

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

AUDIT REPORT

JUNE 30, 2013

PETALUMA CITY SCHOOLS

JUNE 30, 2013

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Petaluma City Schools
Petaluma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 53, and schedule of funding progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Petaluma City Schools' basic financial statements. The accompanying combining fund financial statements and supplementary schedules listed in the table of contents, including 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining fund financial statements and supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 on our consideration of Petaluma City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Petaluma City Schools' internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 11, 2013

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

This section of the 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, 2013. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, 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 Position and Statement of Activities, presented on pages 16 and 17, 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 18 through 24, 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 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 overall financial status declined during the course of the year, as total net position decreased by 3.2%.
- Capital assets, net of depreciation, decreased \$4,787,693, due to the current year addition of \$352,914 of new capital assets and improvements, and the current year recognition of \$5,140,607 of depreciation expense.
- Total long-term liabilities decreased \$3,680,769, due primarily to the current year reduction of the District's obligations related to general obligation bonds.
- During fiscal year 2012-13, the District issued \$14,725,000 of general obligation refunding bonds for purposes of refunding a portion of the District's 2004 general obligation bonds, election of 1991, Series J, and the remaining 2005 refunding general obligation bonds, with principal balances of \$1,985,000 and \$12,775,000, respectively. The refunding bonds were issued to lower the debt service requirements of the District and reduce the tax burden on the property owners within the District.
- The District's P-2 average daily attendance (ADA), inclusive of charter school ADA, increased from 7,209 ADA in fiscal year 2011-12, up to 7,231 ADA in fiscal year 2012-13, an increase of less than 1%.
- The District's General Fund incurred an operating deficit of \$972,274, and recognized a \$973,406 decrease in available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2012-13, General Fund total outgo was \$65,153,968. At June 30, 2013, the District had available reserves of \$8,800,624, which represents an available reserve of 13.5%.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

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, Governmental-wide and funds.

- Governmental-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 Governmental-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 Position. 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 (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position 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 Position 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, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

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

Business-type Activities:

These activities are provided on a charge for goods or services basis to recover the costs of the goods or services provided. The District's Downtown Project operations are 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, while other funds have been established to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the Petaluma City Schools are the General Fund and Bond Interest and Redemption 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, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities:

The District's net position decreased from \$55,642,105 at June 30, 2012, down to \$53,877,131 at June 30, 2013, a decrease of 3.2%.

Business Activities:

The District's net position increased from \$34,803 at June 30, 2012, up to \$38,742 at June 30, 2013, an increase of 11.3%.

<u>Comparative Statement of Net Position</u>						
	Governmental Activities		Business-Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Assets:						
Deposits and Investments	\$ 9,948,890	\$ 18,797,897	\$ 12,995	\$ 23,303	\$ 9,961,885	\$ 18,821,200
Receivables	16,157,558	10,123,405	1,020		16,158,578	10,123,405
Prepaid Expenses	1,473,160	1,388,916			1,473,160	1,388,916
Stores Inventory	59,265	57,166			59,265	57,166
Capital Assets, net	101,019,973	96,232,280	24,154	18,271	101,044,127	96,250,551
Total Assets	128,658,846	126,599,664	38,169	41,574	128,697,015	126,641,238
Liabilities:						
Current	10,755,797	14,810,185	3,366	2,832	10,759,163	14,813,017
Long-Term	62,260,944	57,912,348			62,260,944	57,912,348
Total Liabilities	73,016,741	72,722,533	3,366	2,832	73,020,107	72,725,365
Net Assets:						
Invested in Capital Assets						
- Net of Related Debt	45,072,293	43,369,399	24,154	18,271	45,096,447	43,387,670
Restricted:						
Capital Projects	1,337,337	1,315,520			1,337,337	1,315,520
Debt Service	(3,938,102)	(3,684,316)			(3,938,102)	(3,684,316)
Educational Programs	1,673,360	1,648,393			1,673,360	1,648,393
Other	210,367	383,426	10,649	20,471	221,016	403,897
Unrestricted	11,286,850	10,844,709			11,286,850	10,844,709
Total Net Position	\$ 55,642,105	\$ 53,877,131	\$ 34,803	\$ 38,742	\$ 55,676,908	\$ 53,915,873

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

The deficit balance, which is presented in the above schedule as Restricted for Debt Service, represents the amount that accumulated accreted interest on the District's outstanding capital appreciation bonds exceeds the amount that is available in the Bond Interest and Redemption Fund. This deficit will be eliminated by future property tax collections.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Governmental Activities:

The District's total current year expenses exceeded total current year revenues by \$1,764,974.

Business-Type Activities:

The District's total current year revenues exceeded total current year expenses by \$3,939.

<u>Comparative Statement of Changes in Net Position</u>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Program Revenues:						
Charges for Services	\$ 876,740	\$ 880,346	\$ 6,480		\$ 883,220	\$ 880,346
Operating Grants & Contributions	13,435,755	10,993,323			13,435,755	10,993,323
Capital Grants & Contributions	485	0				0
General Revenues:						
Taxes Levied	33,458,364	37,293,968			33,458,364	37,293,968
Federal & State Aid	24,568,424	21,746,087			24,568,424	21,746,087
Interest & Investment Earnings	195,455	89,938	107	\$ 116	195,562	90,054
Miscellaneous	3,870,789	3,418,015		30,461	3,870,789	3,448,476
Total Revenues	76,406,012	74,421,677	6,587	30,577	76,412,114	74,452,254
Expenses:						
Instruction	46,486,554	45,446,745			46,486,554	45,446,745
Instruction-Related Services	7,709,482	7,081,890			7,709,482	7,081,890
Pupil Services	10,355,045	10,378,480			10,355,045	10,378,480
General Administration	3,552,516	3,041,706			3,552,516	3,041,706
Plant Services	5,915,960	6,177,213			5,915,960	6,177,213
Ancillary Services	326,689	332,613			326,689	332,613
Community Services	320,804	334,993			320,804	334,993
Enterprise Activities	407,367	401,798	18,909	26,638	426,276	428,436
Interest on Long-Term Debt	2,803,336	2,687,408			2,803,336	2,687,408
Other Outgo	244,536	303,805			244,536	303,805
Total Expenses	78,122,289	76,186,651	18,909	26,638	78,141,198	76,213,289
Special Item - Gain	1,283,263				1,283,263	
Changes in Net Position	\$ (433,014)	\$ (1,764,974)	\$ (12,322)	\$ 3,939	\$ (445,336)	\$ (1,761,035)

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

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

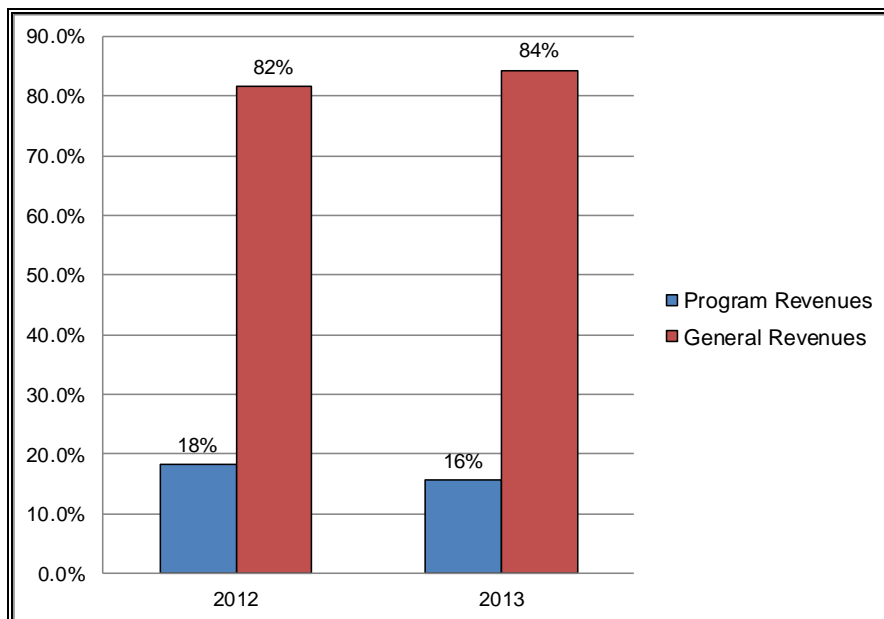
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES

	Total Cost of Services		Net Cost of Services	
	2012	2013	2012	2013
		\$	\$	\$
Instruction	46,486,554	45,446,745	38,443,349	38,593,988
Instruction-Related Services	7,709,482	7,081,890	6,479,076	6,558,068
Pupil Services	10,355,045	10,378,480	5,759,513	6,228,898
General Administration	3,552,516	3,041,706	3,381,016	2,937,960
Plant Services	5,915,960	6,177,213	5,708,255	5,983,674
Ancillary Services	326,689	332,613	326,689	332,613
Community Services	320,804	334,993	320,804	321,798
Enterprise Activities	407,367	401,798	407,367	401,798
Interest on Long-Term Debt	2,803,336	2,687,408	2,803,336	2,687,408
Other Expenses	244,536	303,805	179,904	266,777
Totals	\$ 78,122,289	\$ 76,186,651	\$ 63,809,309	\$ 64,312,982

Table includes financial data of the combined governmental 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 \$64,312,982 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 16% of the total cost of providing the services listed above, while the remaining 84% 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, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

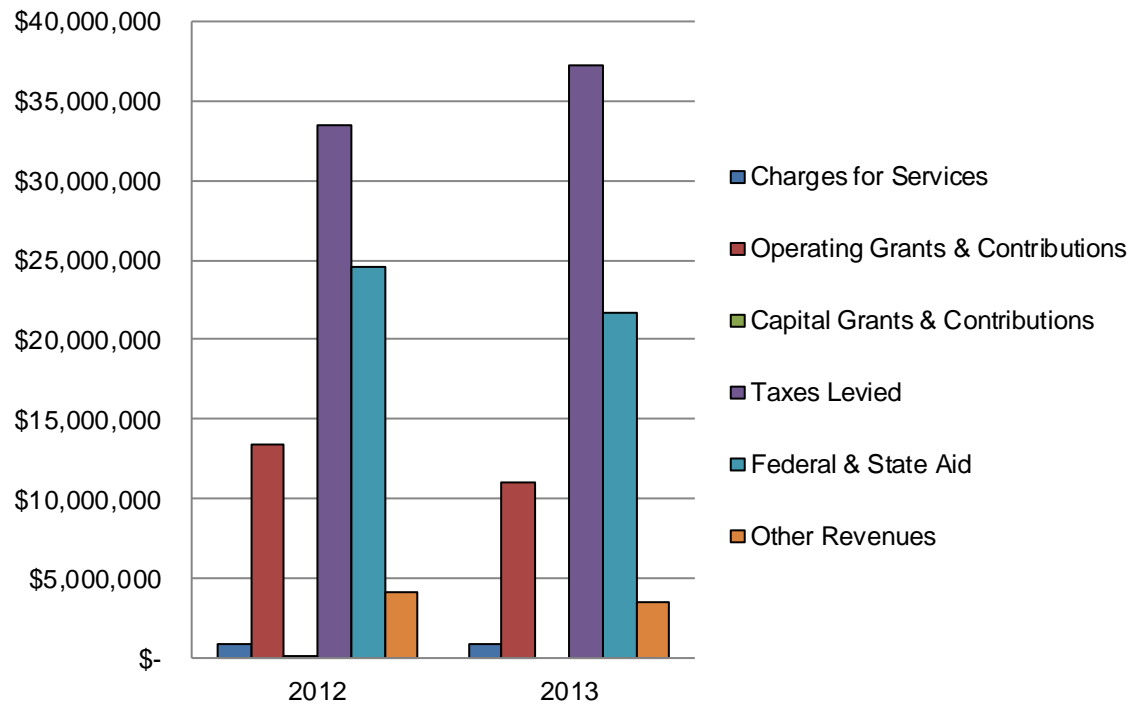
FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	FYE 2012 Amount	Percent of Total	FYE 2013 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 876,740	1.15%	\$ 880,346	1.18%
Operating Grants & Contributions	13,435,755	17.58%	10,993,323	14.77%
Capital Grants & Contributions	485	0.00%	0	0.00%
<u>General Revenues</u>				
Taxes Levied	33,458,364	43.79%	37,293,968	50.11%
Federal & State Aid	24,568,424	32.16%	21,746,087	29.22%
Other Revenues	4,066,244	5.32%	3,507,953	4.71%
Total Revenues	\$ 76,406,012	100.00%	\$ 74,421,677	100.00%

Table includes financial data of the combined governmental funds

Comparative Revenues



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

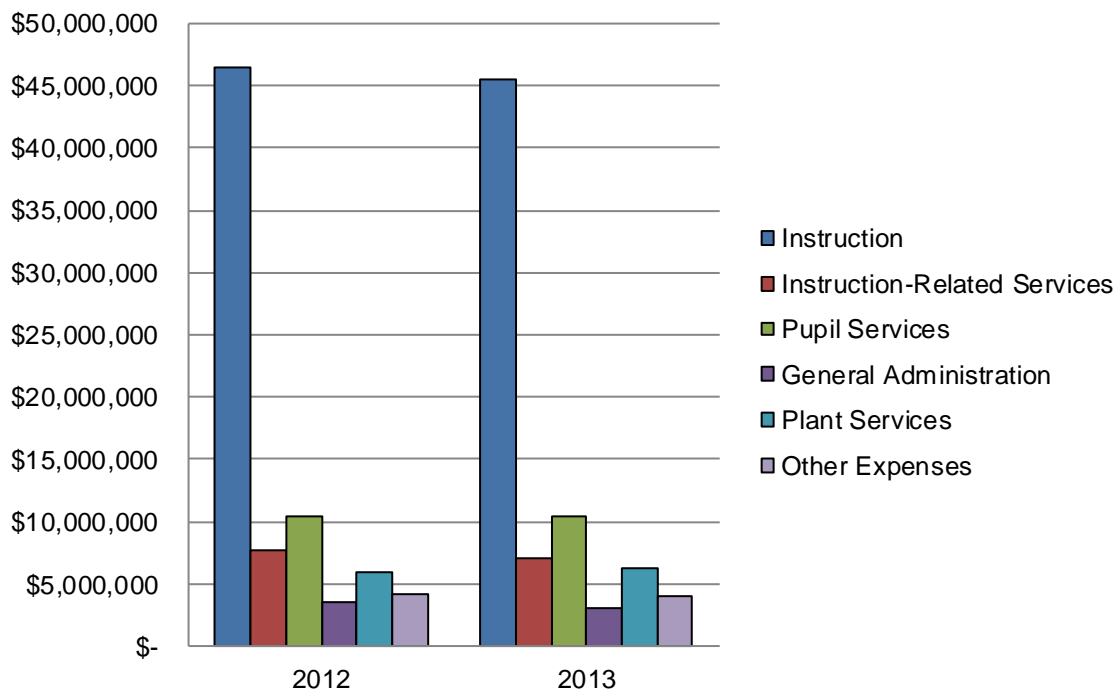
FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONCLUDED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2012 Amount</u>	<u>Percent of Total</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 46,486,554	59.50%	\$ 45,446,745	59.65%
Instruction-Related Services	7,709,482	9.87%	7,081,890	9.30%
Pupil Services	10,355,045	13.25%	10,378,480	13.62%
General Administration	3,552,516	4.55%	3,041,706	3.99%
Plant Services	5,915,960	7.57%	6,177,213	8.11%
Other Expenses	4,102,732	5.25%	4,060,617	5.33%
Total Expenses	\$ 78,122,289	100.00%	\$ 76,186,651	100.00%

Table includes financial data of the combined governmental funds

Comparative Expenses



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE CAPITAL ASSETS & LONG-TERM LIABILITIES

Governmental Activities:

<u>Comparative Schedule of Capital Assets</u>		
	<u>2012</u>	<u>2013</u>
Land	\$ 4,266,886	\$ 4,266,886
Sites & Improvements	14,432,076	14,522,196
Buildings & Improvements	136,638,241	136,638,241
Furniture & Equipment	6,401,361	6,433,901
Work-in-Progress	<u>772,232</u>	<u>1,002,486</u>
Totals at Historical Cost	162,510,796	162,863,710
Less: Accumulated Depreciation	<u>(61,490,823)</u>	<u>(66,631,430)</u>
Capital Assets, net	<u><u>\$ 101,019,973</u></u>	<u><u>\$ 96,232,280</u></u>

Capital assets, net of depreciation, decreased \$4,787,693, due to the current year addition of \$352,914 of new capital assets and improvements, and the current year recognition of \$5,140,607 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	<u>2012</u>	<u>2013</u>
Compensated Absences	\$ 508,140	\$ 600,336
General Obligation Bonds	55,951,530	53,043,833
Certificates of Participation	7,205,000	6,915,000
Capital Leases	3,202,925	2,949,219
Early Retirement Incentives	409,254	196,169
Other Post Employment Benefits	<u>230,824</u>	<u>122,347</u>
Totals	<u><u>\$ 67,507,673</u></u>	<u><u>\$ 63,826,904</u></u>

Total long-term liabilities decreased \$3,680,769, due primarily to the current year reduction of the District's obligations related to general obligation bonds.

The general obligation bonds are financed by the local taxpayers and represent 83% of the District's total long-term liabilities.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to the future debt service requirements of each long-term obligation.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2012	Fund Balances June 30, 2013	Increase (Decrease)
General	\$ 12,435,459	\$ 11,463,185	\$ (972,274)
Bond Interest & Redemption	5,306,302	5,292,346	(13,956)
Deferred Maintenance	942,787	769,228	(173,559)
Cafeteria	150,527	114,446	(36,081)
Adult Education	325,074	545,754	220,680
Capital Facilities	908,776	1,235,199	326,423
Building	307,767	236,238	(71,529)
County School Facilities	80,250	80,321	71
Capital Projects - Special Reserve	722,743	782,973	60,230
Totals	\$ 21,179,685	\$ 20,519,690	\$ (659,995)

The fund balance of the General Fund decreased \$972,274, while the combined fund balances of all other District governmental funds increased \$312,279.

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. The original budget, approved at the end of June, is based on May Revise figures and updated 45 days after the State approves its final budget. Over the course of the year, the District revised the annual operating budget on numerous occasions. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Adjustments at First and Second Interim.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California. The District's fiscal year 2013-14 budget includes a projected increase of 41 ADA.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

The 2013-14 Budget Act and related trailer bills manifests many significant improvements and overdue changes to California Schools funding system. We recognize that these are extraordinary economic times and though the implementation of the new Local Control Funding Formula (LCFF) brings positive changes to most districts, there is still much uncertainty. It is currently very difficult to gauge the future with an eight-year phase-in for full implementation of LCFF and complete details have yet to be released regarding the new funding and accountability requirements. As a result, school district budgets should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

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 Chief Business Official, Petaluma City Schools, 200 Douglas Street, Petaluma, CA 94952.

BASIC FINANCIAL STATEMENTS

PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Totals
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 18,797,897	\$ 23,303	\$ 18,821,200
Receivables (Note 4)	10,123,405		10,123,405
Stores Inventory (Note 1J)	57,166		57,166
Prepaid Expenses (Note 1J)	1,388,916		1,388,916
Capital Assets: (Note 6)			
Land	4,266,886		4,266,886
Sites and Improvements	14,522,196		14,522,196
Buildings and Improvements	136,638,241		136,638,241
Furniture and Equipment	6,433,901	56,833	6,490,734
Work-in-Progress	1,002,486		1,002,486
Less: Accumulated Depreciation	(66,631,430)	(38,562)	(66,669,992)
Total Assets	<u>126,599,664</u>	<u>41,574</u>	<u>126,641,238</u>
<u>Liabilities</u>			
Accounts Payable and Other Current Liabilities	8,489,084	2,832	8,491,916
Deferred Revenue (Note 1J)	406,545		406,545
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Compensated Absences	600,336		600,336
General Obligation Bonds			
Current Interest	2,620,000		2,620,000
Capital Appreciation	1,746,743		1,746,743
Unamortized Bond Premium	161,705		161,705
Certificates of Participation	300,000		300,000
Capital Leases	254,213		254,213
Early Retirement Incentives (Note 11)	196,169		196,169
Other Post Employment Benefits	35,390		35,390
<i>Portion Due or Payable After One Year:</i>			
General Obligation Bonds (Note 7)			
Current Interest	35,830,000		35,830,000
Capital Appreciation	11,664,943		11,664,943
Unamortized Bond Premium	1,020,442		1,020,442
Certificates of Participation (Note 9)	6,615,000		6,615,000
Capital Leases (Note 10)	2,695,006		2,695,006
Other Post Employment Benefits (Note 12)	86,957		86,957
Total Liabilities	<u>72,722,533</u>	<u>2,832</u>	<u>72,725,365</u>
<u>Net Position</u>			
Investment in Capital Assets, Net of Related Debt	43,369,399	18,271	43,387,670
Restricted:			
For Capital Projects	1,315,520		1,315,520
For Debt Service	(3,684,316)		(3,684,316)
For Educational Programs	1,648,393		1,648,393
For Other Purposes	383,426	20,471	403,897
Unrestricted	<u>10,844,709</u>		<u>10,844,709</u>
Total Net Position	<u>\$ 53,877,131</u>	<u>\$ 38,742</u>	<u>\$ 53,915,873</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<u>Governmental Activities</u>						
Instruction	\$ 45,446,745	\$ 129,307	\$ 6,723,450	\$ (38,593,988)		\$ (38,593,988)
Instruction-Related Services:						
Supervision of Instruction	1,311,658	562	424,643	(886,453)		(886,453)
Instructional Library and Technology	867,446		8,379	(859,067)		(859,067)
School Site Administration	4,902,786		90,238	(4,812,548)		(4,812,548)
Pupil Services:						
Home-to-School Transportation	2,207,584	223	977,161	(1,230,200)		(1,230,200)
Food Services	2,088,339	728,695	1,178,509	(181,135)		(181,135)
Other Pupil Services	6,082,557	17,749	1,247,245	(4,817,563)		(4,817,563)
General Administration:						
Other General Administration	3,041,706		103,746	(2,937,960)		(2,937,960)
Plant Services	6,177,213	1,825	191,714	(5,983,674)		(5,983,674)
Ancillary Services	332,613			(332,613)		(332,613)
Community Services	334,993		13,195	(321,798)		(321,798)
Enterprise Activities	401,798			(401,798)		(401,798)
Interest on Long-Term Debt	2,687,408			(2,687,408)		(2,687,408)
Other Outgo	303,805	1,985	35,043	(266,777)		(266,777)
Total Governmental Activities	76,186,651	880,346	10,993,323	(64,312,982)		(64,312,982)
<u>Business-Type Activities</u>						
Enterprise Activities	\$ 26,638				\$ (26,638)	(26,638)
Totals	\$ 76,213,289	\$ 880,346	\$ 10,993,323	(64,312,982)	(26,638)	(64,339,620)
<u>General Revenues</u>						
Taxes Levied for General Purposes				29,460,569		29,460,569
Taxes Levied for Debt Service				5,387,470		5,387,470
Taxes Levied for Specific Purposes				2,445,929		2,445,929
Federal and State Aid - Unrestricted				21,746,087		21,746,087
Interest and Investment Earnings				89,938	116	90,054
Miscellaneous				3,418,015	30,461	3,448,476
Total General Revenues				62,548,008	30,577	62,578,585
Change in Net Position				(1,764,974)	3,939	(1,761,035)
Net Position - July 1, 2012				55,642,105	34,803	55,676,908
Net Position - June 30, 2013				\$ 53,877,131	\$ 38,742	\$ 53,915,873

**PETALUMA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General	Bond Interest and Redemption	Non-Major Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Deposits and Investments (Note 2)	\$ 10,568,052	\$ 5,292,346	\$ 2,880,683	\$ 18,741,081
Receivables (Note 4)	9,663,860		459,545	10,123,405
Due from Other Funds (Note 5)	271,952		1,554,562	1,826,514
Stores Inventory (Note 1J)	35,672		21,494	57,166
Total Assets	<u>\$ 20,539,536</u>	<u>\$ 5,292,346</u>	<u>\$ 4,916,284</u>	<u>\$ 30,748,166</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 7,118,372		\$ 816,855	\$ 7,935,227
Due to Other Funds (Note 5)	1,567,898		318,806	1,886,704
Deferred Revenue (Note 1J)	390,081		16,464	406,545
Total Liabilities	<u>9,076,351</u>		<u>1,152,125</u>	<u>10,228,476</u>
Fund Balances: (Note 14)				
Nonspendable	55,672		21,794	77,466
Restricted	1,648,393	\$ 5,292,346	1,857,718	8,798,457
Assigned	958,496		1,884,647	2,843,143
Unassigned	8,800,624			8,800,624
Total Fund Balances	<u>11,463,185</u>	<u>5,292,346</u>	<u>3,764,159</u>	<u>20,519,690</u>
Total Liabilities and Fund Balances	<u>\$ 20,539,536</u>	<u>\$ 5,292,346</u>	<u>\$ 4,916,284</u>	<u>\$ 30,748,166</u>

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balances - Governmental Funds \$ 20,519,690

Amounts reported for governmental activities in the statement of net position 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 amount that capital assets exceeded accumulated depreciation was:

Capital Assets	\$ 162,863,710	
Accumulated Depreciation	(66,631,430)	
		96,232,280

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 debt. Unamortized debt issuance costs, reported as prepaid expenses at year-end consist of:

Prepaid Expense - Costs of Issuance	\$ 738,328	
Prepaid Expense - Refunding	650,588	
		1,388,916

The assets and liabilities of the internal service fund are not included in the governmental fund statements, but are included in the governmental activities. The net position of the District's self-insurance fund were:

119,794

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

Compensated Absences	\$ 600,336	
General Obligation Bonds:		
Current Interest Bonds	38,450,000	
Capital Appreciation Bonds	13,411,686	
Unamortized Bond Premium	1,182,147	
Certificates of Participation	6,915,000	
Capital Leases	2,949,219	
Early Retirement Incentives	196,169	
Other Post Employment Benefits	122,347	
		(63,826,904)

In governmental funds, the unmatured interest on long-term debt 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 liability for unmatured interest owed at the end of the period was:

(556,645)

Total Net Position - Governmental Activities **\$ 53,877,131**

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 13,140,775			\$ 13,140,775
Local Taxes	29,460,569			29,460,569
Total Revenue Limit Sources	42,601,344			42,601,344
Federal Revenue	3,527,573		\$ 1,165,358	4,692,931
State Revenue	10,232,575	\$ 57,255	1,309,451	11,599,281
Local Revenue	7,820,202	5,361,455	2,275,682	15,457,339
Total Revenues	<u>64,181,694</u>	<u>5,418,710</u>	<u>4,750,491</u>	<u>74,350,895</u>
<u>Expenditures</u>				
Instruction	41,724,247		712,757	42,437,004
Supervision of Instruction	1,218,173			1,218,173
Instructional Library and Technology	811,062			811,062
School Site Administration	4,282,153		271,199	4,553,352
Home-To-School Transportation	2,050,244			2,050,244
Food Services			1,953,098	1,953,098
Other Pupil Services	5,575,854		73,184	5,649,038
Other General Administration	2,713,919		110,997	2,824,916
Plant Services	5,182,497		658,069	5,840,566
Facilities Acquisition and Construction			230,254	230,254
Ancillary Services	332,613			332,613
Community Services	334,993			334,993
Enterprise Activities	360,294			360,294
Debt Service:				
Principal Retirement	249,873	18,810,000	293,833	19,353,706
Interest and Issuance Costs	172,867	1,897,288	120,865	2,191,020
Other Outgo	145,179			145,179
Total Expenditures	<u>65,153,968</u>	<u>20,707,288</u>	<u>4,424,256</u>	<u>90,285,512</u>
Excess of Revenues Over (Under) Expenditures	(972,274)	(15,288,578)	326,235	(15,934,617)
<u>Other Financing Sources</u>				
Other Sources		15,274,622		15,274,622
Net Change in Fund Balances	(972,274)	(13,956)	326,235	(659,995)
Fund Balances - July 1, 2012	<u>12,435,459</u>	<u>5,306,302</u>	<u>3,437,924</u>	<u>21,179,685</u>
Fund Balances - June 30, 2013	<u>\$ 11,463,185</u>	<u>\$ 5,292,346</u>	<u>\$ 3,764,159</u>	<u>\$ 20,519,690</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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, 2013

Net Change in Fund Balances - Governmental Funds		\$ (659,995)
Amounts reported for governmental activities in the statement of activities are different due to the following:		
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 depreciation expense exceeded capital outlays during the fiscal year:		
Capital Outlays	\$ 352,914	
Depreciation Expense	<u>(5,140,607)</u>	(4,787,693)
Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt, inclusive of bond premiums, are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:		
		(15,274,622)
Bond refunding cost and debt issuance costs are recognized as expenditures in the period they are incurred in governmental funds. In the government-wide statements, these costs are amortized over the life of the debt. The difference between bond refunding and debt issuance costs recognized in the current period, and bond refunding and debt issuance costs amortized for the current period are:		
Bond Refunding	\$ 139,088	
Cost of Issuance	375,534	
Cost of Issuance Amortized	(158,626)	
Bond Refunding Amortized	<u>(440,240)</u>	(84,244)
In the statement of activities, certain operating expenses-compensated absences (vacations) are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for this type of expenditure is measured by the amount of financial resources used (essentially, the amounts actually paid). During the current year, compensated absences earned exceeded compensated absences used by:		
		(92,196)
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		
		108,477
Early retirement incentives: Early retirement incentives costs are recognized when employer contributions are made. In the statement of activities, early retirement incentives costs are recognized on the accrual basis. This year, the difference between early retirement incentives costs and actual employer contributions was:		
		213,085
Debt Service: In the governmental funds, repayment of long-term obligations are reported as expenditures. In the government-wide statements, repayments of long-term obligations are reported as reduction of liabilities. The amount of expenditures made for the repayment of the principal portion of long-term obligations during the year was:		
General Obligation Bonds		
Current Interest Bonds	\$ 17,255,000	
Capital Appreciation Bonds	1,555,000	
Unamortized Bond Premium	112,277	
Certificates of Participation	290,000	
Capital Leases	<u>253,706</u>	19,465,983
Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, accreted interest is recognized as an expense as the bonds accrete in value. The amount of accreted interest recognized in the current year is:		
		(739,958)
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 interest on outstanding general obligation bonds, certificates of participation, and capital leases increased by:		
		56,911
The income and expense of internal service funds are not included in the governmental fund statements, but are included in the governmental activities. The amount that income exceeded expense during the year was:		
		<u>29,278</u>
Change in Net Position of Governmental Activities		<u>\$ (1,764,974)</u>

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 56,816	\$ 23,303
Due from Other Funds (Note 5)	63,113	
Capital Assets: (Note 6)		
Furniture and Equipment		56,833
Less: Accumulated Depreciation		(38,562)
Total Assets	<u>119,929</u>	<u>41,574</u>
<u>Liabilities</u>		
Accounts Payable		44
Due to Other Funds (Note 5)	<u>135</u>	<u>2,788</u>
Total Liabilities	<u>135</u>	<u>2,832</u>
<u>Net Assets</u>		
Investment in Capital Assets		18,471
Restricted	119,794	
Assigned		<u>20,271</u>
Total Net Position	<u>\$ 119,794</u>	<u>\$ 38,742</u>

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<u>Operating Revenues</u>		
Local Revenue	\$ 70,496	\$ 30,461
Total Operating Revenues	70,496	30,461
<u>Operating Expenses</u>		
Certificated Salaries		287
Employee Benefits		38
Books and Supplies		19,324
Contract Services	41,504	1,106
Depreciation		5,883
Total Operating Expenses	41,504	26,638
Operating Income	28,992	3,823
<u>Non-Operating Revenues</u>		
Interest	286	116
Change in Net Assets	29,278	3,939
Net Position - July 1, 2012	90,516	34,803
Net Position - June 30, 2013	\$ 119,794	\$ 38,742

**PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<i>Cash Flows From Operating Activities:</i>		
Cash Received from Services	\$ 99,203	\$ 31,481
Payments to Employees for Services		(325)
Payments to Suppliers for Goods and Services	(46,523)	(20,964)
Net Cash Provided by Operating Activities	52,680	10,192
<i>Cash Flows From Investing Activities:</i>		
Interest	286	116
Net Increase in Cash	52,966	10,308
Deposits and Investments - July 1, 2012	3,850	12,995
Deposits and Investments - June 30, 2013	\$ 56,816	\$ 23,303
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>		
Operating Income	\$ 28,992	\$ 3,823
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		5,883
Changes in Operating Assets and Liabilities:		
Receivables		1,020
Due from Other Funds	28,707	
Accounts Payable	(5,154)	(534)
Due to Other Funds	135	
Net Cash Provided by Operating Activities	\$ 52,680	\$ 10,192

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Private-Purpose Trust		Total Fiduciary Funds
	Scholarship Funds	Agency Funds	
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 103,481	\$ 476,042	\$ 579,523
Total Assets	103,481	476,042	579,523
<u>Liabilities</u>			
Due to Student Groups		476,042	476,042
Total Liabilities	0	476,042	476,042
<u>Net Position</u>			
Restricted	103,481	0	103,481
Total Net Position	\$ 103,481	\$ 0	\$ 103,481

**PETALUMA CITY SCHOOLS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Private-Purpose Trust
	Scholarship Funds
<u>Additions</u>	
Interest	\$ 2,263
Total Additions	2,263
<u>Deductions</u>	
Scholarships Awarded	1,000
Total Deductions	1,000
Change in Net Position	1,263
<u>Net Position</u>	
Net Position - July 1, 2012	102,218
Net Position - June 30, 2013	\$ 103,481

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The Petaluma City Schools (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Sonoma County. The District was established in 1857 and serves students in kindergarten through grade twelve.

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

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under Governmental Accounting Standards Board (GASB) Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*. 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 there are no organizations, with financial activities that benefit the District, which should be included within its financial reporting entity under GASB 61.

The District has also reviewed criteria to determine whether other organizations, for which the District is not financially accountable, should be reported within its financial reporting entity, based on the nature and significance of its relationship with the District, under GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. In order for an organization to be classified as a component unit, all of the GASB 39 criteria must be met, as follows:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity under GASB 39.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Implementation of New Accounting Pronouncements

In June of 2011, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 63 (GASB 63) *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, with required implementation for the District during the year ended June 30, 2013. The objective of GASB 63 is to identify net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. There was no effect on beginning net position/fund balance as a result of implementing GASB 63.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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.

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 governmental function is self-financing or draws from the general revenues of the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

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 governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Enterprise Fund is 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds present 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.

Fiduciary funds are reported using the economic resources measurement focus.

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. Under the 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 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Revenues – Exchange and Non-exchange Transactions (Concluded):

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.

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 maintains the following fund types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds - Proprietary funds focus on the determination of the changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

Fiduciary Funds - Fiduciary funds are classified as either *Private-Purpose Trust Funds*, which are used to account for assets held by the District as trustee, or *Agency Funds*, which are used to account for assets of others for which the District acts as an agent.

The District's accounts are organized into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the District. It is used to account for and report all financial resources not accounted for and reported in another fund.

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

Non-major Governmental Funds:

Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provision of the California Environmental Quality Act (CEQA).

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

Building Fund is used to account for proceeds from sale of bonds (Education Code Section 15146), which may not be used for any purpose other than those for which the bonds were issued.

County School Facilities Fund is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

Capital Projects - Special Reserve Fund is used to provide for the accumulation of General Fund monies for Capital Outlay purposes (Education Code Section 42840).

Proprietary Fund:

Self-Insurance Fund is an internal service fund that was established to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis.

Downtown Project Fund is an enterprise fund that was established to account for transactions of the Downtown Project, which are financed and operated in a manner similar to a business enterprise, where the intent is to recover the cost of providing the services through user charges.

Fiduciary Funds:

Scholarship Fund is a private-purpose trust fund, which is used to account for assets held by the District as trustee. The Scholarship Fund consists of the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, which are both used to provide financial assistance to students of the District.

Student Body Fund is an agency fund that is used to account for assets of others for which the District acts as an agent. The District maintains a Student Body Fund to account for the student body accounts at each school site, 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 accounting principles generally accepted in the United States of America 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 Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information on page 53.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Concluded)

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Encumbrances

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

I. Cash and Cash Equivalents

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

J. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

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

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Stores Inventory and Prepaid Expenses

Inventories are recorded using the consumption method in that inventory acquisitions are initially recorded in inventory asset accounts and are recorded as expenditures when the supplies are used. Inventories are valued at average cost and consist of expendable supplies held for consumption.

Prepaid expenses include issuance costs and refunding costs related to prior year and current year debt issues, which are being amortized over the life of the obligations.

Reported inventories and prepaid expenses are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

3. Capital Assets

Furniture and equipment purchased or acquired with an original cost of \$5,000 or more, and capital improvement, acquisition, or construction with an original cost of \$50,000 or more, are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs 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 all capital assets is computed using a straight-line basis over the following estimated useful lives:

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

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.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

5. Compensated Absences

All vacation pay and labor related benefits are 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 obligations are reported as liabilities in the Statement of Net Position. Premiums and discounts, as well as issuance costs, related to long-term obligations issued after the implementation of GASB Statement No. 34, are deferred and amortized over the life of the obligation when material to the financial statements. Long-term liabilities are reported net of the applicable premiums, discounts and issuance costs.

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

7. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

7. Fund Balance Classification (Concluded)

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body or official that has been given the authority to assign funds. In accordance with board policy, only the governing board and the Chief Business Official / Assistant Superintendent of Business Services may assign amounts for specific purposes.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. In accordance with board policy, the District intends to maintain a Reserve for Economic Uncertainties of at least 3% of the General Fund's annual total expenditures and other financing uses.

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

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 January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

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.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax (Concluded)

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 second period ADA to derive the District's total entitlement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 2,000		\$ 579,523
Cash in Revolving Fund	20,300		
Cash with Fiscal Agent	388,175		
County Pool Investments	<u>18,387,422</u>	<u>\$ 23,303</u>	
Total Deposits and Investments	<u>\$ 18,797,897</u>	<u>\$ 23,303</u>	<u>\$ 579,523</u>

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

Cash with Fiscal Agent

Cash with fiscal agent consists of \$388,175 held by Zions First National Bank as trustee for the outstanding Alameda Contra-Costa Schools Financing Authority Variable Rate Demand Certificates of Participation, 2010 Series N.

County Pool Investments

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

Governmental Activities:

Investment Type	Carrying Value	Fair Value	Less Than 1 Year	More Than 1 Year
County Pool Investments	\$ 18,387,422	\$ 18,242,161	\$ 5,433,195	\$ 12,954,227

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution (Concluded)

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 23,303	\$ 23,119	\$ 6,886	\$ 16,417

Credit Risk

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

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 18,387,422	\$ 18,242,161			\$ 18,387,422

Business-Type Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 23,303	\$ 23,119			\$ 23,303

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2013, the District does not have any investments that are held by counterparties.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The excess of expenditures over appropriations in the General Fund were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Employee Benefits	\$ 299,668
Debt Service: Principal Retirement	21,501
Other Expenditures	186,428

The District incurred unanticipated expenditures in the above expenditure classifications for which the budget was not revised.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal Government	\$ 1,899,198	\$ 196,922	\$ 2,096,120
State Government	5,325,921	231,042	5,556,963
Local Governments	2,075,210		2,075,210
Miscellaneous	363,531	31,581	395,112
Totals	<u>\$ 9,663,860</u>	<u>\$ 459,545</u>	<u>\$ 10,123,405</u>

NOTE 5 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2013 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 271,952	\$ 1,567,898
Deferred Maintenance	555,564	
Cafeteria	705	45,710
Adult Education	288,564	1,558
Capital Facilities		106,537
Building		1
Capital Projects - Special Reserve	<u>709,729</u>	<u>165,000</u>
Subtotals	1,826,514	1,886,704
Self-Insurance	<u>63,113</u>	<u>135</u>
Downtown Project	<u> </u>	<u>2,788</u>
Totals	<u>\$ 1,889,627</u>	<u>\$ 1,889,627</u>

All interfund receivables and payables are scheduled to be paid within one year.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, was as follows:

A. Governmental Activities

	<u>Balances July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2013</u>
Land	\$ 4,266,886			\$ 4,266,886
Sites and Improvements	14,432,076	\$ 90,120		14,522,196
Buildings and Improvements	136,638,241			136,638,241
Furniture and Equipment	6,401,361	32,540		6,433,901
Work-in-Progress	772,232	230,254		1,002,486
Totals at Historical Cost	<u>162,510,796</u>	<u>352,914</u>	<u>\$ 0</u>	<u>162,863,710</u>
Less Accumulated Depreciation for:				
Sites and Improvements	5,847,094	789,524		6,636,618
Buildings and Improvements	50,495,900	4,057,038		54,552,938
Furniture and Equipment	5,147,829	294,045		5,441,874
Total Accumulated Depreciation	<u>61,490,823</u>	<u>5,140,607</u>	<u>0</u>	<u>66,631,430</u>
Governmental Activities				
Capital Assets, net	<u>\$ 101,019,973</u>	<u>\$ (4,787,693)</u>	<u>\$ 0</u>	<u>\$ 96,232,280</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

A. Governmental Activities (Concluded)

Depreciation expense was charged to governmental activities as follows:

Instruction		\$ 3,239,107
Supervision of Instruction		93,485
Instructional Library and Technology		61,825
School Site Administration		349,434
Home-To-School Transportation		157,340
Food Services		148,841
Other Pupil Services		433,519
Other General Administration		216,790
Plant Services		<u>440,266</u>
Total Depreciation Expense		<u>\$ 5,140,607</u>

B. Business-Type Activities

	<u>Balances</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2013</u>
Furniture and Equipment	\$ 56,833			\$ 56,833
Totals at Historical Cost	<u>56,833</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>56,833</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	32,679	5,883		38,562
Total Accumulated Depreciation	<u>32,679</u>	<u>5,883</u>	<u>0</u>	<u>38,562</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 24,154</u>	<u>\$ (5,883)</u>	<u>\$ 0</u>	<u>\$ 18,271</u>

Depreciation expense was charged to business-type activities as follows:

Enterprise		<u>\$ 5,883</u>
------------	--	-----------------

NOTE 7 - GENERAL OBLIGATION BONDS

On May 7, 2013 and August 9, 2012, the District issued \$1,880,000 and \$12,845,000, respectively, of general obligation refunding bonds for purposes of refunding a portion of the District's 2004 general obligation bonds, election of 1991, Series J, with a principal balance of \$1,985,000, and the remaining 2005 refunding general obligation bonds with a principal balance of \$12,775,000. The refunding bonds were issued to lower the debt service requirements of the District and reduce the tax burden on the property owners within the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

The outstanding general obligation debt of the District as of June 30, 2013 is as follows:

A. Current Interest Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2012	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2013
Elementary							
1991 Series							
2004 J	4.00-8.00	2028	\$ 2,700,000	\$ 2,170,000		\$ 2,075,000	\$ 95,000
2008 Series							
(Refunding)	2.00-3.80	2024	7,965,000	5,990,000		645,000	5,345,000
2011 Series							
(Refunding)	3.00-4.00	2027	8,470,000	8,400,000		800,000	7,600,000
2013 Series							
(Refunding)	2.00-4.00	2028	1,880,000	0	\$ 1,880,000		1,880,000
Total Elementary			<u>21,015,000</u>	<u>16,560,000</u>	<u>1,880,000</u>	<u>3,520,000</u>	<u>14,920,000</u>
High School							
1992 Series							
2010 G	2.00-4.25	2025	2,418,791	2,415,000			2,415,000
2005 Series							
(Refunding)	3.125-7.00	2024	14,825,000	13,320,000		13,320,000	0
2010 Series							
(Refunding)	2.00-4.00	2020	9,095,000	8,685,000		415,000	8,270,000
2012 Series							
(Refunding)	2.25-4.00	2024	12,845,000		12,845,000		12,845,000
Total High School			<u>39,183,791</u>	<u>24,420,000</u>	<u>12,845,000</u>	<u>13,735,000</u>	<u>23,530,000</u>
Total Current Interest Bonds			<u>\$60,198,791</u>	<u>\$40,980,000</u>	<u>\$14,725,000</u>	<u>\$17,255,000</u>	<u>\$ 38,450,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2013, are as follows:

Year Ended June 30	Principal	Interest	Totals
2014	\$ 2,620,000	\$ 1,219,140	\$ 3,839,140
2015	2,555,000	1,115,161	3,670,161
2016	2,620,000	1,029,642	3,649,642
2017	2,720,000	935,330	3,655,330
2018	2,400,000	841,193	3,241,193
2019-2023	20,695,000	2,403,193	23,098,193
2024-2028	4,680,000	297,994	4,977,994
2029-2033	160,000	3,200	163,200
Totals	<u>\$ 38,450,000</u>	<u>\$ 7,844,853</u>	<u>\$ 46,294,853</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2012	Accreted Current Year	Redeemed Current Year	Outstanding June 30, 2013
High School 1995 Series							
(Refunding)	4.65-5.80	2018	<u>\$ 8,972,019</u>	<u>\$14,226,728</u>	<u>\$ 739,958</u>	<u>\$ 1,555,000</u>	<u>\$ 13,411,686</u>
Total Capital Appreciation Bonds			<u>\$ 8,972,019</u>	<u>\$14,226,728</u>	<u>\$ 739,958</u>	<u>\$ 1,555,000</u>	<u>\$ 13,411,686</u>

The outstanding obligation for the 1995 Series Refunding capital appreciation bonds at June 30, 2013, is as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2014	5.80%	\$ 638,837	\$ 1,107,906	\$ 1,746,743
2015	5.65%	750,699	1,249,933	2,000,632
2016	5.65%	783,511	1,304,596	2,088,107
2017	5.70%	800,922	1,351,856	2,152,778
2018	5.70%	1,005,584	1,697,323	2,702,907
2019	5.70%	1,012,116	1,708,403	2,720,519
Totals		<u>\$ 4,991,669</u>	<u>\$ 8,420,017</u>	<u>\$ 13,411,686</u>

The annual requirements to amortize the 1995 Series Refunding capital appreciation bonds at June 30, 2013, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 638,837	\$ 1,116,163	\$ 1,755,000
2015	750,699	1,374,301	2,125,000
2016	783,511	1,561,489	2,345,000
2017	800,922	1,759,078	2,560,000
2018	1,005,584	2,394,416	3,400,000
2019	1,012,116	2,607,884	3,620,000
Totals	<u>\$ 4,991,669</u>	<u>\$ 10,813,331</u>	<u>\$ 15,805,000</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - DEFEASED DEBT

Certain general obligation bonds of the District have been defeased by placing the proceeds of refunding bonds in irrevocable escrow accounts held and managed by bank trustees, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the District's financial statements. The defeased bonds outstanding at June 30, 2013 considered extinguished are as follows:

<u>Bond Series</u>	<u>Maturities Refunded</u>	<u>Principal Refunded</u>
1991 Election, Series J	2015-2029	\$ 1,985,000
2005 Refunding	2014-2025	12,775,000

NOTE 9 - CERTIFICATES OF PARTICIPATION

In February 2010, the District issued certificates of participation in the amount of \$7,760,000 with a variable interest rates ranging from 0.18 percent to 0.45 percent to refund the 2005 certificates of participations. As of June 30, 2013, the principal balance outstanding was \$6,915,000. The certificates mature through 2031 as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 300,000	\$ 217,805	\$ 517,805
2015	305,000	207,763	512,763
2016	315,000	197,391	512,391
2017	325,000	186,690	511,690
2018	335,000	175,660	510,660
2019-2023	1,825,000	701,324	2,526,324
2024-2028	2,100,000	374,369	2,474,369
2029-2033	1,410,000	47,413	1,457,413
Totals	<u>\$ 6,915,000</u>	<u>\$ 2,108,415</u>	<u>\$ 9,023,415</u>

NOTE 10 - CAPITAL LEASES

The District has entered into lease-purchase agreements to finance the acquisition of vehicles, equipment, and a solar photovoltaic system valued at \$3,650,170. All of these agreements provide for title to pass upon the expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - CAPITAL LEASES (CONCLUDED)

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 254,213	\$ 176,468	\$ 430,681
2015	223,419	162,079	385,498
2016	205,500	148,843	354,343
2017	213,797	136,078	349,875
2018	222,430	122,796	345,226
2019-2023	1,254,350	395,213	1,649,563
2024-2028	575,510	44,593	620,103
Totals	<u>\$ 2,949,219</u>	<u>\$ 1,186,070</u>	<u>\$ 4,135,289</u>

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

NOTE 11 - EARLY RETIREMENT INCENTIVES

The District contributes to the Public Agency Retirement System (PARS), a supplemental retirement plan to STRS administered by PARS. The plan provides a supplemental benefit to STRS and payments are fixed at retirement and do not increase thereafter (No COLA). Payouts are made based on the option determined by the participants and may or may not include payments to their beneficiary depending on the option chosen. The District entered into a multi-year annuity to make contributions to the PARS Supplementary Retirement Plan.

Future payments required to provide this plan are as follows:

Year Ended <u>June 30</u>	<u>PARS Payment</u>
2014	\$ 196,169

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Descriptions: The Post Employment Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by Petaluma City Schools. The Plan provides medical insurance benefits to eligible retirees and their spouses. Eligible employees are those who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65 and are capped at negotiated amounts. As of June 30, 2013, membership of the Plan consists of 15 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no active plan members.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

Contribution Information: The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to refund benefits as determined annually through the agreements between the District, CEA, CSEA and the unrepresented groups. For fiscal year 2012-13, the District contributed \$108,477 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums). The remainder of the premiums were funded from beginning net position and interest earnings.

Future estimated payments required under the plan are as follows:

Year Ended <u>June 30</u>	Other Post-Employment <u>Benefits</u>
2014	\$ 35,390
2015	29,922
2016	29,089
2017	<u>27,946</u>
Total	<u>\$ 122,347</u>

Funding Status and Funding Progress: The District uses the Alternative Measurement Method for valuations of the ongoing plan and the measurement methods involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Valuation Methods and Assumptions: The projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, valuation measurement, the alternative measure method was used. Healthcare cost trend rates ranged from current actual amounts up to the agreed upon caps. Mortality estimates were not included as the District pays the healthcare benefits only to age 65. The UAAL was fully amortized and no phase in is being applied. There were no assets set aside to fund future amounts.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2013, is shown below:

	Balances July 1, 2012	Additions	Deductions	Balances June 30, 2013	Due within One Year
Compensated Absences	\$ 508,140	\$ 600,336	\$ 508,140	\$ 600,336	\$ 600,336
General Obligation Bonds:					
Current Interest	40,980,000	14,725,000	17,255,000	38,450,000	2,620,000
Capital Appreciation	14,226,728	739,958	1,555,000	13,411,686	1,746,743
Bond Premium	744,802	549,622	112,277	1,182,147	161,705
Certificates of Participation	7,205,000		290,000	6,915,000	300,000
Capital Leases	3,202,925		253,706	2,949,219	254,213
Early Retirement Incentives	409,254	392,337	605,422	196,169	196,169
Other Post-Employment Benefits	230,824		108,477	122,347	35,390
Totals	<u>\$ 67,507,673</u>	<u>\$ 17,007,253</u>	<u>\$ 20,688,022</u>	<u>\$ 63,826,904</u>	<u>\$ 5,914,556</u>

NOTE 14 - FUND BALANCES

The fund balances as of June 30, 2013 are as follows:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 55,672		\$ 21,794	\$ 77,466
Restricted	1,648,393	\$ 5,292,346	1,857,718	8,798,457
Assigned	958,496		1,884,647	2,843,143
Unassigned:				
Economic Uncertainties	1,954,619			1,954,619
Other	6,846,005			6,846,005
Total Fund Balances	<u>\$ 11,463,185</u>	<u>\$ 5,292,346</u>	<u>\$ 3,764,159</u>	<u>\$ 20,519,690</u>

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 California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$1,498,128 to CalSTRS (5.1755% of creditable compensation subject to CalSTRS).

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

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

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 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 year ending June 30, 2013, 2012, and 2011, were \$2,332,242, \$2,407,706, and \$2,365,341, 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 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 issue 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 Q Street, Sacramento, California 95811.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

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 2012-13 was 11.417% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012, and 2011, were \$1,084,706, \$1,087,622, and \$1,130,429, respectively, and equal 100% of the required contributions for each year.

C. Social Security / Tax Deferred Annuity

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use TDA as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2% of an employee's gross earnings. In addition, the employees were required to contribute 4.2% of their gross earnings from July 2012 through December 2012, and 6.2% from January 2013 through June 2013.

The District also has a 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The 403(b) plan is available for salary deferrals; however, no District contributions are made.

NOTE 17 - 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 2012-13, the District participated in Redwood Empire Schools Insurance Group (RESIG) for purposes of pooling risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 18 - JOINT VENTURES

The District participates in three joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools Insurance Group (RESIG) for workers' compensation, property and liability, and dental coverage, the Schools Excess Liability Fund public entity risk pools for excess liability, and the School Project for Utility Rate Reduction joint powers authority (JPA) for direct purchase of gas, electricity, and other utility services. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 18 - JOINT VENTURES (CONCLUDED)

The JPAs arrange for and/or provide coverage for its members. Each JPA is governed by a Board, which controls the operations of the 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 the JPA.

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

NOTE 19 - CHARTER SCHOOL

The District has approved Charters for the Live Oak Charter School, 6th Grade Charter Academy, and the Mary Collins School at Cherry Valley pursuant to Education Code Section 47605. The 6th Grade Charter Academy and Mary Collins School at Cherry Valley charter schools are operated by the District, and its financial activities are presented in the General Fund. The Live Oak Charter School is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted accounting principles and is not considered a component unit of the District. The District receives revenue on behalf of the Live Oak Charter School which it passes on to the Charter School.

NOTE 20 - 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 other legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these other actions will not materially affect the financial position or results of operations of the District.

NOTE 21 - SUBSEQUENT EVENT

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 11, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions (except as noted below) that require disclosure in or adjustment to the current year financial statements.

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 19,055,579	\$ 16,154,271	\$ 13,140,775	\$ (3,013,496)
Local Sources	23,804,582	26,254,796	29,460,569	3,205,773
Total Revenue Limit Sources	42,860,161	42,409,067	42,601,344	192,277
Federal Revenue	3,140,504	3,902,878	3,527,573	(375,305)
Other State Revenue	9,845,505	10,066,340	10,232,575	166,235
Other Local Revenue	6,613,832	7,445,349	7,820,202	374,853
Total Revenues	62,460,002	63,823,634	64,181,694	358,060
<u>Expenditures</u>				
Certificated Salaries	29,018,659	29,206,033	28,946,536	259,497
Classified Salaries	9,428,290	9,795,600	9,673,937	121,663
Employee Benefits	14,121,413	14,282,123	14,581,791	(299,668)
Books and Supplies	2,082,383	3,566,551	2,713,092	853,459
Services and Other				
Operating Expenditures	9,077,969	9,938,571	8,656,213	1,282,358
Capital Outlay	24,631	21,500	18,940	2,560
Debt Service:				
Principal Retirement	45,883	228,372	249,873	(21,501)
Interest and Fiscal Charges	4,859	189,103	172,867	16,236
Other Expenditures	(58,000)	(45,709)	140,719	(186,428)
Total Expenditures	63,746,087	67,182,144	65,153,968	2,028,176
Net Change in Fund Balances	(1,286,085)	(3,358,510)	(972,274)	\$ 2,386,236
Fund Balances - July 1, 2012	12,435,459	12,435,459	12,435,459	
Fund Balances - June 30, 2013	\$ 11,149,374	\$ 9,076,949	\$ 11,463,185	

**PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<u>Assets</u>			
Deposits and Investments	\$ 413,103	\$ 6,770	\$ 142,965
Receivables		148,028	309,294
Due from Other Funds	555,564	705	288,564
Stores Inventory		21,494	
Total Assets	<u>\$ 968,667</u>	<u>\$ 176,997</u>	<u>\$ 740,823</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 199,439	\$ 940	\$ 193,511
Due to Other Funds		45,710	1,558
Deferred Revenue		15,901	
Total Liabilities	<u>199,439</u>	<u>62,551</u>	<u>195,069</u>
Fund Balances:			
Nonspendable		21,494	300
Restricted	238,076	67,884	
Assigned	531,152	25,068	545,454
Total Fund Balances	<u>769,228</u>	<u>114,446</u>	<u>545,754</u>
Total Liabilities and Fund Balances	<u>\$ 968,667</u>	<u>\$ 176,997</u>	<u>\$ 740,823</u>

Capital Facilities	Building	County School Facilities	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
\$ 1,403,178	\$ 243,982	\$ 80,321	\$ 590,364	\$ 2,880,683
			2,223	459,545
			709,729	1,554,562
				21,494
<u>\$ 1,403,178</u>	<u>\$ 243,982</u>	<u>\$ 80,321</u>	<u>\$ 1,302,316</u>	<u>\$ 4,916,284</u>
\$ 61,442	\$ 7,743		\$ 353,780	\$ 816,855
106,537	1		165,000	318,806
			563	16,464
<u>167,979</u>	<u>7,744</u>		<u>519,343</u>	<u>1,152,125</u>
1,235,199	236,238	\$ 80,321		21,794
			782,973	1,857,718
<u>1,235,199</u>	<u>236,238</u>	<u>80,321</u>	<u>782,973</u>	<u>1,884,647</u>
<u>\$ 1,403,178</u>	<u>\$ 243,982</u>	<u>\$ 80,321</u>	<u>\$ 1,302,316</u>	<u>\$ 4,916,284</u>

**PETALUMA CITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<u>Revenues</u>			
Federal Revenue		\$ 1,091,333	\$ 74,025
State Revenue	\$ 277,403	93,297	938,751
Local Revenue	3,843	742,495	282,765
Total Revenues	<u>281,246</u>	<u>1,927,125</u>	<u>1,295,541</u>
<u>Expenditures</u>			
Instruction			712,757
School Site Administration			271,199
Food Services		1,953,098	
Other Pupil Services			73,184
Other General Administration			4,460
Plant Services	438,174	4,839	13,261
Facilities Acquisition and Construction	16,631		
Debt Service:			
Principal Retirement		3,833	
Interest and Issuance Costs		1,436	
Total Expenditures	<u>454,805</u>	<u>1,963,206</u>	<u>1,074,861</u>
Net Change in Fund Balances	(173,559)	(36,081)	220,680
Fund Balances - July 1, 2012	<u>942,787</u>	<u>150,527</u>	<u>325,074</u>
Fund Balances - June 30, 2013	<u>\$ 769,228</u>	<u>\$ 114,446</u>	<u>\$ 545,754</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Capital Facilities</u>	<u>Building</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
				\$ 1,165,358
\$ 603,868	\$ 1,772	\$ 571	\$ 640,368	1,309,451
<u>603,868</u>	<u>1,772</u>	<u>571</u>	<u>640,368</u>	<u>2,275,682</u>
				712,757
				271,199
				1,953,098
				73,184
106,537				110,997
60,776	617		140,402	658,069
110,132	72,684	500	30,307	230,254
			290,000	293,833
			119,429	120,865
<u>277,445</u>	<u>73,301</u>	<u>500</u>	<u>580,138</u>	<u>4,424,256</u>
326,423	(71,529)	71	60,230	326,235
908,776	307,767	80,250	722,743	3,437,924
<u>\$ 1,235,199</u>	<u>\$ 236,238</u>	<u>\$ 80,321</u>	<u>\$ 782,973</u>	<u>\$ 3,764,159</u>

PETALUMA CITY SCHOOLS
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
06/30/13	\$ 0	\$ 122,347	\$ 122,347	0%	\$ 0	0%
06/30/12	0	230,824	230,824	0%	0	0%
06/30/11	0	300,843	300,843	0%	0	0%

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

ORGANIZATION

The Petaluma City Schools was established in 1857 under the laws of the State of California. The District operates six elementary schools, one 6th grade charter school, one K-8 charter school, two junior high schools, a community day school, two high schools, three continuation schools, one independent study site serving grades K-12, and one adult school. There were no boundary changes during the year.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Troy Sanderson	President	November 2016
Michael Baddeley	Clerk	November 2014
Mary Schafer	Member	November 2016
Sheri Chlebowski	Member	November 2014
Carolyn Tennyson	Member	November 2014

ADMINISTRATION

Steve Bolman
Superintendent

Midge Hoffman
Chief Business Official

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>P-2 Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	256.68	256.81
First through Third	891.66	891.42
Fourth through Sixth	825.76	827.41
Seventh and Eighth	1,551.16	1,546.49
Home and Hospital	1.59	2.93
Special Education - SDC	43.59	43.89
Special Education - Nonpublic	15.48	15.87
Community Day School	9.76	11.09
Extended Year	2.39	2.39
	<hr/>	<hr/>
Subtotals	3,598.07	3,598.30
<u>Secondary</u>		
Nine through Twelve	2,918.61	2,906.24
Continuation Education	141.15	144.39
Home & Hospital	7.13	8.08
Special Education - SDC	35.81	35.34
Special Education - Nonpublic	11.55	11.95
Community Day School	8.65	8.79
Extended Year	1.46	1.46
	<hr/>	<hr/>
Subtotals	3,124.36	3,116.25
	<hr/>	<hr/>
Totals	6,722.43	6,714.55
	<hr/>	<hr/>

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>P-2 Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
<u>Sixth Grade Charter Academy</u>				
Fourth through Sixth	59.60	59.71	59.59	59.71
<u>Mary Collins School at Cherry Valley</u>				
Kindergarten	97.09	97.10	96.90	96.91
First through Third	144.41	144.75	144.66	145.06
Fourth through Sixth	132.60	132.98	132.86	133.16
Seven through Eight	<u>74.03</u>	<u>74.14</u>	<u>73.90</u>	<u>74.05</u>
Totals	<u><u>507.73</u></u>	<u><u>508.68</u></u>	<u><u>507.91</u></u>	<u><u>508.89</u></u>

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2012-13 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	30,625	36,000	35,000	35,000	175	N/A	In Compliance
Grade 1	42,000	40,833	50,400	49,000	49,280	175	N/A	In Compliance
Grade 2	42,000	40,833	50,400	49,000	49,280	175	N/A	In Compliance
Grade 3	42,000	40,833	50,400	49,000	49,280	175	N/A	In Compliance
Grade 4	49,875	48,490	54,000	52,500	52,640	175	N/A	In Compliance
Grade 5	49,875	48,490	54,000	52,500	52,640	175	N/A	In Compliance
Grade 6	49,875	48,490	54,000	52,500	52,640	175	N/A	In Compliance
Grade 7	49,875	48,490	54,000	52,500	52,641	175	N/A	In Compliance
Grade 8	49,875	48,490	54,000	52,500	52,641	175	N/A	In Compliance
Grade 9	56,525	54,955	64,800	63,000	63,195	175	N/A	In Compliance
Grade 10	56,525	54,955	64,800	63,000	63,195	175	N/A	In Compliance
Grade 11	56,525	54,955	64,800	63,000	63,195	175	N/A	In Compliance
Grade 12	56,525	54,955	64,800	63,000	63,195	175	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2012-13 Minutes		
<u>6th Grade</u>			
<u>Charter Academy</u>	<u>Requirement</u>	<u>Actual</u>	<u>Status</u>
Grade 6	52,457	53,265	In Compliance
<u>Mary Collins School</u>			
<u>at Cherry Valley</u>			
Kindergarten	34,971	36,610	In Compliance
Grade 1	48,960	49,105	In Compliance
Grade 2	48,960	49,105	In Compliance
Grade 3	48,960	49,105	In Compliance
Grade 4	52,457	52,315	Noncompliant *
Grade 5	52,457	52,315	Noncompliant *
Grade 6	52,457	52,315	Noncompliant *
Grade 7	52,457	52,315	Noncompliant *
Grade 8	52,457	52,315	Noncompliant *

* The number of instructional minutes provided to students in grades four through eight at Mary Collins Charter School, was 142 minutes less than minimum required by the provisions of Education Code Section 47612.5(a)(1), as reduced by the provisions of Education Code Section 46201.2. (See **Finding 13-5** in the Findings and Questioned Costs Section of this report.)

PETALUMA CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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):			
<i>Child Nutrition Cluster:</i>			
National School Lunch	10.555	13524	\$ 804,433
School Basic Breakfast	10.553	13525	6,481
School Needy Breakfast	10.553	13526	280,419
U.S. Department of Education:			
Passed through CDE:			
<i>Adult Education Cluster:</i>			
Adult Basic Education & ESL	84.002A	14508	34,900
Adult Secondary Education	84.002	13978	11,032
English Literacy & Civics	84.002A	14109	28,093
<i>Title I, Part A Cluster:</i>			
NCLB: Title I Basic Grant Low-Income & Neglected	84.010	14329	849,535
NCLB: Title I School Improvement Grant	84.377	14971	77,075
Carl D. Perkins Career and Technical Education	84.048	14894	56,891
NCLB: Title II Improving Teacher Quality	84.367	14341	178,938
NCLB: Title II Administrator Training	84.367	14344	9,150
NCLB: Title III Limited English Proficient	84.365	10084	106,649
NCLB: Title X McKinney-Vento Homeless Assistance	84.196	14332	12,195
Passed through Sonoma County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Local Assistance	84.027	13379	1,606,689
IDEA Part B Preschool Grants	84.173	13430	121,744
IDEA Part B Preschool Local Entitlement	84.027A	13682	144,093
IDEA Part B Mental Health Allocation	84.027	14468	25,393
IDEA Part B Preschool Staff Development	84.173A	13431	483
Received Direct:			
Readiness and Emergency Management	84.184E	n/a	115,585
Smaller Learning Communities Grant	84.215L	n/a	185,347
U.S. Department of Health and Human Services:			
Passed through California Department of Health Services:			
Medi-Cal Billing	93.778	10013	36,390
Medi-Cal Administrative Activities	93.778	10060	1,416
Total			<u>\$ 4,692,931</u>

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, 2013

	Adult Education Fund	Capital Projects- Special Reserve Fund
June 30, 2013 Annual Financial and Budget Report Fund Balances	\$ 572,634	\$ 743,110
Adjustments Increasing (Decreasing) Fund Balances:		
Understatement of Cash with Fiscal Agent		39,863
Understatement of State Revenue	40,724	
Understatement of Services and Other Operating Expenditures	(67,604)	
Net Adjustments	(26,880)	39,863
June 30, 2013 Audited Financial Statements Fund Balances	\$ 545,754	\$ 782,973

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, 2013.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	GENERAL FUND			
	(Budget)* 2013-14	2012-13	2011-12	2010-11
Revenues and Other Financial Sources	\$ 64,436,953	\$ 64,181,694	\$ 66,209,586	\$ 66,813,461
Expenditures	67,238,823	65,153,968	66,490,987	64,476,607
Other Uses and Transfers Out	0	0	0	939,911
Total Outgo	67,238,823	65,153,968	66,490,987	65,416,518
Change in Fund Balance	(2,801,870)	(972,274)	(281,401)	1,396,943
Ending Fund Balance	\$ 8,661,315	\$ 11,463,185	\$ 12,435,459	\$ 12,716,860
Available Reserves	\$ 6,817,017	\$ 8,800,624	\$ 9,774,030	\$ 10,101,321
Reserve for Economic Uncertainties **	\$ 2,017,165	\$ 1,954,619	\$ 1,994,013	\$ 1,962,496
Available Reserves as a Percentage of Total Outgo	10.1%	13.5%	14.7%	15.4%
Total Long-Term Liabilities	\$ 57,912,348	\$ 63,826,904	\$ 67,507,673	\$ 70,593,247
Average Daily Attendance at P-2 (Inclusive of Charter School ADA)	7,272	7,231	7,209	7,217

* The fiscal year 2013-14 budget information is presented for analytical purposes only and has not been audited.

** The reported balances are a component of available reserves.

The fund balance of the General Fund decreased \$1,253,675 (9.9%) over the past two years. The fiscal year 2013-14 budget projects a decrease of \$2,801,870 (24.4%). 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 an operating surplus of \$1,396,943 during fiscal year 2010-11, and incurred operating deficits of \$281,401 and \$972,274 during fiscal years 2011-12 and 2012-13, respectively.

Total long-term liabilities decreased \$6,766,343 over the past two years due primarily to the reduction of the District's obligations related to general obligation bonds.

Average daily attendance (ADA) increased 14 ADA over the past two years. The District anticipates an increase of 41 ADA during fiscal year 2013-14.

PETALUMA CITY SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Charter Schools</u>	<u>District Audit</u>
6 th Grade Charter Academy	Included
Mary Collins School at Cherry Valley	Included
Live Oak Charter	Excluded

PETALUMA CITY SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MEASURE C & MEASURE K - PARCEL TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Elementary Measure C</u>	<u>High School Measure K</u>	<u>Totals</u>
<u>Revenues</u>			
Parcel Tax Revenue, Net	\$ 747,756	\$ 1,153,444	\$ 1,901,200
<u>Expenditures</u>			
Certificated Salaries	400,114	344,719	744,833
Classified Salaries	115,271	117,023	232,294
Employee Benefits	185,450	156,223	341,673
Books and Supplies	68,903	194,493	263,396
Services and Operating Expenditures	15,970	88,859	104,829
Capital Outlay	5,441	5,441	5,441
Total Expenditures	<u>785,708</u>	<u>906,758</u>	<u>1,692,466</u>
Net Change in Fund Balances	(37,952)	246,686	208,734
Fund Balances - Beginning	<u>350,121</u>	<u>576,165</u>	<u>926,286</u>
Fund Balances - Ending	<u>\$ 312,169</u>	<u>\$ 822,851</u>	<u>\$ 1,135,020</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balances - 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 the Fund Balances 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

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

C. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

D. 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.

E. Schedule of Average Daily Attendance - Charter Schools

The average daily attendance is a measurement of the number of pupils attending classes at District operated Charter Schools. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to the charter school. This schedule provides information regarding the attendance of classroom-based and nonclassroom-based students at the various grade levels.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONTINUED)

F. 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.

G. Schedule of Instructional Time - Charter Schools

Education Code Section 47612.5 requires classroom-based charter schools to offer a minimum number of minutes of instruction. For fiscal year 2012-13, the minimum amount of instructional time is reduced pursuant to the provisions of Education Code Section 46201.2. This schedule presents information on the amount of instructional time offered by each of the District's charter schools and whether they complied with the provisions of Education Code Section 47612.5(a)(1), as reduced by the provisions of Education Code Sections 46201.2.

H. 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*.

I. 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 as reported in the Annual Financial and Budget Report to the audited financial statements.

J. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

K. 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.

L. Schedule of Parcel Tax

These statements provide information regarding the receipt and use of funds related to the Measure C and Measure K parcel taxes, and the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

L. Schedule of Parcel Tax (Concluded)

The Measure C and Measure K parcel tax measures were approved by the voters on November 2, 2004 for the Petaluma Elementary School District and the Petaluma High School District, respectively. On May 8, 2007, revisions to the measures, known as the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax, were approved by the voters. These revisions retained the same purposes and other terms of the measures but extended the time frame from four years to indefinite.

The Elementary School parcel tax is used for the following: keeping libraries open; continuing to provide reading specialists; continuing smaller class sizes, music and art programs; computer and technology programs; providing necessary educational programs and materials; and attracting and retaining qualified teachers.

The High School parcel tax is used for the following: keeping libraries open; continuing smaller class sizes; computer and technology programs; music and fine art programs; and attracting and retaining qualified teachers.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

Report on State Compliance

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13* for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws, regulations, contracts, and grants.

Auditor's Responsibility

Our responsibility is to express an opinion on Petaluma City Schools' compliance based on our compliance 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations applicable in the following areas. However, our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

<u>Description</u>	<u>Procedures in Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials: General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	1	Yes
Mode of Instruction for Charter Schools	1	Yes
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	No (See below)
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	No (See below)
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Yes

We did not perform procedures related to non-classroom based instruction at the charter schools because the non-classroom based ADA claimed by the District did not exceed the ADA threshold, which requires testing to be performed.

Opinion on Compliance

In our opinion, Petaluma City Schools complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13* and which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 13-5**. Further, the results of our auditing procedures disclosed an instance of noncompliance with other state laws and regulations, which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 13-4**. Our opinion on compliance on the state programs previously identified is not modified with respect to these matters. The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 11, 2013

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
Petaluma, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider one deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as noted in **Findings 13-1**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies, as noted in **Findings 13-2** and **13-3**.

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*.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 11, 2013

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

Board of Education
Petaluma City Schools
Petaluma, California

Report on Compliance for Each Major Federal Program

We have audited Petaluma City Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Petaluma City Schools' major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Petaluma City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Petaluma City Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Petaluma City Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 11, 2013

FINDINGS AND QUESTIONED COSTS SECTION

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported

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

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

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

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.027 / 84.027A / 84.173 / 84.173A	Special Education Cluster
10.553 / 10.555	Child Nutrition Cluster
84.184E	Readiness and Emergency Management

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

Auditee qualified as low-risk auditee?

	<u> </u> Yes	<u> X </u> No
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State Awards

Internal control over state programs:

Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Reported

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

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

13 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

Criteria:

Each year, school districts are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. In addition, each year the governing board certifies that the report was prepared in accordance with Education Code Section 41010, and approves the report as the official submission of financial information that will be used as the basis for the District's annual financial statements. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement. (In accordance with current auditing standards, if material misstatements are identified during a financial audit, it is presumed that the internal control over financial reporting was either ineffective or non-existent.)

Condition:

The District's internal control over financial reporting in the current fiscal year was ineffective. As a result, the fiscal year 2012-13 "Unaudited Actuals" contained several material misstatements, as follows:

- An accounts receivable balance was not established in the Adult Education Fund to recognize Apprenticeship Program revenues that were earned during fiscal year 2012-13.
- An accounts payable balance was not established in the Adult Education Fund to recognize expenditures of the Apprenticeship Program that were incurred during fiscal year 2012-13.
- The balance reported as Cash with Fiscal Agent in the Capital Projects - Special Reserve Fund was not adjusted to reflect the financial activity that was processed through the account during fiscal year 2012-13.

Questioned Costs:

None.

Context:

The adjustments that were made as a result of this audit to ensure that the financial statements were fairly stated are presented on page 65 of these financial statements.

Effect:

The fiscal year 2012-13 "Unaudited Actuals" that were approved by the Governing Board contained misstatements that are material to the District's annual financial statements.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

FINANCIAL REPORTING - UNAUDITED ACTUALS (CONCLUDED)

Cause: The District does not have effective procedures in place to ensure that the "Unaudited Actuals" financial reports are free of material misstatements.

Recommendation: The District should establish appropriate procedures to ensure that future "Unaudited Actuals" financial reports are free of material misstatements.

District Response: The District has reviewed causes of missed items. The District will enact procedures and a checklist to ensure they are properly accounted for.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

13 - 2 / 30000

SIGNIFICANT DEFICIENCY

COMMERCIAL BANK ACCOUNTS

Criteria: All commercial bank accounts maintained by the District should be reconciled on a monthly basis, and the check register should be maintained on a current basis to account for all deposits and payments processed. In addition, all bank account information should be available for audit purposes prior to the auditor's year-end visit to the District.

Condition: The District was unable to provide completed bank reconciliations and check registers for many of the commercial bank accounts selected for audit testing, until the very the end of our year-end visit to the District.

Questioned Costs: None.

Context: The same condition was noted in the prior year audit report.

Effects: The lack of available commercial bank account records at the time of the auditors year-end visit to the District hampers the performance of audit procedures and impedes the auditor's ability to complete the audit by the required due date.

Cause: The District has not established appropriate procedures to ensure that complete commercial bank account records are available for audit purposes prior to the auditor's year-end visit to the District.

Recommendation: The District should establish appropriate procedures to ensure that complete commercial bank account records are available for audit purposes prior to the auditor's year-end visit to the District.

District Response: The District has hired a District Accountant in March of 2013. The position was still in training and has now established procedures and checklists to ensure timely receipt and review of the bank statements.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

13 - 3 / 30000

SIGNIFICANT DEFICIENCY

CAPITAL ASSETS

Criteria:

In accordance with Governmental Accounting Standards Board (GASB) Statement 34, all school districts are required to capitalize and depreciate all exhaustible capital assets in the district-wide financial statements. As a result, all school districts should have a capital asset system in place to ensure that the required capital asset information is current, accurate, and complete, and available for the auditors to examine during their year-end visit to the District.

At a minimum, capital asset systems should provide the following:

- A detailed listing of all capital assets owned by the district at the beginning of the year, which includes the historical cost and accumulated depreciation for each individual asset.
- A detailed schedule of work-in-progress at the beginning of the year, which identifies inception to date costs for each individual asset.
- A detailed listing of all current year capital asset additions, which identifies the individual assets purchased or constructed, along with the value assigned to each individual asset for purposes of capitalizing and depreciating individual assets.
- A detailed listing of all current year capital asset dispositions, which identifies the individual assets that were discarded or sold, along with the amount of sales proceeds received, if any, for purposes of computing gains and losses.
- A detailed listing of all capital assets, along with the calculation of current year depreciation expense for each individual asset.
- A detailed listing of all capital assets owned by the district at the end of the fiscal year, which includes the historical cost and accumulated depreciation for each individual asset.
- A detailed schedule of work-in-progress at the end of the year, which identifies inception to date costs for each individual asset.
- A reconciliation of current year capital outlay expenditures and facilities acquisition and construction expenditures to the capital asset inventory records.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

CAPITAL ASSETS (CONCLUDED)

<u>Condition:</u>	Capital asset records for fiscal year 2012-13 were not available during the auditor's year-end visit to the District.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	Capital asset records for fiscal year 2012-13 were not available until 10 days prior to the audit report submission due date.
<u>Effect:</u>	The lack of available capital asset records at the time of the auditors year-end visit to the District hampers the performance of audit procedures and makes it very difficult for the auditor's to complete the audit by the required due date.
<u>Cause:</u>	The District does not have appropriate procedures in place to ensure that all of the required capital asset information is available to be audited during the auditor's year-end visit to the District.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that all of the required capital asset information is available to be audited during the auditor's year-end visit to the District
<u>District Response:</u>	The District has hired a District Accountant in March of 2013. The position was still in training and has now established procedures and checklists to ensure timely receipt and review of the capital assets.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2013.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

13 - 4 / 10000 / 40000

MATERIAL WEAKNESS

REVENUE LIMIT REPORTING

Criteria: In accordance with Education Code Section 42238.5, districts receive funding based on the second principal apportionment regular average daily attendance (ADA) for either the current or prior fiscal year, whichever is greater. In addition, in accordance with Education Code Section 42238.51, the prior fiscal year ADA, mentioned above, must be reduced by the ADA of pupils who attended a non-charter school of the District in the prior fiscal year, and who attended a charter school sponsored by the District in current year. (On an individual pupil basis, the amount of the prior year reduction cannot exceed the attendance claimed for the pupil by the charter school in the current year.)

Condition: In the revenue limit reporting software, the District did not report the correct average daily attendance (ADA) for pupils who attended a non-charter school of the District in fiscal year 2011-12 and who attended a charter school sponsored by the District in fiscal year 2012-13. As a result, prior year P-2 ADA, reported for Petaluma City Elementary School District, in the revenue limit reporting software was understated by 2.35 ADA.

Questioned Costs: None. Funding was understated by \$11,835. (2.35 Understated P-2 ADA X 5,036 Deficit Per ADA Base Revenue Limit)

Context: The District improperly reduced prior year P-2 ADA by 34.37 ADA, instead of the audited determined 32.02 ADA.

Effect: The District did not claim all of the funding that it was entitled to receive based on the actual number of students served.

Cause: District personnel did not compute the prior year ADA adjustment in accordance with the guidance provided in Education Code Section 42238.51.

Recommendation: The District should report 32.02 ADA in the space on the 2012-13 P-2 revenue limit reporting software that has been designated for pupils who attended a non-charter school of the District in fiscal year 2011-12 and who attended a charter school sponsored by the District in fiscal year 2012-13. In addition, the District should establish appropriate procedures to ensure that future prior year ADA adjustments are computed in accordance with the guidance provided in Education Code Section 42238.51.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

REVENUE LIMIT REPORTING (CONCLUDED)

District Response:

The District has already identified the proper reports and analysis for this procedure to ensure accurate accounting of charter students that attended District schools in the prior year. The 2012-13 revenue limit data collection form was submitted (Certificate #9AD5F133) with the correct ADA.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

13 - 5 / 40000

SIGNIFICANT DEFICIENCY

ANNUAL INSTRUCTIONAL MINUTES - CLASSROOM BASED CHARTER SCHOOLS

<u>Criteria:</u>	Education Code Section 47612.5 requires all classroom-based charter schools to offer a minimum number of instructional minutes. For fiscal year 2012-13, the minimum was reduced pursuant to the provisions of Education Code Section 46201.2. For students in grades four through eight, the minimum was reduced to 52,457 instructional minutes.
<u>Condition:</u>	Students enrolled at Mary Collins School at Cherry Valley were only provided with 52,315 minutes of instruction during fiscal year 2012-13.
<u>Questioned Costs:</u>	\$3,163. (132.98 grade four through six ADA X \$5,598.53 (general purpose entitlement rate + deficated categorical block grant rate) X .27% (instructional minute shortfall percentage), plus (74.14 grade seven and eight ADA X \$5,757.53 (general purpose entitlement rate + deficated categorical block grant rate) X .27% (instructional minute shortfall percentage).
<u>Context:</u>	The condition was limited to students in grades four through eight at Mary Collins School at Cherry Valley
<u>Effect:</u>	The District did not comply with the instructional time requirements of Education Code Section 47612.5, as reduced by the provisions of Education Code Sections 46201.2.
<u>Cause:</u>	The spreadsheet that was used to monitor instructional time compliance contained an error, which prevented the instructional time shortfall from being detected.
<u>Recommendation:</u>	The District should correct the instructional time spreadsheet and add protection to the appropriate cells within the spreadsheet to prevent unauthorized changes.
<u>District Response:</u>	The District will modify the spreadsheet to lock formulas to ensure accurate calculations and data integrity.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
12 - 1 / 30000		
MATERIAL WEAKNESS		
<u>STAFFING - INTERNAL CONTROL</u>		
District should provide adequate staffing in the business office to allow their employees to perform their job duties in a complete and accurate manner. In addition, District should provide management with sufficient time to properly manage and review the work completed by the employees under their control.	Implemented	
12 - 2 / 30000		
SIGNIFICANT DEFICIENCY		
<u>AUDIT LIAISON</u>		
In order to ensure the maximum benefit of the annual audit, minimize audit fees, and limit the amount of disruption of District personnel, the District should add additional staff time that would allow one individual to serve as an audit liaison.	Implemented	
12 - 3 / 30000		
MATERIAL WEAKNESS		
<u>ACCOUNTING SYSTEM</u>		
The District should take appropriate steps to convert back to the accounting system maintained by Sonoma County Office of Education. Accordingly, the District should allocate appropriate resources to ensure the fiscal year 2012-13 "Unaudited Actuals" are prepared in a complete and accurate manner to facilitate the conversion to the new accounting system.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
12 - 4 / 30000		
MATERIAL WEAKNESS		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</u>		
The District should establish appropriate procedures to ensure that the "Unaudited Actuals" financial report is free of material misstatements.	Partially Implemented	Comment Repeated (See 13 - 1 / 30000)
12 - 5 / 30000		
MATERIAL WEAKNESS		
<u>REVENUE LIMIT- STATE AID</u>		
The District should establish procedures to ensure that state aid revenue is properly computed and presented in the "Unaudited Actuals" financial report.	Implemented	
12 - 6 / 30000		
MATERIAL WEAKNESS		
<u>REVENUE RECOGNITION - CATEGORICAL PROGRAMS</u>		
The District should establish appropriate procedures that require personnel to review the SACS resource code list on an annual basis, to ensure that all program revenues are recognized in the appropriate financial reporting period.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
12 - 7 / 30000		
MATERIAL WEAKNESS		
<u>REVENUE RECOGNITION - PRINCIPAL APPORTIONMENT</u>		
The District should establish procedures to ensure that all program revenues funded through the principal apportionment are recognized in the correct fiscal year.	Implemented	
12 - 8 / 30000		
MATERIAL WEAKNESS		
<u>BUDGET VERSUS ACTUALS</u>		
The District should establish procedures to ensure that the recorded balances appear consistent with the budgeted balances, prior to completing the "Unaudited Actuals".	Implemented	
12 - 9 / 30000		
MATERIAL WEAKNESS		
<u>EXPENDITURE RECOGNITION</u>		
The District should establish appropriate procedures to ensure that all significant expenditures, including those related to facilities projects, are recorded in the appropriate financial reporting period.	Partially Implemented	Comment Repeated (See 13 - 1 / 30000)
12 - 10 / 30000		
SIGNIFICANT DEFICIENCY		
<u>COMMERCIAL BANK ACCOUNTS</u>		
The District should establish procedures to ensure that reconciled commercial bank account records are available for audit purposes prior to the start of the auditor's year-end visit to the District.	Partially Implemented	Comment Repeated (See 13 - 2 / 30000)

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
12 - 11 / 30000		
SIGNIFICANT DEFICIENCY		
<u>EXTERNAL ACCOUNTS</u>		
The District should establish appropriate procedures to ensure that the financial activity and balances, related to external bank accounts are properly reflected on the general ledger at the appropriate amounts.	Partially Implemented	Comment Repeated (See 13 - 1 / 30000)
12 - 12 / 30000		
SIGNIFICANT DEFICIENCY		
<u>UNINSURED CASH BALANCES</u>		
The District should obtain a collateralization agreement to insure balances maintained in commercial bank accounts in excess of the FDIC insured amount.	Implemented	
12 - 13 / 30000		
MATERIAL WEAKNESS		
<u>ACCRUAL BALANCES</u>		
The District should provide additional staff time to ensure that appropriate records are prepared at the end of fiscal year 2012-13, which will facilitate an easier transition into the new accounting system and provide for a more efficient annual audit.	Implemented	
12 - 14 / 30000		
MATERIAL WEAKNESS		
<u>CLEARING ACCOUNTS</u>		
The District should establish procedures to ensure that clearing accounts, which are used to facilitate the payment of employee benefits and taxes, are reconciled on a monthly basis.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONCLUDED)</u>		
12 - 15 / 30000		
SIGNIFICANT DEFICIENCY		
<u>CAPITAL ASSETS</u>		
The District should establish appropriate procedures to ensure that all of the required capital asset information is available to be audited during the auditor's year-end visit to the District.	Partially Implemented	Comment Repeated (See 13 - 3 / 30000)
12 - 16 / 30000		
MATERIAL WEAKNESS		
<u>GENERAL OBLIGATION BONDS</u>		
The District should establish appropriate procedures to ensure that all bond related financial statement balances are current, accurate, and complete.	Implemented	
<u>FEDERAL AWARD</u>		
12 - 17 / 50000 / 30000		
SIGNIFICANT DEFICIENCY		
U.S. Department of Education Passed through California Department of Education		
Education Jobs Funds: CFDA 84.410		
<u>DATA COLLECTION FORM</u>		
The District should establish procedures to ensure that future Data Collection Forms are filed by the required due dates.	Implemented	
The District should require that audit reports and data collection forms be reviewed in detail prior to being approved or certified.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
12 - 18 / 10000 / 40000		
MATERIAL WEAKNESS		
<u>REVENUE LIMIT REPORTING</u>		
The District should report the revised prior year ADA amount on the 2011-12 P-2 revenue limit reporting software that has been designated for pupils who attended a non-charter school of the District in fiscal year 2010-11 and who attended a charter school sponsored by the District in fiscal year 2011-12.	Implemented	
12 - 19 / 10000		
SIGNIFICANT DEFICIENCY		
<u>KINDERGARTEN CONTINUANCE</u>		
The District should establish procedures to ensure that the state compliant kindergarten continuance form is used at all elementary school sites.	Implemented	
12 - 20 / 40000		
SIGNIFICANT DEFICIENCY		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM</u>		
The District should establish procedures to review the attendance records that are prepared and maintained by the contractor, to ensure that the program is operated in accordance with state laws.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONTINUED)</u>		
12 - 21 / 72000		
SIGNIFICANT DEFICIENCY		
<u>SCHOOL ACCOUNTABILITY REPORT CARD</u>		
The District should establish procedures to ensure that all school accountability report cards are prepared and disseminated to the public by February 1 of each year.	Implemented	
12 - 22 / 40000		
SIGNIFICANT DEFICIENCY		
<u>INCENTIVES FOR LONGER INSTRUCTIONAL DAY</u>		
The District should establish procedures to ensure all instructional minute calculations, provided to the auditors, are supported by the bell schedules and school calendars that were used to prepare the calculations.	Implemented	
12 - 23 / 40000		
SIGNIFICANT DEFICIENCY		
<u>FINANCIAL REPORTING DEADLINE</u>		
The District should provide adequate staff time in the business office to ensure that employees have sufficient time to complete the "Unaudited Actuals" in a complete and accurate manner prior to the financial reporting deadline.	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
12 - 24 / 40000		
MATERIAL WEAKNESS		
<u>FINANCIAL REPORTING - PRIOR YEAR AUDIT ADJUSTMENTS</u>		
The District should establish appropriate procedures to ensure that the beginning fund balances presented in the "Unaudited Financials" financial report, agree to the balances presented in the prior year audit report.	Implemented	