u>\$ 8,610,587</u></b>	<b><u>\$ 14,869,413</u></b>	<b><u>\$ 23,480,000</u></b>

The outstanding obligation for the 2002 Series capital appreciation bonds at June 30, 2005, 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, 2005</u>
2006		\$ 0	\$ 0	\$ 0
2007		0	0	0
2008		0	0	0
2009		0	0	0
2010		0	0	0
2011-2015		0	0	0
2016-2020		0	0	0
2021-2025	5.60	<u>1,508,021</u>	<u>226,020</u>	<u>1,734,041</u>
<b>Totals</b>		<b><u>\$ 1,508,021</u></b>	<b><u>\$ 226,020</u></b>	<b><u>\$ 1,734,041</u></b>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 8 - GENERAL OBLIGATION BONDS (CONCLUDED)**

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

The annual requirements to amortize the 2002 Series capital appreciation bonds at June 30, 2005, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 0	\$ 0	\$ 0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011-2015	0	0	0
2016-2020	0	0	0
2021-2025	<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 9 - 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:

Year Ended <u>June 30</u>	<u>Lease Payments</u>
2006	\$ 646,539
2007	625,064
2008	501,169
2009	399,345
2010	382,361
2011-2015	<u>693,124</u>
Total payments	3,247,602
Less amounts representing interest	<u>(484,056)</u>
Present value of net minimum lease payments	<u>\$ 2,763,546</u>

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

**NOTE 10 - 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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 11 - 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, 2005, 103 employees were eligible to receive retiree benefits. Future estimated payments required under the plan are as follows:

<u>Year Ended June 30</u>	<u>Other Post Employment Benefits</u>
2006	\$ 316,465
2007	291,229
2008	257,252
2009	209,747
2010	170,316
2011-2015	<u>334,970</u>
Total	<u>\$ 1,579,979</u>

**NOTE 12 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2005, is shown below.

	<u>Balances July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2005</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 483,113		\$ 50,761	\$ 432,352	
Certification of Participation		\$ 8,450,000		8,450,000	
General Obligation Bonds					
Current Interest	51,660,000		1,440,000	50,220,000	\$ 2,095,000
Capital Appreciation	18,234,176	979,747	1,205,000	18,008,923	415,000
Capital Leases	1,798,183	1,394,882	429,519	2,763,546	514,563
Other Post Employment Benefits	<u>1,629,300</u>	<u>252,299</u>	<u>301,620</u>	<u>1,579,979</u>	<u>316,465</u>
Totals	<u>\$ 73,804,772</u>	<u>\$ 11,076,928</u>	<u>\$ 3,426,900</u>	<u>\$ 81,454,800</u>	<u>\$ 3,341,028</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - FUND BALANCES**

A. Reservations of fund balances as of June 30, 2005 are as follows:

	General Fund	Bond Interest & Redemption Fund	Other Governmental Funds	Totals
Revolving Fund	\$ 20,000		\$ 300	\$ 20,300
Stores Inventory	39,783		31,017	70,800
Debt Service		\$ 5,714,676		5,714,676
Restricted Programs	<u>883,206</u>			<u>883,206</u>
Totals	<u>\$ 942,989</u>	<u>\$ 5,714,676</u>	<u>\$ 31,317</u>	<u>\$ 6,688,982</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, 2005 are as follows:

School Facilities Assessment	\$ 15,000
English Language Acquisition Program	35,767
California Public School Library	5,532
Lottery - Instructional Materials	247,084
School Safety	14,491
Gifted and Talented	39,662
Instructional Materials K-8	16,746
Instructional Materials Realignment Program	299,449
Instructional Materials – Williams Settlement	25,629
Principal Training	28,728
Measure C - Elementary Parcel Tax	142,715
Tenth Grade Counseling	<u>12,403</u>
Total	<u>\$ 883,206</u>

B. Designations of ending fund balances as of June 30, 2005 are as follows:

**MAJOR FUNDS:**

**General Fund:**

Economic Uncertainties	\$ 1,737,399
Cash with Fiscal Agent	1,204,907
Other Designations	<u>1,258,520</u>
Total	<u>\$ 4,200,826</u>

**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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 2004-05 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, 2005, 2004, and 2003, were \$2,332,012, \$2,159,791, and \$2,184,952, respectively, and equal 100% of the required contributions for each year.

**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 2004-05 was 9.95%. 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, 2005, 2004, and 2003, were \$967,723, \$996,228, and \$666,595, 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, 2005**

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**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)**

**C. Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2% of an employee's gross earnings. An employee is required to contribute 6.2% of his or her gross earnings.

**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 \$1,272,988 STRS (4.517% 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 2004-05, 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.

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 - ECONOMIC DEPENDENCY**

During the 2004-05 fiscal year, the District received \$730,257 of parcel tax revenue that is subject to voter approval. The tax is used to fund enrichment programs in the District.



**PETALUMA CITY SCHOOLS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 19 - 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 20 - CHARTER SCHOOLS**

In accordance with Education Code Section 47605, the District had approved 2004-05 Charter School agreements with Live Oak 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 term of the agreement with the Live Oak Charter School, the 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 activity of the Live Oak Charter School is not included in these financial statements; however, the financial transactions between the charter school 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 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 7, 2005, the District issued tax and revenue anticipation notes (TRANS) for \$4,020,000. The notes mature on July 6, 2006 and bear interest at 4.0%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

**B. Refunding General Obligation Bonds**

In August 2005, the District issued \$14,825,000 of general obligation bonds to refund portions of certain outstanding general obligation bonds and to pay the costs of issuing the bonds.

PETALUMA CITY SCHOOLS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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NOTE 22 - FUTURE GASB IMPLEMENTATION

In July of 2004, the Governmental Accounting Standards Board issued GASB Statement (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the 2008-09 fiscal year. The new statement will significantly change the way state and local governments report their "other postemployment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

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, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b><u>Revenues</u></b>				
Revenue Limit Sources:				
State Apportionment	\$ 18,461,115	\$ 19,787,700	\$ 19,463,632	\$ (324,068)
Local Sources	23,579,017	23,648,475	22,873,982	(774,493)
Total Revenue Limit Sources	42,040,132	43,436,175	42,337,614	(1,098,561)
Federal Revenue	2,209,462	3,480,058	3,006,203	(473,855)
Other State Revenue	5,348,835	6,405,710	6,366,603	(39,107)
Other Local Revenue	5,204,471	5,993,253	6,756,291	763,038
Total Revenues	54,802,900	59,315,196	58,466,711	(848,485)
<b><u>Expenditures</u></b>				
Certificated Salaries	26,961,028	27,505,924	27,213,948	291,976
Classified Salaries	8,890,340	9,335,005	9,212,228	122,777
Employee Benefits	10,578,734	11,095,227	10,995,328	99,899
Books and Supplies	1,764,338	2,914,471	1,935,599	978,872
Services and Other				
Operating Expenditures	6,152,426	7,244,505	6,322,769	921,736
Capital Outlay	61,227	132,324	165,931	(33,607)
Debt Service:				
Principal Retirement	98,242	258,145	258,654	(509)
Interest and Fiscal Charges	7,274	29,726	29,215	511
Other Expenditures	222,249	1,651,122	1,553,909	97,213
Total Expenditures	54,735,858	60,166,449	57,687,581	2,478,868
Excess of Revenues Over (Under) Expenditures	67,042	(851,253)	779,130	1,630,383
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers Out	(315,000)	(315,000)	(294,914)	20,086
Other Sources			1,264,882	1,264,882
Total Other Financing Sources (Uses)	(315,000)	(315,000)	969,968	1,284,968
Net Change in Fund Balances	(247,958)	(1,166,253)	1,749,098	\$ 2,915,351
Fund Balances - July 1, 2004	5,682,107	5,682,107	5,682,107	
Fund Balances - June 30, 2005	\$ 5,434,149	\$ 4,515,854	\$ 7,431,205	

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	Total Non-Major Special Revenue Funds	Total Non-Major Capital Projects Funds	Total Non-Major Governmental Funds
<b><u>Assets</u></b>			
Cash in County Treasury	\$ 1,153,329	\$ 2,513,003	\$ 3,666,332
Cash in Revolving Fund	300		300
Accounts Receivable			
Federal Government	187,474		187,474
State Government	135,752		135,752
Local Governments	26,764	6,711	33,475
Miscellaneous	31,538	51,682	83,220
Due from Other Funds	584,199	43,799	627,998
Stores Inventory	31,017		31,017
<b>Total Assets</b>	<b>\$ 2,150,373</b>	<b>\$ 2,615,195</b>	<b>\$ 4,765,568</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 190,752	\$ 338,871	\$ 529,623
Due to Other Funds	361,404	3,200	364,604
<b>Total Liabilities</b>	<b>552,156</b>	<b>342,071</b>	<b>894,227</b>
<b>Fund Balances:</b>			
Reserved	31,317		31,317
Unreserved:			
Undesignated	1,566,900	2,273,124	3,840,024
<b>Total Fund Balances</b>	<b>1,598,217</b>	<b>2,273,124</b>	<b>3,871,341</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,150,373</b>	<b>\$ 2,615,195</b>	<b>\$ 4,765,568</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Total Non-Major Special Revenue Funds	Total Non-Major Capital Projects Funds	Total Non-Major Governmental Funds
<b><u>Revenues</u></b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,424,707		\$ 1,424,707
Federal Sources:			
Child Nutrition Program	496,861		496,861
Other	95,987		95,987
Other State Sources:			
State Nutrition Program	32,293		32,293
Other	388,737		388,737
Local Sources:			
Food Service Sales	1,393,678		1,393,678
Developer Fees		\$ 669,694	669,694
Interest	23,844	61,350	85,194
Other	90,144		90,144
<b>Total Revenues</b>	<b>3,946,251</b>	<b>731,044</b>	<b>4,677,295</b>
<b><u>Expenditures</u></b>			
Certificated Salaries	748,220		748,220
Classified Salaries	1,072,182	11,778	1,083,960
Employee Benefits	603,843	3,923	607,766
Books and Supplies	946,614	27,678	974,292
Services and Other			
Operating Expenditures	341,135	304,699	645,834
Capital Outlay	6,477	784,698	791,175
Debt Service:			
Principal Retirement	7,446	3,692	11,138
Interest and Fiscal Charges	3,028	600	3,628
Other Expenditures	50,136		50,136
<b>Total Expenditures</b>	<b>3,779,081</b>	<b>1,137,068</b>	<b>4,916,149</b>
Excess of Revenues Over (Under) Expenditures	167,170	(406,024)	(238,854)
<b><u>Other Financing Sources</u></b>			
Operating Transfers In	375,712		375,712
<b>Net Change in Fund Balances</b>	<b>542,882</b>	<b>(406,024)</b>	<b>136,858</b>
Fund Balances - July 1, 2004	1,055,335	2,679,148	3,734,483
<b>Fund Balances - June 30, 2005</b>	<b>\$ 1,598,217</b>	<b>\$ 2,273,124</b>	<b>\$ 3,871,341</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2005**

	<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	\$ 948,407	\$ 16,092	\$ 188,830	\$ 1,153,329
Cash in Revolving Fund			300	300
Accounts Receivable				
Federal Government		139,480	47,994	187,474
State Government		12,199	123,553	135,752
Local Governments		11,593	15,171	26,764
Miscellaneous		29,627	1,911	31,538
Due from Other Funds	365,000	80,806	138,393	584,199
Stores Inventory		31,017		31,017
Total Assets	<u>\$ 1,313,407</u>	<u>\$ 320,814</u>	<u>\$ 516,152</u>	<u>\$ 2,150,373</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 10,246	\$ 9,901	\$ 170,605	\$ 190,752
Due to Other Funds		270,016	91,388	361,404
Total Liabilities	<u>10,246</u>	<u>279,917</u>	<u>261,993</u>	<u>552,156</u>
Fund Balances:				
Reserved		31,017	300	31,317
Unreserved:				
Undesignated	1,303,161	9,880	253,859	1,566,900
Total Fund Balances	<u>1,303,161</u>	<u>40,897</u>	<u>254,159</u>	<u>1,598,217</u>
Total Liabilities and Fund Balances	<u>\$ 1,313,407</u>	<u>\$ 320,814</u>	<u>\$ 516,152</u>	<u>\$ 2,150,373</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**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, 2005**

	<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		\$ 66,597	\$ 1,358,110	\$ 1,424,707
Federal Sources:				
Child Nutrition Program		496,861		496,861
Other			95,987	95,987
Other State Sources:				
State Nutrition Program		32,293		32,293
Other	\$ 319,104		69,633	388,737
Local Sources:				
Food Service Sales		1,393,678		1,393,678
Interest	18,195		5,649	23,844
Other			90,144	90,144
Total Revenues	<u>337,299</u>	<u>1,989,429</u>	<u>1,619,523</u>	<u>3,946,251</u>
<b><u>Expenditures</u></b>				
Certificated Salaries			748,220	748,220
Classified Salaries	51,367	776,450	244,365	1,072,182
Employee Benefits	17,247	332,972	253,624	603,843
Books and Supplies		874,271	72,343	946,614
Services and Other				
Operating Expenditures	172,805	2,084	166,246	341,135
Capital Outlay		6,477		6,477
Debt Service:				
Principal Retirement		7,446		7,446
Interest and Fiscal Charges		3,028		3,028
Other Expenditures			50,136	50,136
Total Expenditures	<u>241,419</u>	<u>2,002,728</u>	<u>1,534,934</u>	<u>3,779,081</u>
Excess of Revenues Over (Under) Expenditures	95,880	(13,299)	84,589	167,170
<b><u>Other Financing Sources</u></b>				
Operating Transfers In	375,712			375,712
Net Change in Fund Balances	471,592	(13,299)	84,589	542,882
Fund Balances - July 1, 2004	831,569	54,196	169,570	1,055,335
Fund Balances - June 30, 2005	<u>\$ 1,303,161</u>	<u>\$ 40,897</u>	<u>\$ 254,159</u>	<u>\$ 1,598,217</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**JUNE 30, 2005**

	Capital Facilities	Total Non-Major Capital Projects Funds
<b><u>Assets</u></b>		
Cash in County Treasury	\$ 2,513,003	\$ 2,513,003
Accounts Receivable		
Local Governments	6,711	6,711
Miscellaneous	51,682	51,682
Due from Other Funds	43,799	43,799
	\$ 2,615,195	\$ 2,615,195
<b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts Payable	\$ 338,871	\$ 338,871
Due to Other Funds	3,200	3,200
	Total Liabilities 342,071	342,071
Fund Balances:		
Unreserved:		
Undesignated	2,273,124	2,273,124
	Total Liabilities and Fund Balances \$ 2,615,195	\$ 2,615,195

**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, 2005**

	<u>Capital Facilities</u>	<u>Total Non-Major Capital Projects Funds</u>
<b><u>Revenues</u></b>		
Local Sources:		
Developer Fees	\$ 669,694	\$ 669,694
Interest	61,350	61,350
Total Revenues	<u>731,044</u>	<u>731,044</u>
<b><u>Expenditures</u></b>		
Classified Salaries	11,778	11,778
Employee Benefits	3,923	3,923
Books and Supplies	27,678	27,678
Services and Other		
Operating Expenditures	304,699	304,699
Capital Outlay	784,698	784,698
Debt Service:		
Principal Retirement	3,692	3,692
Interest and Fiscal Charges	600	600
Total Expenditures	<u>1,137,068</u>	<u>1,137,068</u>
Net Change in Fund Balances	(406,024)	(406,024)
Fund Balances - July 1, 2004	<u>2,679,148</u>	<u>2,679,148</u>
Fund Balances - June 30, 2005	<u>\$ 2,273,124</u>	<u>\$ 2,273,124</u>

**PETALUMA CITY SCHOOLS**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND - STUDENT BODY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Balances</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2005</u>
<b><u>Assets</u></b>				
Cash:				
Petaluma High	\$ 151,559	\$ 464,608	\$ 466,338	\$ 149,829
Casa Grande High	159,112	602,279	597,503	163,888
Sonoma Mountain High	486	2,051	2,516	21
Carpe Diem High	1,427	3,506	3,306	1,627
Kenilworth Junior High	54,554	152,485	157,084	49,955
Petaluma Junior High	19,479	173,360	174,805	18,034
Total Assets	<u>\$ 386,617</u>	<u>\$ 1,398,289</u>	<u>\$ 1,401,552</u>	<u>\$ 383,354</u>
<b><u>Liabilities</u></b>				
Due to Student Groups	<u>\$ 386,617</u>	<u>\$ 1,398,289</u>	<u>\$ 1,401,552</u>	<u>\$ 383,354</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, 2005**

	<b>DEFERRED MAINTENANCE</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b><u>Revenues</u></b>			
Other State Sources:			
Other	\$ 319,104	\$ 319,104	
Local Sources:			
Interest	18,195	18,195	
Total Revenues	<u>337,299</u>	<u>337,299</u>	
<b><u>Expenditures</u></b>			
Classified Salaries	51,367	51,367	
Employee Benefits	17,247	17,247	
Services and Other			
Operating Expenditures	406,400	172,805	\$ 233,595
Total Expenditures	<u>475,014</u>	<u>241,419</u>	<u>233,595</u>
Excess of Revenues Over (Under) Expenditures	(137,715)	95,880	233,595
<b><u>Other Financing Sources</u></b>			
Operating Transfers In	375,712	375,712	
Net Change in Fund Balance	<u>\$ 237,997</u>	471,592	<u>\$ 233,595</u>
Fund Balance - July 1, 2004		<u>831,569</u>	
Fund Balance - June 30, 2005		<u>\$ 1,303,161</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, 2005**

	<b>CAFETERIA</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Revenue Limit Sources:			
State Apportionment	\$ 66,597	\$ 66,597	
Federal Sources:			
Child Nutrition Program	493,663	496,861	\$ 3,198
Other State Sources:			
State Nutrition Program	35,491	32,293	(3,198)
Local Sources:			
Food Service Sales	1,396,531	1,393,678	(2,853)
<b>Total Revenues</b>	<u>1,992,282</u>	<u>1,989,429</u>	<u>(2,853)</u>
<b><u>Expenditures</u></b>			
Classified Salaries	780,015	776,450	3,565
Employee Benefits	337,768	332,972	4,796
Food and Supplies	877,373	874,271	3,102
Services and Other			
Operating Expenditures	13,090	2,084	11,006
Capital Outlay	6,477	6,477	
Debt Service:			
Principal Retirement	7,447	7,446	1
Interest and Fiscal Charges	3,028	3,028	
<b>Total Expenditures</b>	<u>2,025,198</u>	<u>2,002,728</u>	<u>22,470</u>
<b>Net Change in Fund Balance</b>	<u>\$ (32,916)</u>	<u>(13,299)</u>	<u>\$ 19,617</u>
Fund Balance - July 1, 2004		54,196	
Fund Balance - June 30, 2005		<u>\$ 40,897</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, 2005**

	<b>ADULT EDUCATION</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b><u>Revenues</u></b>			
Revenue Limit Sources:			
State Apportionment	\$ 1,384,017	\$ 1,358,110	\$ (25,907)
Federal Sources:			
Other	95,987	95,987	
Other State Sources:			
Other	69,633	69,633	
Local Sources:			
Interest	3,500	5,649	2,149
Other	76,323	90,144	13,821
Total Revenues	<u>1,629,460</u>	<u>1,619,523</u>	<u>(9,937)</u>
<b><u>Expenditures</u></b>			
Certificated Salaries	774,253	748,220	26,033
Classified Salaries	249,478	244,365	5,113
Employee Benefits	259,386	253,624	5,762
Books and Supplies	77,983	72,343	5,640
Services and Other			
Operating Expenditures	189,925	166,246	23,679
Other Expenditures	50,136	50,136	
Total Expenditures	<u>1,601,161</u>	<u>1,534,934</u>	<u>66,227</u>
Net Change in Fund Balance	<u>\$ 28,299</u>	84,589	<u>\$ 56,290</u>
Fund Balance - July 1, 2004		<u>169,570</u>	
Fund Balance - June 30, 2005		<u>\$ 254,159</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, 2005**

	<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		\$ 54,531	\$ 54,531
Local Sources:			
Interest		99,303	99,303
Other	\$ 3,795,859	4,644,227	848,368
Total Revenues	<u>3,795,859</u>	<u>4,798,061</u>	<u>1,002,202</u>
<b><u>Expenditures</u></b>			
Debt Service:			
Principal Retirement	2,645,000	2,645,000	
Interest and Fiscal Charges	2,260,569	2,265,919	(5,350)
Total Expenditures	<u>4,905,569</u>	<u>4,910,919</u>	<u>(5,350)</u>
Net Change in Fund Balance	<u>\$ (1,109,710)</u>	<u>(112,858)</u>	<u>\$ 996,852</u>
Fund Balance - July 1, 2004		<u>5,827,534</u>	
Fund Balance - June 30, 2005		<u>\$ 5,714,676</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, 2005**

	<b>CAPITAL FACILITIES</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Local Sources:			
Developer Fees	\$ 714,000	\$ 669,694	\$ (44,306)
Interest	34,275	61,350	27,075
Total Revenues	<u>748,275</u>	<u>731,044</u>	<u>(17,231)</u>
<b><u>Expenditures</u></b>			
Classified Salaries	11,678	11,778	(100)
Employee Benefits	3,898	3,923	(25)
Books and Supplies	31,284	27,678	3,606
Services and Other			
Operating Expenditures	334,379	304,699	29,680
Capital Outlay	1,417,873	784,698	633,175
Debt Service:			
Principal Retirement	3,692	3,692	
Interest and Fiscal Charges	600	600	
Total Expenditures	<u>1,803,404</u>	<u>1,137,068</u>	<u>666,336</u>
Net Change in Fund Balance	<u>\$ (1,055,129)</u>	<u>(406,024)</u>	<u>\$ 649,105</u>
Fund Balance - July 1, 2004		<u>2,679,148</u>	
Fund Balance - June 30, 2005		<u>\$ 2,273,124</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, 2005**

	<b>BUILDING</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Local Sources:			
Interest	\$ 190,000	\$ 229,377	\$ 39,377
<b><u>Expenditures</u></b>			
Classified Salaries	141,866	140,921	945
Employee Benefits	52,058	51,645	413
Books and Supplies	80,292	10,993	69,299
Services and Other			
Operating Expenditures	194,694	126,376	68,318
Capital Outlay	7,866,226	3,803,740	4,062,486
Total Expenditures	<u>8,335,136</u>	<u>4,133,675</u>	<u>4,201,461</u>
Excess of Revenues (Under) Expenditures	(8,145,136)	(3,904,298)	4,240,838
<b><u>Other Financing (Uses)</u></b>			
Operating Transfers Out	(375,712)	(375,712)	
Net Change in Fund Balance	<u>\$ (8,520,848)</u>	<u>(4,280,010)</u>	<u>\$ 4,240,838</u>
Fund Balance - July 1, 2004		<u>11,133,681</u>	
Fund Balance - June 30, 2005		<u>\$ 6,853,671</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, 2005**

	<b>SPECIAL RESERVE</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>			
Local Sources:			
Interest	\$ 300,000	\$ 244,028	\$ (55,972)
Other	10,560	10,608	48
Total Revenues	<u>310,560</u>	<u>254,636</u>	<u>(55,924)</u>
<b><u>Expenditures</u></b>			
Books and Supplies	3,863	2,870	993
Services and Other			
Operating Expenditures	839,039	555,517	283,522
Capital Outlay	26,358,665	20,195,290	6,163,375
Debt Service:			
Principal Retirement	1,558,083	159,727	1,398,356
Interest and Fiscal Charges	142,433	96,761	45,672
Total Expenditures	<u>28,902,083</u>	<u>21,010,165</u>	<u>7,891,918</u>
Excess of Revenues (Under) Expenditures	<u>(28,591,523)</u>	<u>(20,755,529)</u>	<u>7,835,994</u>
<b><u>Other Financing Sources</u></b>			
Operating Transfers In	315,000	294,914	(20,086)
Other Sources	8,832,000	8,962,000	130,000
Total Other Financing Sources (Uses)	<u>9,147,000</u>	<u>9,256,914</u>	<u>109,914</u>
Net Change in Fund Balance	<u>\$ (19,444,523)</u>	<u>(11,498,615)</u>	<u>\$ 7,945,908</u>
Fund Balance - July 1, 2004		<u>19,808,920</u>	
Fund Balance - June 30, 2005		<u>\$ 8,310,305</u>	

**PETALUMA CITY SCHOOLS**  
**ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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>
Christina Kauk	President	December, 2006
Lou Steinberg	Clerk	December, 2006
Carolyn Tennyson	Member	December, 2006
Camille Sauv�	Member	December, 2008
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, 2005

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	306	305
First through Third	941	944
Fourth through Sixth	872	874
Home and Hospital	1	1
Special Education	32	32
Special Education - Nonpublic	3	4
Subtotals	<u>2,155</u>	<u>2,160</u>
<u>Secondary</u>		
Seventh and Eighth	1,795	1,791
Ninth through Twelfth	3,311	3,272
Continuation Education	188	188
Home and Hospital	15	17
Special Education	38	38
Special Education - Nonpublic	15	16
Community Day School	11	14
Extended Year	2	2
Subtotals	<u>5,375</u>	<u>5,338</u>
<u>Courses for Adults</u>		
Concurrently Enrolled	1	1
Not Concurrently Enrolled	463	523
Subtotals	<u>464</u>	<u>524</u>
Totals	<u>7,994</u>	<u>8,022</u>
<u>Community Day School</u>		
5th Hour		13
6th Hour		12
<u>Supplemental Hours</u>		<u>Hours of Attendance</u>
Elementary		16,239
Secondary		134,718

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>2004-05 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	50,515	180	N/A	In Compliance
Grades 4 – 6	49,875	54,000	54,095	180	N/A	In Compliance
Grades 7 – 8	49,875	54,000	54,138	180	N/A	In Compliance
Grades 9 – 12	56,525	64,800	66,775	180	N/A	In Compliance

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<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	\$ 387,405
Basic School Breakfast	10.553	13525	8,152
Especially Needy Breakfast	10.553	13526	92,853
Meal Supplements	10.555	13755	8,451
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I	84.010	14329	500,015
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	13,315
NCLB: Title V	84.298	14354	31,037
NCLB: Title III - Language Acquisition	84.365	14346	18,971
NCLB: Title III - Limited English Proficiency	84.365	10084	91,259
NCLB: Title II - Improving Teacher Quality	84.367	14341	200,331
NCLB: Title X - McKinney Homeless Assistance	84.196	14332	37,365
NCLB: Title IV - Drug Free Schools	84.186	14347	28,150
High School Pupil Success Act	84.298	14496	17,996
Special Education:			
IDEA Part B Local Assistance	84.027	13379	1,269,342
IDEA Part B Preschool Grant	84.173	13430	223,407
Vocational Education	84.048	13924	52,363
Adult Education:			
Priority 1-3, ABE	84.002A	13973	36,787
Priority 5, ASE	84.002A	13978	6,408
English Literacy & Civics	84.002A	14109	52,792
NCLB: Title V - Charter School Grant	84.282	13150	240,204
Received Direct:			
Smaller Learning Communities	84.215L	n/a	282,448
Subtotal			3,599,051
Nonmonetary Assistance			
USDA Food Distribution	10.550	*	50,574
Total			\$ 3,649,625

\* Pass through identification number is not available.

SEE NOTES TO SUPPLEMENTARY INFORMATION

**PETALUMA CITY SCHOOLS  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund	Building Fund	Capital Projects - Special Reserve Fund
June 30, 2005 Annual Financial and Budget Report Fund Balances	\$ 6,155,189	\$ 7,172,638	\$ 7,990,275
Adjustments Increasing (Decreasing) Fund Balances:			
Understatement of Cash with Fiscal Agent	1,204,907		
Understatement of Other State Revenues	71,109		
Understatement of Other Financing Sources			320,030
Understatement of Capital Outlay Expenditures		(318,967)	
Net Adjustments	1,276,016	(318,967)	320,030
June 30, 2005 Audited Financial Statements Fund Balances	\$ 7,431,205	\$ 6,853,671	\$ 8,310,305

	Long-Term Liabilities
June 30, 2005 Annual Financial and Budget Report Total Long-Term Liabilities	\$ 80,852,339
Adjustment Increasing Total Long-Term Liabilities:	
Understatement of General Obligation Bonds	602,461
June 30, 2005 Audited Financial Statement, Total Long-Term Liabilities	\$ 81,454,800

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2005.



PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	(Budget)* 2005-06	2004-05	2003-04	2002-03
Revenues and Other Financial Sources	\$ 58,846,542	\$ 59,731,593	\$ 54,842,332	\$ 55,707,915
Expenditures	58,584,048	57,687,581	54,772,146	54,008,555
Other Uses and Transfers Out	315,000	294,914	266,487	242,148
Total Outgo	58,899,048	57,982,495	55,038,633	54,250,703
Change in Fund Balance	(52,506)	1,749,098	(196,301)	1,457,212
Ending Fund Balance	\$ 7,378,699	\$ 7,431,205	\$ 5,682,107	\$ 5,878,408
Available Reserves	\$ 3,899,056	\$ 4,024,789	\$ 3,928,679	\$ 3,073,142
Designated for Economic Uncertainties	\$ 1,766,971	\$ 1,737,399	\$ 1,651,159	\$ 1,621,971
Undesignated Fund Balance	\$ 2,132,085	\$ 2,287,390	\$ 2,277,520	\$ 1,451,171
Available Reserves as a Percentage of Total Outgo	6.6%	6.9%	7.1%	5.7%
Average Daily Attendance at P-2 (Exclusive of Adult ADA)	7,582	7,530	7,549	7,490
Total Long-Term Liabilities	\$ 79,125,528	\$ 81,454,800	\$ 73,804,772	\$ 72,589,130

\* Amounts reported for the 2005-06 budget are presented for analytical purposes only and have not been audited.

The fund balance of the General Fund increased \$1,552,797 (26.4%) over the past two years. The fiscal year 2005-06 budget projects a decrease of \$52,506. 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 \$1,749,098 during fiscal years 2002-03 and 2004-05, respectively, and incurred an operating deficit of \$196,301 during fiscal year 2003-04.

Average daily attendance increased 40 ADA over the past two years. The District projects an increase of 52 ADA during fiscal year 2005-06.

Total long-term liabilities increased \$7,650,028 over the past year, due primarily to the \$8,450,000 certificates of participation issuance in fiscal year 2004-05.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF CHARTER SCHOOLS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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 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.

**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.

**PETALUMA CITY SCHOOLS**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**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 the Petaluma City Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 13, 2005. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*. 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	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time and Staff		
Development Reform Program	7	Yes
Instructional Time for School Districts	4	Yes
Instructional Time for County Offices of Education	3	Not Applicable
Community Day Schools	9	Yes
Class Size Reduction Program:		
General Requirements	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

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials Realignment Program:		
General Requirements	12	Yes
Grades K-8	1	Yes
Grades 9-12	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not Applicable
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	1

We did not perform two procedures related to the school accountability report card (SARC) because the audit procedures are based on the SARC for School Year 2003-04 published during 2004-05 and the complaint data compiled pursuant to the provisions of Education Code Section 35186(d) were not required to be implemented until January 1, 2005. In addition, the interim evaluation instrument developed by the Office of Public School Construction was not completed prior to the publication of the 2003-04 SARC.

Based on our audit, we found that, for the items tested, the Petaluma City Schools complied with the state laws and regulations of the state programs referred to above, except as described in the accompanying 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 the Petaluma City Schools had not complied with the state laws and regulations.

This report is intended solely for the information and use of the District'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 13, 2005



**STEPHEN ROATCH ACCOUNTANCY CORPORATION**

*Certified Public Accountants*

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Findings and Questioned Costs Section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the 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 a material weakness. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 13, 2005

**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, 2005. 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 grant agreements, applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Petaluma City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying Findings and Questioned Costs Section of this report.

Internal Control Over Compliance

The management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements, 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 the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements, 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 13, 2005

FINDINGS AND QUESTIONED COSTS SECTION



**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Unqualified

	_____	Yes	_____	X	No
--	-------	-----	-------	---	----

**Federal Awards**

Internal control over major programs:

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

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

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

	_____	X	Yes	_____	No
--	-------	---	-----	-------	----

Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.010	NCLB: Title I
84.027 & 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? Unqualified

	_____	Yes	_____	X	No
--	-------	-----	-------	---	----

**State Awards**

Internal control over state programs:

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

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

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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SECTION II - FINANCIAL STATEMENT FINDINGS

05 - 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 teacher was for goods delivered directly to the teacher'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 four months after incurring the expenses.
  - The total of the receipts attached to one reimbursement claim did not agree to the total amount reimbursed.
  - Payments were issued after receiving faxes or photocopies of invoices, in lieu of original invoices.
  - Receipts for meal reimbursements did not show detail of the meals purchased.
- Questioned Cost: None.
- Context: The conditions were noted at Casa Grande High School during fiscal year 2004-05.
- Effect: 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.



PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

STUDENT BODY - CASH DISBURSEMENTS (CONCLUDED)

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: The District has required respective site personnel to attend the CASBO workshop for Legal Aspects of Associated Student Body Accounting. The District will follow up on specifics of audit findings and have site implement corrective actions immediately.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**05 - 2 / 30000**

STUDENT BODY

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

Condition: The District was unable to provide evidence that student body expenditures were approved by a student body representative, an activity account advisor or the official of the district designated by the governing board, in a consistent manner during fiscal year 2004-05.

Questioned Cost: None.

Context: The conditions were noted at Casa Grande High School during fiscal year 2004-05.

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

Cause: Payments were issued prior to obtaining approval for the expenditures from each of the three required individuals.

Recommendation: Approval by the three required individuals should be obtained and documented prior to issuing payments from the student body account.

District Response: The District will investigate and require the student body to approve all purchases prior to payment. All ASB clubs will be required to submit a proposed budget to the student body leadership for review of reasonableness and approval.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**05 - 3 / 30000**

**STUDENT BODY CASH RECEIPTS**

**Criteria:** 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.

**Condition:** Athletic ticket reports are not signed or completed by individuals who submit cash and checks to the student body clerk for deposit.

**Questioned Cost:** None.

**Context:** The condition was noted at Casa Grande High School during fiscal year 2004-05.

**Effect:** There is no way to determine that amounts reported on athletic ticket reports were provided by someone other than the student body clerk. As a result, improprieties may occur and not be detected in a timely manner, or false accusations could be made against the student body clerk for which there is no evidence to support the employee's innocence.

**Cause:** Gate keepers were not required to count the cash and checks collected, and complete the athletic ticket report, prior to submitting the monies to the student body clerk for deposit.

**Recommendation:** 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 and note any differences on the athletic ticket report. All significant over/short amounts noted should be brought to the attention of the Principal immediately.

**District Response:** The District has required respective site personnel to attend the CASBO workshop for Legal Aspects of Associated Student Body Accounting. The District will follow up on specifics of audit findings and have site implement corrective actions immediately.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**05 - 4 / 50000**

U.S. Department of Education

Passed Through California Department of Education

Special Education Cluster	CFDA	84.027 & 84.173	2004/05
NCLB: Title I	CFDA	84.010	2004/05

**FEDERAL CERTIFICATIONS**

Criteria: In accordance with state and federal regulations, if an employee is funded solely (100%) from a single federal categorical program or cost objective, the minimum requirement for documenting salary or wages is a semi-annual certification by the employee that he/she worked solely on that federal categorical program or cost objective. The certification must be signed by the employee and the supervisor having firsthand knowledge of the work performed.

Condition: Payroll charges to the Special Education cluster and NCLB: Title I programs, during fiscal year 2004-05, were not supported by semi-annual certifications.

Questioned Costs: \$1,239,808 for the Special Education cluster, and \$383,515 for the NCLB: Title I program. The questioned costs are the salaries and benefits charged to these programs during fiscal year 2004-05.

Context: Semi-annual certifications were not prepared for the Special Education cluster and NCLB: Title I program employees during fiscal year 2004-05.

Effect: There was improper documentation of federal program expenditures. In addition, the costs allocated to the Special Education cluster and NCLB: Title I programs could be disallowed due to the lack of adequate documentation.

Cause: Proper follow-up by the District office was not performed to ensure that semi-annual certifications were prepared.

Recommendation: The District should implement procedures to ensure that the required certifications are prepared on a semi-annual basis. The certifications should be signed by the employee and the supervisor having firsthand knowledge of the work performed. These certifications should be completed and forwarded to the business office as soon as they are complete.

District Response: The District will implement procedures to ensure that the required certifications are prepared on a semi-annual basis.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

**05 - 5 / 50000**

U.S. Department of Education

Passed Through California Department of Education

Special Education Cluster	CFDA	84.027 & 84.173	2004/05
NCLB: Title I	CFDA	84.010	2004/05

MULTI-FUNDED CERTIFICATIONS

Criteria: In accordance with state and federal regulations, employees funded by more than one source should prepare personnel activity reports or use other methods to document the allocation of an employee's salary and benefits. These personnel activity reports should be prepared on a monthly basis unless the District elects to use the approved substitute system beginning July 1, 1998. Under this substitute system, the personnel activity reports are required to be completed every fourth month (three times per year).

Condition: Payroll charges to the Special Education cluster and NCLB: Title I programs, during fiscal year 2004-05, were not supported by multi-funded certifications.

Questioned Costs: See comment **05 - 4 / 50000**.

Context: Multi-funded certifications were not prepared for the Special Education cluster and NCLB: Title I program employees during fiscal year 2004-05.

Effect: There was improper documentation of federal program expenditures. In addition, the costs allocated to the Special Education cluster and NCLB: Title I programs could be disallowed due to the lack of adequate documentation.

Cause: Proper follow-up by the District office was not performed to ensure that multi-funded certifications were prepared.

Recommendation: The District should implement procedures to ensure that the required certifications are prepared on a monthly basis. The certifications should be signed by the employee and the supervisor having firsthand knowledge of the work performed. These certifications should be completed and forwarded to the business office as soon as they are complete.

District Response: The District will implement procedures to ensure that the required certifications are prepared on a semi-annual basis.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**05 - 6 / 40000**

**INSTRUCTIONAL TIME AND STAFF DEVELOPMENT  
REFORM (ITSDR) PROGRAM**

- Criteria:** Instructional Time and Staff Development Reform (ITSDR) program provides \$306.50 per day, for up to three days, for each qualifying classroom teacher and \$158.92 per day for up to one day for each qualifying classroom instructional aide and certificated teaching assistant who participates in appropriate staff development activities. ITSDR program requires each eligible participant (certificated and classified) to be present for the full staff development day. Each of these staff development days must be at least as long as the full-time instructional workday for certificated or classified instructional employees. In other words, the staff development day must be commensurate in length with the contracted workday.
- Condition:** The Final Statements of Activities for 2004-05 were understated by 229 classroom teachers.
- Questioned Costs:** None. Total reimbursement claims were understated by \$70,189 (229 classroom teachers x \$306.50).
- Context:** The District complied with all other compliance requirements of the ITSDR program.
- Effect:** The District's applications were understated by \$70,189.
- Cause:** Mathematical errors occurred in the accumulation of the data used to prepare the ITSDR Final Statements of Activities for 2004-05.
- Recommendation:** The District should amend the ITSDR Final Statements of Activities for 2004-05 as follows:

**Elementary District**

<u>Number of Teachers</u>	<u>Days</u>
11	1 Day
19	2 Days
85	3 Days

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

INSTRUCTIONAL TIME AND STAFF DEVELOPMENT  
REFORM (ITSDR) PROGRAM (CONCLUDED)

Recommendation:

**Secondary District**

<u>Number of Teachers</u>	<u>Days</u>
21	1 Day
61	2 Days
202	3 Days

**Mary Collins School**

<u>Number of Teachers</u>	<u>Days</u>
3	1 Day
5	2 Days
13	3 Days

District Response:

The District will amend the ITSDR reports as presented in the audit.

PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**05 - 7 / 40000**

**INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM**

- Criteria: The State Instructional Materials Funding Realignment Program provides a means of annually funding the Instructional Materials Block Grant for the acquisition of standards-aligned textbooks and instructional materials, grades kindergarten through twelve. These funds are required to be expended in accordance with Education Code Sections 60240, 60242, 60242.5, and 60422. Accordingly, appropriate documentation should be maintained, which substantiates that program funds were properly expended in accordance with the Education Codes.
- Condition: The District purchased non-core instructional materials with State Instructional Materials Funding Realignment Program funds.
- Questioned Costs: \$12,034.12. The amount of funds expended on non-core instructional materials.
- Context: During the 2004-05 fiscal year, the District did not certify, as set forth in Education Code Section 60422, that each pupil had been provided with a standards aligned textbook or basic instructional materials in the core curriculum areas of reading/language arts, mathematics, science, and history or social science.
- The condition was noted during a review of the expenditures list of all charges made to the State Instructional Materials Funding Realignment Program during fiscal year 2004-05.
- Effect: The District did not comply with all applicable Education Code Sections.
- Cause: The curriculum department experienced employee turnover in the position responsible for reviewing requests, by school sites, to expend State Instructional Materials Funding Realignment Program funds.
- Recommendation: The District should certify, as set forth in Education Code Section 60422, that each pupil has been provided with a standards aligned textbook or basic instructional materials in the core curriculum areas of reading/language arts, mathematics, science, and history or social science, prior to using the State Instructional Materials Funding Realignment Program funds on non-core instructional materials. In addition, the District should journal \$12,034.12 from unrestricted funds to the State Instructional Materials Funding Realignment Program, resource 7156, during fiscal year 2005-06, and should contact the California Department of Education to determine if any further action is required as a result of this finding.



PETALUMA CITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM (CONCLUDED)

District Response:           The costs will be transferred against the Restricted Lottery funds.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**05 - 8 / 40000**

**CAL-SAFE PROGRAM ATTENDANCE**

**Criteria:** School districts participating in the California Schools Age Families Education (Cal-SAFE) program are eligible to receive state funding from funds appropriated for support services and child care. To claim Cal-SAFE funding, districts are required to complete various Cal-SAFE attendance and enrollment reports.

Auditable records must be maintained in accordance with Education Code Section 8208(e) and Title 5 of the California Code of Regulations, Sections 18065 through 18067.

**Conditions:** During our testing of Cal-SAFE attendance procedures we noted the following:

1. The District did not properly complete Cal-SAFE Form B, "Report of Attendance for Pupils Enrolled in District Cal-SAFE Programs" in accordance with the instructions. The average daily attendance (ADA) attributable to Cal-SAFE pupils reported in Section A of Cal-SAFE Form B, did not agree to the ADA reported for the same pupils on the Annual Report of School District Attendance.
2. The District did not adequately maintain records to document excused absences for the Cal-SAFE child care program.

**Questioned Costs:**

1. The District overstated Cal-SAFE support services ADA by 0.13 ADA on the Annual Report.
2. We were unable to determine the fiscal impact since no documentation for excused absences was maintained.

**Context:**

1. All Cal-SAFE students were enrolled in the District's continuation school. The ADA reported on Cal-SAFE Form B was calculated based on daily attendance, whereas continuation school ADA is based on hourly attendance for the Report of School District Attendance form.
2. The District automatically considered all absences as excused and therefore counted those days as attendance days. During the 2004-05 fiscal year, there were 1,473 absences considered excused that were counted as attendance days.

**PETALUMA CITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**CAL-SAFE PROGRAM ATTENDANCE (CONCLUDED)**

**Effects:**

1. The District claimed more support services funding than they earned based on the ADA attributable to Cal-SAFE pupils.
2. The District was not in compliance with Section 8208(e) and Title 5 of the California Code of Regulations, Sections 18065 through 18067 in documenting excused absences, and potentially claimed more child care funding than the District had earned.

**Causes:**

1. The District was unaware that the ADA reported on Cal-SAFE Form B should be the same as the ADA the District reports on the Report of School District Attendance attributable to Cal-SAFE pupils.
2. District personnel were misinformed and told that all absences were automatically considered excused, and therefore no documentation was maintained to support excused absences as defined under Education Code Section 8208(e).

**Recommendations:**

1. The District should revise the Annual Cal-SAFE Form B report to reflect 15.94 ADA on Line A-4. In the future, the District should make sure that they read and understand the instructions for attendance reporting for the Cal-SAFE program.
2. The District should contact the California Department of Education to determine how this matter should be resolved.

**District Response:**

District has confirmed process to be followed. Site has already implemented changes for 2005-06. Site is also reviewing 2004-05 data and will amend and resubmit any necessary reports for 2004-05.

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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>04 - 1 / 30000</b>		
<b><u>STUDENT BODY - CASH DISBURSEMENTS</u></b>		
Training should be provided to all individuals responsible for maintaining or supervising student body accounts at each school site.	Not Implemented	Comment Repeated <b>(See 05 - 1 / 30000)</b>
<b>04 - 2 / 30000</b>		
<b><u>CASH RECEIPTS - STUDENT STORE</u></b>		
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.	Implemented	
<b>04 - 3 / 30000</b>		
<b><u>CASH RECEIPTS - BUS FEES</u></b>		
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.	Implemented	
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.	Implemented	

**PETALUMA CITY SCHOOLS**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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>04 - 3 / 30000</b>		
<b><u>CASH RECEIPTS - BUS FEES</u></b> <b><u>(CONCLUDED)</u></b>		
Fees charged should agree to the schedule(s) that have been reviewed and approved by the Governing Board.	Implemented	
<b><u>STATE AWARDS</u></b>		
<b>04 - 4 / 10000</b>		
<b><u>ATTENDANCE</u></b>		
Site administration should inform all school staff on the importance of accurate attendance reporting.	Implemented	
<b>04 - 5 / 10000</b>		
<b><u>KINDERGARTEN CONTINUATION</u></b>		
The District should amend the 2003-04 Petaluma City Elementary District's P-2 attendance report to exclude the one (1) ADA generated by the continued kindergarten student, and report 271.63 ADA on line A-1, and 1,949.74 on line B-6.	Implemented	

