

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

AUDIT REPORT

JUNE 30, 2014

PETALUMA CITY SCHOOLS

JUNE 30, 2014

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PETALUMA CITY SCHOOLS

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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 Petaluma City Schools, as of and for the year ended June 30, 2014, 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 Petaluma City Schools, as of June 30, 2014, 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 Petaluma City Schools' basic financial statements. The combining non-major governmental fund financial statements, statistical section, 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 combining non-major governmental fund financial statements, statistical section, and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards 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 combining non-major governmental fund financial statements, statistical section, and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Education
Petaluma City Schools
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 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 5, 2014

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. 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:

- Fiscal year 2013-14 is the first year the District has received funding that is based on the new Local Control Funding Formula (LCFF).
- The District's overall financial status slightly declined during the course of the year, as total net position decreased by 1.1%.
- Capital assets, net of depreciation, decreased \$4,636,908, due to the current year addition of \$507,874 of new capital assets and improvements, and the current year recognition of \$5,144,782 of depreciation expense.
- Total long-term liabilities decreased \$4,491,249, due primarily to the current year reduction of the District's obligations related to general obligation bonds.
- The District's P-2 average daily attendance (ADA), inclusive of charter school ADA, increased from 7,231 ADA in fiscal year 2012-13, up to 7,303 ADA in fiscal year 2013-14, an increase of less than 1%.
- The District's General Fund incurred an operating deficit of \$856,928, and reported a \$1,447,133 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 2013-14, General Fund total outgo was \$68,639,751. At June 30, 2014, the District had available reserves of \$7,353,491, which represents an available reserve of 10.7%.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(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, 2014**

(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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities:

The District's net position decreased from \$53,138,803 at June 30, 2013, down to \$52,551,797 at June 30, 2014, a decrease of 1.1%.

Business Activities:

The District's net position increased from \$38,742 at June 30, 2013, up to \$51,785 at June 30, 2014, an increase of 33.7%.

<u>Comparative Statement of Net Position</u>						
	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Assets:						
Deposits and Investments	\$ 18,797,897	\$ 18,274,379	\$ 23,303	\$ 37,421	\$ 18,821,200	\$ 18,311,800
Receivables	10,123,405	9,134,630		4,328	10,123,405	9,138,958
Stores Inventory	57,166	49,348			57,166	49,348
Capital Assets, net	96,232,280	91,595,372	18,271	12,787	96,250,551	91,608,159
Total Assets *	125,210,748	119,053,729	41,574	54,536	125,252,322	119,108,265
Deferred Outflow of Resources:						
Deferred Amount on Refunding *	650,588	568,482			650,588	568,482
Liabilities:						
Current	14,810,185	13,814,047	2,832	2,751	14,813,017	13,816,798
Long-Term	57,912,348	53,256,367			57,912,348	53,256,367
Total Liabilities	72,722,533	67,070,414	2,832	2,751	72,725,365	67,073,165
Net Assets:						
Net Investment in Capital Assets *	42,631,071	41,760,206	18,271	12,787	42,649,342	41,772,993
Restricted:						
Capital Projects	1,315,520	1,637,946			1,315,520	1,637,946
Debt Service	(3,684,316)	(2,767,497)			(3,684,316)	(2,767,497)
Educational Programs	1,648,393	2,252,599			1,648,393	2,252,599
Other	383,426	778,547	20,471	38,998	403,897	817,545
Unrestricted	10,844,709	8,889,996			10,844,709	8,889,996
Total Net Position *	\$ 53,138,803	\$ 52,551,797	\$ 38,742	\$ 51,785	\$ 53,177,545	\$ 52,603,582

* Prior year balances have been adjusted to reflect the restatement discussed in Note 19.
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, 2014**

(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 \$587,006.

Business-Type Activities:

The District's total current year revenues exceeded total current year expenses by \$13,043.

<u>Comparative Statement of Changes in Net Position</u>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Program Revenues:						
Charges for Services	\$ 880,346	\$ 834,615			\$ 880,346	\$ 834,615
Operating Grants & Contributions	10,993,323	10,690,894			10,993,323	10,690,894
General Revenues:						
Taxes Levied	37,293,968	36,648,009			37,293,968	36,648,009
Federal & State Aid	21,746,087	26,517,996			21,746,087	26,517,996
Interest & Investment Earnings	89,938	106,784	\$ 116	\$ 130	90,054	106,914
Miscellaneous	3,418,015	3,800,632	30,461	43,064	3,448,476	3,843,696
Total Revenues	<u>74,421,677</u>	<u>78,598,930</u>	<u>30,577</u>	<u>43,194</u>	<u>74,452,254</u>	<u>78,642,124</u>
Expenses:						
Instruction	45,446,745	47,858,855			45,446,745	47,858,855
Instruction-Related Services	7,081,890	7,052,474			7,081,890	7,052,474
Pupil Services	10,378,480	10,724,227			10,378,480	10,724,227
General Administration	3,041,706	3,272,313			3,041,706	3,272,313
Plant Services	6,177,213	6,898,572			6,177,213	6,898,572
Ancillary Services	332,613	349,652			332,613	349,652
Community Services	334,993	351,721			334,993	351,721
Enterprise Activities	401,798	426,196			428,436	456,347
Interest on Long-Term Debt	2,687,408	2,071,935	26,638	30,151	2,687,408	2,071,935
Other Outgo	303,805	179,991			303,805	179,991
Total Expenses	<u>76,186,651</u>	<u>79,185,936</u>	<u>26,638</u>	<u>30,151</u>	<u>76,213,289</u>	<u>79,216,087</u>
Changes in Net Position	<u>\$ (1,764,974)</u>	<u>\$ (587,006)</u>	<u>\$ 3,939</u>	<u>\$ 13,043</u>	<u>\$ (1,761,035)</u>	<u>\$ (573,963)</u>

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, 2014**

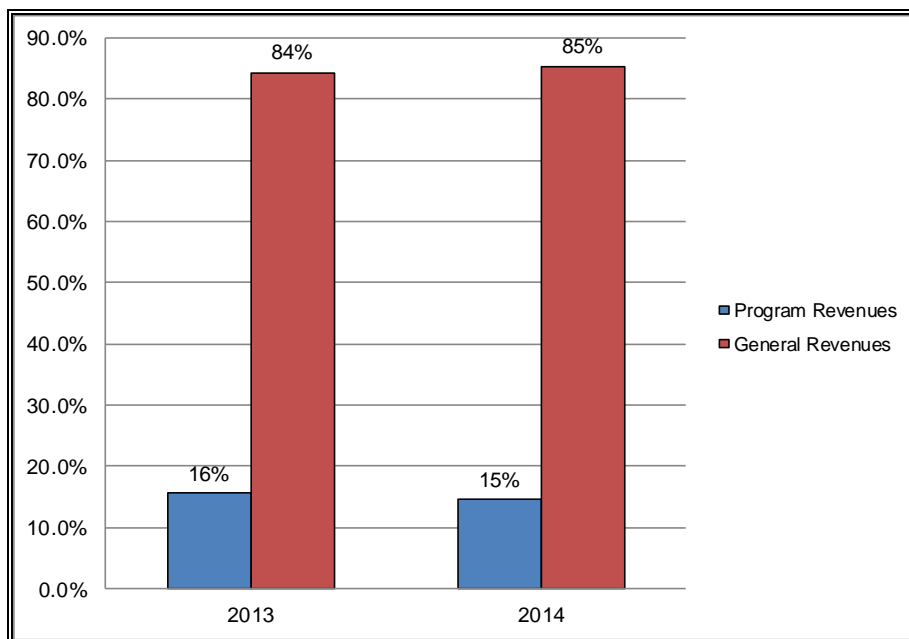
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2013	2014	2013	2014
	Instruction	\$ 45,446,745	\$ 47,858,855	\$ 38,593,988
Instruction-Related Services	7,081,890	7,052,474	6,558,068	6,611,322
Pupil Services	10,378,480	10,724,227	6,228,898	7,457,550
General Administration	3,041,706	3,272,313	2,937,960	3,160,198
Plant Services	6,177,213	6,898,572	5,983,674	6,252,801
Ancillary Services	332,613	349,652	332,613	349,652
Community Services	334,993	351,721	321,798	329,997
Enterprise Activities	401,798	426,196	401,798	426,196
Interest on Long-Term Debt	2,687,408	2,071,935	2,687,408	2,071,935
Other Expenses	303,805	179,991	266,777	169,370
Totals	\$ 76,186,651	\$ 79,185,936	\$ 64,312,982	\$ 67,660,427

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 \$67,660,427 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 15% of the total cost of providing the services listed above, while the remaining 85% 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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

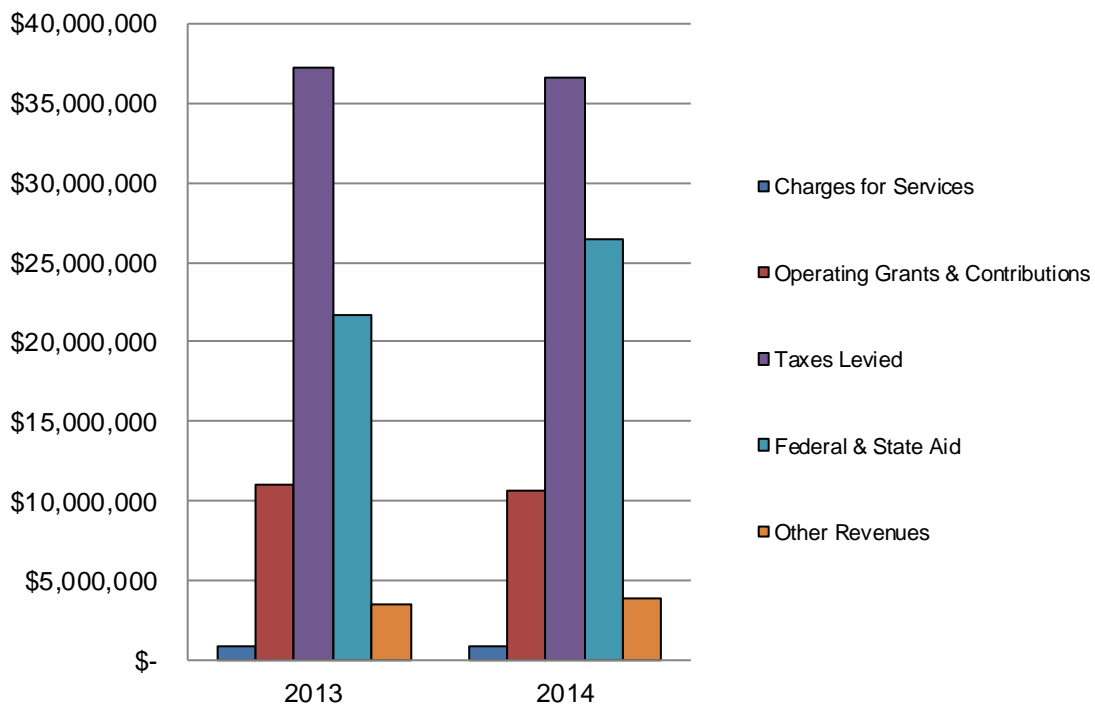
FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	FYE 2013 Amount	Percent of Total	FYE 2014 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 880,346	1.18%	\$ 834,615	1.06%
Operating Grants & Contributions	10,993,323	14.77%	10,690,894	13.60%
<u>General Revenues</u>				
Taxes Levied	37,293,968	50.11%	36,648,009	46.63%
Federal & State Aid	21,746,087	29.22%	26,517,996	33.74%
Other Revenues	3,507,953	4.71%	3,907,416	4.97%
Total Revenues	\$ 74,421,677	100.00%	\$ 78,598,930	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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

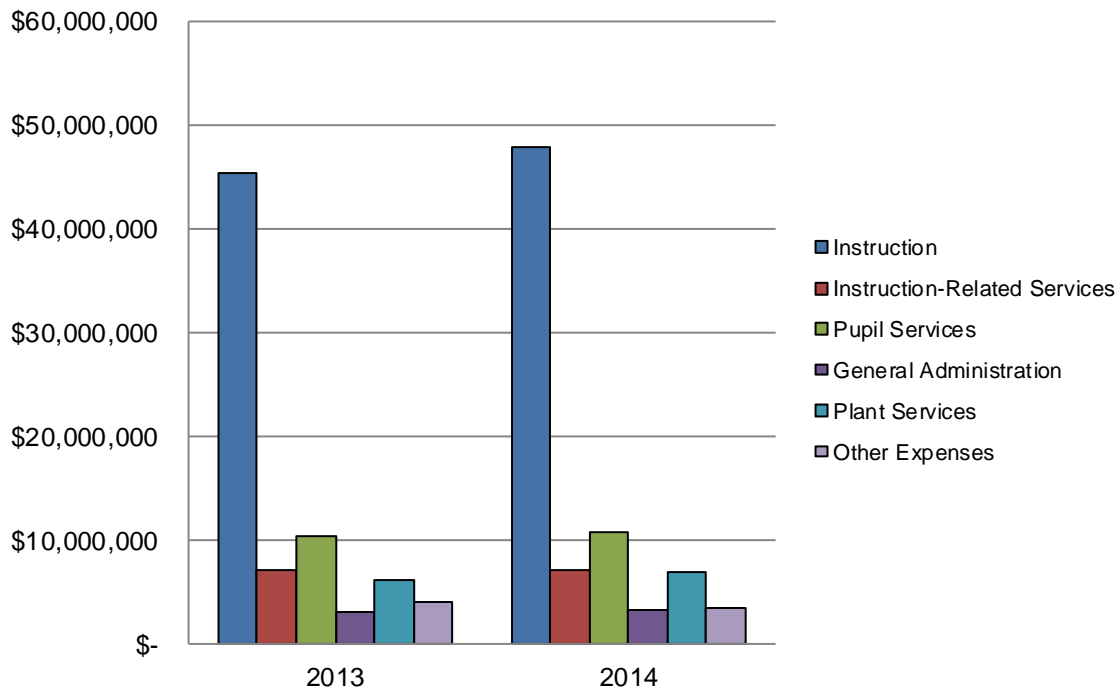
FINANCIAL ANALYSIS OF THE GOVERNMENTAL ACTIVITIES (CONCLUDED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 45,446,745	59.65%	\$ 47,858,855	60.44%
Instruction-Related Services	7,081,890	9.30%	7,052,474	8.91%
Pupil Services	10,378,480	13.62%	10,724,227	13.54%
General Administration	3,041,706	3.99%	3,272,313	4.13%
Plant Services	6,177,213	8.11%	6,898,572	8.71%
Other Expenses	4,060,617	5.33%	3,379,495	4.27%
Total Expenses	\$ 76,186,651	100.00%	\$ 79,185,936	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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE CAPITAL ASSETS & LONG-TERM LIABILITIES

Governmental Activities:

<u>Comparative Schedule of Capital Assets</u>		
	2013	2014
Land	\$ 4,266,886	\$ 4,266,886
Sites & Improvements	14,522,196	15,244,505
Buildings & Improvements	136,638,241	137,226,597
Furniture & Equipment	6,433,901	6,433,901
Work-in-Progress	1,002,486	199,695
Totals at Historical Cost	162,863,710	163,371,584
Less: Accumulated Depreciation	(66,631,430)	(71,776,212)
Capital Assets, net	<u>\$ 96,232,280</u>	<u>\$ 91,595,372</u>

Capital assets, net of depreciation, decreased \$4,636,908, due to the current year addition of \$507,874 of new capital assets and improvements, and the current year recognition of \$5,144,782 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	2013	2014
Compensated Absences	\$ 600,336	\$ 536,828
General Obligation Bonds	53,043,833	49,187,653
Certificates of Participation	6,915,000	6,615,000
Capital Leases	2,949,219	2,721,154
Early Retirement Incentives	196,169	188,063
Other Post Employment Benefits	122,347	86,957
Totals	<u>\$ 63,826,904</u>	<u>\$ 59,335,655</u>

Total long-term liabilities decreased \$4,491,249, 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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2013	Fund Balances June 30, 2014	Increase (Decrease)
General	\$ 11,463,185	\$ 10,606,257	\$ (856,928)
Bond Interest & Redemption	5,292,346	5,715,433	423,087
Deferred Maintenance	769,228	927,339	158,111
Cafeteria	114,446	57,067	(57,379)
Adult Education	545,754	750,983	205,229
Capital Facilities	1,235,199	1,349,469	114,270
Building	236,238	135,780	(100,458)
County School Facilities	80,321	161	(80,160)
Capital Projects - Special Reserve	782,973	537,909	(245,064)
Totals	<u>\$ 20,519,690</u>	<u>\$ 20,080,398</u>	<u>\$ (439,292)</u>

The fund balance of the General Fund decreased \$856,928, while the combined fund balances of all other District governmental funds increased \$417,636.

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 2014-15 budget includes a projected increase of 136 ADA.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

On August 14, 2014, the District issued \$23,000,000 and \$7,000,000 of general obligation bonds, Election of 2014, Series A, for Petaluma Joint Union High School District and Petaluma City Elementary School District, respectively. The proceeds of the bonds will be used to defease the outstanding certificates of participation, and provide funding to complete various projects identified in the ballot measure. As a result, the District will be actively involved in construction activities, during fiscal year 2014-15 and beyond.

On November 4, 2014, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account. Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established with Proposition 58, passed in 2004. Proposition 2 is set to create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves in future years. At this time, the fiscal impact of Proposition 2 is not immediately clear, since the ultimate impact will largely depend on how it is implemented at the state and local levels moving forward.

Fiscal year 2014-15 will be the second year of the projected eight year phase-in period for the new Local Control Funding Formula (LCFF). Although more information regarding the new funding and accountability standards was released during the past year, it is very likely that there will be additional modifications in the future. 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, 2014

	Governmental Activities	Business-Type Activities	Totals
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 18,274,379	\$ 37,421	\$ 18,311,800
Receivables (Note 4)	9,134,630	4,328	9,138,958
Stores Inventory (Note 1J)	49,348		49,348
Capital Assets: (Note 6)			
Land	4,266,886		4,266,886
Sites and Improvements	15,244,505		15,244,505
Buildings and Improvements	137,226,597		137,226,597
Furniture and Equipment	6,433,901	56,833	6,490,734
Work-in-Progress	199,695		199,695
Less: Accumulated Depreciation	(71,776,212)	(44,046)	(71,820,258)
Total Assets	<u>119,053,729</u>	<u>54,536</u>	<u>119,108,265</u>
<u>Deferred Outflows of Resources</u>			
Deferred Amount on Refunding	<u>568,482</u>	<u>0</u>	<u>568,482</u>
<u>Liabilities</u>			
Accounts Payable and Other Current Liabilities	6,966,698	2,751	6,969,449
Accrued Interest Payable	498,551		498,551
Unearned Revenue (Note 1J)	269,510		269,510
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Compensated Absences	536,828		536,828
General Obligation Bonds			
Current Interest	2,555,000		2,555,000
Capital Appreciation	2,115,256		2,115,256
Bond Premium	99,652		99,652
Certificates of Participation	305,000		305,000
Capital Leases	249,567		249,567
Early Retirement Incentives	188,063		188,063
Other Post Employment Benefits	29,922		29,922
<i>Portion Due or Payable After One Year:</i>			
General Obligation Bonds (Note 7)			
Current Interest	33,275,000		33,275,000
Capital Appreciation	10,221,955		10,221,955
Bond Premium	920,790		920,790
Certificates of Participation (Note 8)	6,310,000		6,310,000
Capital Leases (Note 9)	2,471,587		2,471,587
Other Post Employment Benefits (Note 10)	57,035		57,035
Total Liabilities	<u>67,070,414</u>	<u>2,751</u>	<u>67,073,165</u>
<u>Net Position</u>			
Net Investment in Capital Assets	41,760,206	12,787	41,772,993
Restricted:			
For Capital Projects	1,637,946		1,637,946
For Debt Service	(2,767,497)		(2,767,497)
For Educational Programs	2,252,599		2,252,599
For Other Purposes	778,547	38,998	817,545
Unrestricted	<u>8,889,996</u>		<u>8,889,996</u>
Total Net Position	<u>\$ 52,551,797</u>	<u>\$ 51,785</u>	<u>\$ 52,603,582</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<u>Governmental Activities</u>						
Instruction	\$ 47,858,855	\$ 76,261	\$ 6,951,188	\$ (40,831,406)		\$ (40,831,406)
Instruction-Related Services:						
Supervision of Instruction	1,252,902	274	367,477	(885,151)		(885,151)
Instructional Library and Technology	804,524		10,031	(794,493)		(794,493)
School Site Administration	4,995,048		63,370	(4,931,678)		(4,931,678)
Pupil Services:						
Home-to-School Transportation	2,385,144	30	445,145	(1,939,969)		(1,939,969)
Food Services	2,102,773	743,442	1,139,064	(220,267)		(220,267)
Other Pupil Services	6,236,310	10,220	928,776	(5,297,314)		(5,297,314)
General Administration:						
Other General Administration	3,272,313		112,115	(3,160,198)		(3,160,198)
Plant Services	6,898,572	2,729	643,042	(6,252,801)		(6,252,801)
Ancillary Services	349,652			(349,652)		(349,652)
Community Services	351,721		21,724	(329,997)		(329,997)
Enterprise Activities	426,196			(426,196)		(426,196)
Interest on Long-Term Debt	2,071,935			(2,071,935)		(2,071,935)
Other Outgo	179,991	1,659	8,962	(169,370)		(169,370)
Total Governmental Activities	79,185,936	834,615	10,690,894	(67,660,427)		(67,660,427)
<u>Business-Type Activities</u>						
Enterprise Activities	30,151				\$ (30,151)	(30,151)
Totals	\$ 79,216,087	\$ 834,615	\$10,690,894	(67,660,427)	(30,151)	(67,690,578)
<u>General Revenues</u>						
Taxes Levied for General Purposes				28,734,305		28,734,305
Taxes Levied for Debt Service				6,007,129		6,007,129
Taxes Levied for Specific Purposes				1,906,575		1,906,575
Federal and State Aid - Unrestricted				26,517,996		26,517,996
Interest and Investment Earnings				106,784	130	106,914
Miscellaneous				3,800,632	43,064	3,843,696
Total General Revenues				67,073,421	43,194	67,116,615
Change in Net Position				(587,006)	13,043	(573,963)
Net Position - July 1, 2013 (As Restated - Note 19)				53,138,803	38,742	53,177,545
Net Position - June 30, 2014				\$ 52,551,797	\$ 51,785	\$ 52,603,582

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Deposits and Investments (Note 2)	\$ 9,329,008	\$ 5,715,433	\$ 3,090,302	\$ 18,134,743
Receivables (Note 4)	8,782,925		349,590	9,132,515
Due from Other Funds (Note 5)	570,422		1,428,195	1,998,617
Stores Inventory (Note 1J)	27,854		21,494	49,348
Total Assets	<u>\$ 18,710,209</u>	<u>\$ 5,715,433</u>	<u>\$ 4,889,581</u>	<u>\$ 29,315,223</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 6,406,247		\$ 560,451	\$ 6,966,698
Due to Other Funds (Note 5)	1,428,195		570,422	1,998,617
Unearned Revenue (Note 1J)	269,510			269,510
Total Liabilities	<u>8,103,952</u>		<u>1,130,873</u>	<u>9,234,825</u>
Fund Balances: (Note 12)				
Nonspendable	47,854		21,794	69,648
Restricted	2,252,599	\$ 5,715,433	2,482,625	10,450,657
Assigned	952,313		1,254,289	2,206,602
Unassigned	7,353,491			7,353,491
Total Fund Balances	<u>10,606,257</u>	<u>5,715,433</u>	<u>3,758,708</u>	<u>20,080,398</u>
Total Liabilities and Fund Balances	<u>\$ 18,710,209</u>	<u>\$ 5,715,433</u>	<u>\$ 4,889,581</u>	<u>\$ 29,315,223</u>

**PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Governmental Funds \$ 20,080,398

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	\$ 163,371,584	
Accumulated Depreciation	(71,776,212)	
		91,595,372

In governmental funds, any gain or loss that results from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from debt refunding, reported as a deferred outflow of resources, was:

568,482

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:

141,751

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	\$ 536,828	
General Obligation Bonds:		
Current Interest Bonds	35,830,000	
Capital Appreciation Bonds	12,337,211	
Bond Premium	1,020,442	
Certificates of Participation	6,615,000	
Capital Leases	2,721,154	
Early Retirement Incentives	188,063	
Other Post Employment Benefits	86,957	
		(59,335,655)

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:

(498,551)

Total Net Position - Governmental Activities \$ 52,551,797

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 23,964,454		\$ 963,428	\$ 24,927,882
Local Taxes	28,734,305			28,734,305
Total LCFF Sources	52,698,759		963,428	53,662,187
Federal Revenue	2,956,985		1,141,764	4,098,749
State Revenue	4,140,527	\$ 56,966	574,594	4,772,087
Local Revenue	7,935,927	5,965,210	2,098,595	15,999,732
Total Revenues	67,732,198	6,022,176	4,778,381	78,532,755
<u>Expenditures</u>				
Instruction	44,054,187		660,157	44,714,344
Supervision of Instruction	1,167,780			1,167,780
Instructional Library and Technology	749,865			749,865
School Site Administration	4,354,267		301,419	4,655,686
Home-To-School Transportation	2,223,098			2,223,098
Food Services	9,084		1,950,827	1,959,911
Other Pupil Services	5,727,792		84,825	5,812,617
Other General Administration	3,046,013		3,980	3,049,993
Plant Services	5,584,392		835,262	6,419,654
Facilities Acquisition and Construction			518,105	518,105
Ancillary Services	349,652			349,652
Community Services	351,721			351,721
Enterprise Activities	387,462			387,462
Debt Service:				
Principal Retirement	274,442	4,375,000	304,248	4,953,690
Interest and Issuance Costs	179,905	1,224,089	125,109	1,529,103
Other Outgo	179,991			179,991
Total Expenditures	68,639,651	5,599,089	4,783,932	79,022,672
Excess of Revenues Over (Under) Expenditures	(907,453)	423,087	(5,551)	(489,917)
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In			100	100
Operating Transfers Out	(100)			(100)
Other Sources	50,625			50,625
Total Other Financing Sources (Uses)	50,525	0	100	50,625
Net Change in Fund Balances	(856,928)	423,087	(5,451)	(439,292)
Fund Balances - July 1, 2013	11,463,185	5,292,346	3,764,159	20,519,690
Fund Balances - June 30, 2014	\$ 10,606,257	\$ 5,715,433	\$ 3,758,708	\$ 20,080,398

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, 2014

Net Change in Fund Balances - Governmental Funds \$ (439,292)

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	\$ 507,874	
Depreciation Expense	<u>(5,144,782)</u>	(4,636,908)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: (50,625)

Amortization of gain or loss from debt refunding: In governmental funds, any gain or loss resulting from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. Current year amortization of deferred amounts from debt refunding was: (82,106)

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 used exceeded compensated absences earned by: 63,508

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: 35,390

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: 8,106

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	\$ 2,620,000	
Capital Appreciation Bonds	1,755,000	
Bond Premium	161,705	
Certificates of Participation	300,000	
Capital Leases	<u>278,690</u>	5,115,395

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: (680,525)

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 decreased by: 58,094

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: 21,957

Change in Net Position of Governmental Activities \$ (587,006)

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 139,636	\$ 37,421
Receivables (Note 4)	2,115	4,328
Capital Assets: (Note 6)		
Furniture and Equipment		56,833
Less: Accumulated Depreciation		(44,046)
Total Assets	<u>141,751</u>	<u>54,536</u>
<u>Liabilities</u>		
Accounts Payable		2,751
Total Liabilities	<u>0</u>	<u>2,751</u>
<u>Net Assets</u>		
Net Investment in Capital Assets		12,787
Restricted		
Assigned	<u>141,751</u>	<u>38,998</u>
Total Net Position	<u>\$ 141,751</u>	<u>\$ 51,785</u>

PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Governmental Activities	Business-Type Activities
	Internal Service	Enterprise
	Self-Insurance Fund	Downtown Project Fund
<u>Operating Revenues</u>		
Local Revenue	\$ 65,713	\$ 43,064
Total Operating Revenues	65,713	43,064
<u>Operating Expenses</u>		
Books and Supplies		19,929
Contract Services	44,218	4,738
Capital Outlay		5,484
Total Operating Expenses	44,218	30,151
Operating Income	21,495	12,913
<u>Non-Operating Revenues</u>		
Interest	462	130
Change in Net Assets	21,957	13,043
Net Position - July 1, 2013	119,794	38,742
Net Position - June 30, 2014	\$ 141,751	\$ 51,785

**PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	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	\$ 63,598	\$ 38,736
Payments to Suppliers for Goods and Services	(44,218)	(24,748)
Net Cash Provided by Operating Activities	<u>19,380</u>	<u>13,988</u>
<i>Cash Flows From Investing Activities:</i>		
Cash Received on Interfund Receivable	63,113	
Cash Paid on Interfund Payable	(135)	
Interest	462	130
Net Cash Provided by Investing Activities	<u>63,440</u>	<u>130</u>
Net Increase in Cash	82,820	14,118
Deposits and Investments - July 1, 2013	56,816	23,303
Deposits and Investments - June 30, 2014	<u>\$ 139,636</u>	<u>\$ 37,421</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>		
Operating Income	\$ 21,495	\$ 12,913
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		5,484
Changes in Operating Assets and Liabilities:		
Receivables	(2,115)	(4,328)
Accounts Payable		(81)
Net Cash Provided by Operating Activities	<u>\$ 19,380</u>	<u>\$ 13,988</u>

**PETALUMA CITY SCHOOLS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	Private-Purpose Trust		Total Fiduciary Funds
	Scholarship Funds	Agency Funds	
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 109,579	\$ 523,184	\$ 632,763
Total Assets	109,579	523,184	632,763
<u>Liabilities</u>			
Due to Student Groups		523,184	523,184
Total Liabilities	0	523,184	523,184
<u>Net Position</u>			
Restricted	109,579	0	109,579
Total Net Position	\$ 109,579	\$ 0	\$ 109,579

**PETALUMA CITY SCHOOLS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Private-Purpose Trust
	Scholarship Funds
<u>Additions</u>	
Gifts and Contributions	\$ 5,169
Interest	2,838
Total Additions	8,007
<u>Deductions</u>	
Scholarships Awarded	1,909
Total Deductions	1,909
Change in Net Position	6,098
<u>Net Position</u>	
Net Position - July 1, 2013	103,481
Net Position - June 30, 2014	\$ 109,579

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Implementation of New Accounting Pronouncements

In March of 2012, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, with required implementation for the District during the year ended June 30, 2014. The objective of GASB 65 is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The effect of implementing GASB 65 resulted in a restatement of the beginning net position balance to write-off unamortized debt issuance costs. The effect of the restatement on these financial statements is presented in Note 19.

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, 2014

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, 2014

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.

Unearned Revenue:

Unearned 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 unearned 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 unearned 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, 2014

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, 2014

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, 2014

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, 2014

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

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.

Reported inventories 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 Outflows of Resources

Deferred outflows of resources represent deferred amounts from the refunding of debt, which are amortized over the life of the old or new debt, whichever period is shorter. Reported amounts are equally offset as a component of the District's net investment in capital assets.

5. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned 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, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

6. 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.

7. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums and discounts as well as refunding costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premiums, discounts, or refunding.

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

8. Fund Balance Classification

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, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

8. 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.

9. Local Control Funding Formula (LCFF)//Property Tax

As part of the 2013-14 State Budget Act, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (LCFF). The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes to the District. 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.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Liabilities and Equity (Concluded)

9. Revenue Limit/Property Tax (Concluded)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, 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		\$ 632,763
Cash in Revolving Fund	20,300		
Cash with Fiscal Agent	388,174		
County Pool Investments	<u>17,863,905</u>	<u>\$ 37,421</u>	<u> </u>
Total Deposits and Investments	<u>\$ 18,274,379</u>	<u>\$ 37,421</u>	<u>\$ 632,763</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 \$388,174 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, 2014

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	\$ 17,863,905	\$ 17,831,750	\$ 5,629,114	\$ 12,234,791

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ 37,421	\$ 37,354	\$ 11,792	\$ 25,629

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	\$ 17,863,905	\$ 17,831,750			\$ 17,863,905

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	\$ 37,421	\$ 37,354			\$ 37,421

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, 2014

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, 2014, 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>
Debt Service: Principal Retirement	\$ 44,168
Other Expenditures	211,760

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>	<u>Business-Type Activities</u>
Federal Government	\$ 2,237,300	\$ 294,883		\$ 2,532,183	
State Government	3,724,053	29,326		3,753,379	
Local Governments	1,959,485			1,959,485	
Miscellaneous	<u>862,087</u>	<u>25,381</u>	<u>\$ 2,115</u>	<u>889,583</u>	<u>\$ 4,328</u>
Totals	<u>\$ 8,782,925</u>	<u>\$ 349,590</u>	<u>\$ 2,115</u>	<u>\$ 9,134,630</u>	<u>\$ 4,328</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, 2014

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2014 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 570,422	\$ 1,428,195
Deferred Maintenance	888,849	
Cafeteria	174,462	310,119
Adult Education	289,909	272
Capital Facilities		9,784
Building	8,950	247
Capital Projects - Special Reserve	<u>66,025</u>	<u>250,000</u>
Totals	<u>\$ 1,998,617</u>	<u>\$ 1,998,617</u>

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

B. Interfund Transfers

Interfund transfers were limited to a \$100 from the General Fund to the County School Facilities Fund to cover a projected fund deficit.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, was as follows:

A. Governmental Activities

	<u>Balances July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2014</u>
Land	\$ 4,266,886			\$ 4,266,886
Sites and Improvements	14,522,196	\$ 722,309		15,244,505
Buildings and Improvements	136,638,241	588,356		137,226,597
Furniture and Equipment	6,433,901			6,433,901
Work-in-Progress	1,002,486	507,874	\$ 1,310,665	199,695
Totals at Historical Cost	<u>162,863,710</u>	<u>1,818,539</u>	<u>1,310,665</u>	<u>163,371,584</u>
Less Accumulated Depreciation for:				
Sites and Improvements	6,636,618	803,694		7,440,312
Buildings and Improvements	54,552,938	4,071,627		58,624,565
Furniture and Equipment	5,441,874	269,461		5,711,335
Total Accumulated Depreciation	<u>66,631,430</u>	<u>5,144,782</u>	<u>0</u>	<u>71,776,212</u>
Governmental Activities				
Capital Assets, net	<u>\$ 96,232,280</u>	<u>\$ (3,326,243)</u>	<u>\$ 1,310,665</u>	<u>\$ 91,595,372</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

A. Governmental Activities (Concluded)

Depreciation expense was charged to governmental activities as follows:

Instruction		\$ 3,246,031
Supervision of Instruction		85,122
Instructional Library and Technology		54,659
School Site Administration		339,362
Home-To-School Transportation		162,046
Food Services		142,862
Other Pupil Services		423,693
Other General Administration		222,320
Plant Services		<u>468,687</u>
Total Depreciation Expense		<u>\$ 5,144,782</u>

B. Business-Type Activities

	<u>Balances</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2014</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	38,562	5,484		44,046
Total Accumulated Depreciation	<u>38,562</u>	<u>5,484</u>	<u>0</u>	<u>44,046</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 18,271</u>	<u>\$ (5,484)</u>	<u>\$ 0</u>	<u>\$ 12,787</u>

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

Enterprise		<u>\$ 5,484</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, 2014

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

The outstanding general obligation debt of the District as of June 30, 2014 is as follows:

A. Current Interest Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2013	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2014
Elementary							
1991 Series							
2004 J	4.00-8.00	2028	\$ 2,700,000	\$ 95,000		\$ 95,000	\$ 0
2008 Series							
(Refunding)	2.00-3.80	2024	7,965,000	5,345,000		660,000	4,685,000
2011 Series							
(Refunding)	3.00-4.00	2027	8,470,000	7,600,000		830,000	6,770,000
2013 Series							
(Refunding)	2.00-4.00	2028	1,880,000	1,880,000			1,880,000
Total Elementary			<u>21,015,000</u>	<u>14,920,000</u>	<u>\$ 0</u>	<u>1,585,000</u>	<u>13,335,000</u>
High School							
1992 Series							
2010 G	2.00-4.25	2025	2,418,791	2,415,000			2,415,000
2010 Series							
(Refunding)	2.00-4.00	2020	9,095,000	8,270,000		405,000	7,865,000
2012 Series							
(Refunding)	2.25-4.00	2024	12,845,000	12,845,000		630,000	12,215,000
Total High School			<u>39,183,791</u>	<u>23,530,000</u>	<u>0</u>	<u>1,035,000</u>	<u>22,495,000</u>
Total Current Interest Bonds			<u>\$60,198,791</u>	<u>\$38,450,000</u>	<u>\$ 0</u>	<u>\$ 2,620,000</u>	<u>\$ 35,830,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2014, are as follows:

Year Ended June 30	Principal	Interest	Totals
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	2,010,000	762,993	2,772,993
2020-2024	20,650,000	1,783,813	22,433,813
2025-2029	2,875,000	157,581	3,032,581
Totals	<u>\$ 35,830,000</u>	<u>\$ 6,625,713</u>	<u>\$ 42,455,713</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds

Description and Date	Interest Rate %	Maturity Year	Amount of Original Issue	Outstanding July 1, 2013	Accreted Current Year	Redeemed Current Year	Outstanding June 30, 2014
High School 1995 Series							
(Refunding)	4.65-5.80	2018	<u>\$ 8,972,019</u>	<u>\$13,411,686</u>	<u>\$ 680,525</u>	<u>\$ 1,755,000</u>	<u>\$ 12,337,211</u>
Total Capital Appreciation Bonds			<u>\$ 8,972,019</u>	<u>\$13,411,686</u>	<u>\$ 680,525</u>	<u>\$ 1,755,000</u>	<u>\$ 12,337,211</u>

The outstanding obligation for the 1995 Series Refunding capital appreciation bonds at June 30, 2014, is as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2015	5.65%	750,699	1,364,557	2,115,256
2016	5.65%	783,511	1,424,246	2,207,757
2017	5.70%	800,922	1,476,317	2,277,239
2018	5.70%	1,005,584	1,853,574	2,859,158
2019	5.70%	1,012,116	1,865,685	2,877,801
Totals		<u>\$ 4,352,832</u>	<u>\$ 7,984,379</u>	<u>\$ 12,337,211</u>

The annual requirements to amortize the 1995 Series Refunding capital appreciation bonds at June 30, 2014, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>\$ 4,352,832</u>	<u>\$ 10,813,331</u>	<u>\$ 15,166,163</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - 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, 2014, the principal balance outstanding was \$6,615,000. The certificates mature through 2031 as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	345,000	164,301	509,301
2020-2024	2,285,000	639,588	2,924,588
2025-2029	2,220,000	303,248	2,523,248
2030-2034	485,000	15,969	500,969
Totals	<u>\$ 6,615,000</u>	<u>\$ 1,890,610</u>	<u>\$ 8,505,610</u>

NOTE 9 - CAPITAL LEASES

The District has entered into lease-purchase agreements to finance the acquisition of vehicles, equipment, and a solar photovoltaic system valued at \$3,580,720. 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:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 249,567	\$ 163,869	\$ 413,436
2016	205,500	148,843	354,343
2017	213,797	136,077	349,874
2018	222,430	122,796	345,226
2019	231,412	108,978	340,390
2020-2024	1,304,998	317,294	1,622,292
2025-2029	293,450	13,535	306,985
Totals	<u>\$ 2,721,154</u>	<u>\$ 1,011,392</u>	<u>\$ 3,732,546</u>

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

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - 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, 2014, 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.

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 2013-14, the District contributed \$35,390 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>
2015	\$ 29,922
2016	29,089
2017	<u>27,946</u>
Total	<u>\$ 86,957</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.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

Valuation Methods and Assumptions (Concluded): In the 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.

NOTE 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2014, is shown below:

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014	Due within One Year
Compensated Absences	\$ 600,336	\$ 536,828	\$ 600,336	\$ 536,828	\$ 536,828
General Obligation Bonds:					
Current Interest	38,450,000		2,620,000	35,830,000	2,555,000
Capital Appreciation	13,411,686	680,525	1,755,000	12,337,211	2,115,256
Bond Premium	1,182,147		161,705	1,020,442	99,652
Certificates of Participation	6,915,000		300,000	6,615,000	305,000
Capital Leases	2,949,219	50,625	278,690	2,721,154	249,567
Early Retirement Incentives	196,169	188,063	196,169	188,063	188,063
Other Post-Employment Benefits	122,347		35,390	86,957	29,922
Totals	\$ 63,826,904	\$ 1,456,041	\$ 5,947,290	\$ 59,335,655	\$ 6,079,288

The general obligation bonds are an obligation of the Bond Interest and Redemption Fund; the certificates of participation are an obligation of the Capital Projects - Special Reserve, and the capital leases are obligations of the General Fund and Cafeteria Fund. All other long-term liabilities are obligations of the General Fund.

NOTE 12 - FUND BALANCES

The fund balances as of June 30, 2014 are as follows:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 47,854		\$ 21,794	\$ 69,648
Restricted	2,252,599	\$ 5,715,433	2,482,625	10,450,657
Assigned	952,313		1,254,289	2,206,602
Unassigned:				
Economic Uncertainties	2,057,671			2,057,671
Other	5,295,820			5,295,820
Total Fund Balances	\$ 10,606,257	\$ 5,715,433	\$ 3,758,708	\$ 20,080,398

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The District was the recipient of on-behalf payments made by the State of California to the California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$1,598,718 to CalSTRS (5.204% of creditable compensation subject to CalSTRS).

NOTE 14 - 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 2013-14 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, 2014, 2013, and 2012, were \$2,460,509, \$2,332,242, and \$2,407,706, 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, 2014

NOTE 14 - 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 2013-14 was 11.442% 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, 2014, 2013, and 2012, were \$1,246,277, \$1,084,706, and \$1,087,622, 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 Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District and participating employees are both required to contribute 6.2% of employee gross earnings.

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 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013-14, 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 16 - 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, 2014

NOTE 16 - 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 17 - CHARTER SCHOOL

The District has approved Charters for the Live Oak Charter School, 6th Grade Charter Academy, Mary Collins School at Cherry Valley, Penngrove, and Gateway to College pursuant to Education Code Section 47605. The 6th Grade Charter Academy, Mary Collins School at Cherry Valley, Penngrove, and Gateway to College 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 18 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

The District is subject to various 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.

C. Questioned Cost

As discussed in **Finding 14-5** in the Findings and Questioned Costs Section of this report, the pupils who attended the Gateway to College Academy Charter School were not under the immediate supervision and control of an employee of the charter school who possessed a valid teaching certification in accordance with subdivision (l) of Education Code Section 47605. As a result, the average daily attendance reported as classroom-based instruction on the charter school's P-2 attendance reports, was overstated by 36.26 ADA, which resulted in questioned costs of \$272,024. The District has submitted a request for a waiver in hopes of eliminating or significantly reducing the questioned costs. As of the completion of the annual audit, this issue remains unresolved. Accordingly, since there is no way to determine the outcome of the District's waiver request, these financial statements do not contain any adjustments as a result of this finding.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 - RESTATEMENT OF NET POSITION

In accordance with the provisions of GASB 65, the beginning net position balance has been restated to reflect the write-off of unamortized debt issuance costs. The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2013 (as originally stated)	\$ 53,915,873
Overstatement of Unamortized Debt Issuance Cost	<u>(738,328)</u>
Net Position - July 1, 2013 (as restated)	<u>\$ 53,177,545</u>

NOTE 20 - 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 5, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements, except as described below.

General Obligation Bonds

On August 14, 2014, the District issued \$23,000,000 and \$7,000,000 of general obligation bonds, Election of 2014, Series A, for the Petaluma Joint Union High School District and Petaluma City Elementary School District, respectively. The proceeds of the bonds will be used to defease the outstanding certificates of participation; provide funding to complete various projects identified in the ballot measure, and pay for certain costs associated with the issuance of the bonds.

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 26,767,047	\$ 27,527,290	\$ 23,964,454	\$ (3,562,836)
Local Sources	24,150,307	25,486,898	28,734,305	3,247,407
Total LCFF Sources	50,917,354	53,014,188	52,698,759	(315,429)
Federal Revenue	2,832,597	3,254,622	2,956,985	(297,637)
Other State Revenue	3,887,643	4,076,521	4,140,527	64,006
Other Local Revenue	6,799,359	7,839,876	7,935,927	96,051
Total Revenues	64,436,953	68,185,207	67,732,198	(453,009)
<u>Expenditures</u>				
Certificated Salaries	30,153,511	31,083,879	30,339,914	743,965
Classified Salaries	10,139,467	10,285,543	10,244,083	41,460
Employee Benefits	14,301,150	14,375,609	14,055,972	319,637
Books and Supplies	2,246,508	4,327,569	2,802,465	1,525,104
Services and Other				
Operating Expenditures	9,104,383	10,923,021	10,579,192	343,829
Capital Outlay	13,500	23,879	5,530	18,349
Debt Service:				
Principal Retirement	230,274	230,274	274,442	(44,168)
Interest and Fiscal Charges	187,199	187,199	179,905	7,294
Other Expenditures	862,831	(53,612)	158,148	(211,760)
Total Expenditures	67,238,823	71,383,361	68,639,651	2,743,710
Excess of Revenues (Under) Expenditures	(2,801,870)	(3,198,154)	(907,453)	2,290,701
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out			(100)	(100)
Other Sources		33,189	50,625	17,436
Total Other Financing Sources (Uses)	0	33,189	50,525	17,336
Net Change in Fund Balances	(2,801,870)	(3,164,965)	(856,928)	\$ 2,308,037
Fund Balances - July 1, 2013	11,463,185	11,463,185	11,463,185	
Fund Balances - June 30, 2014	\$ 8,661,315	\$ 8,298,220	\$ 10,606,257	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Deferred Maintenance	Cafeteria	Adult Education
<u>Assets</u>			
Deposits and Investments	\$ 241,252	\$ 24,048	\$ 445,775
Receivables		166,986	182,561
Due from Other Funds	888,849	174,462	289,909
Stores Inventory		21,494	
Total Assets	<u>\$ 1,130,101</u>	<u>\$ 386,990</u>	<u>\$ 918,245</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 202,762	\$ 19,804	\$ 166,990
Due to Other Funds		310,119	272
Total Liabilities	<u>202,762</u>	<u>329,923</u>	<u>167,262</u>
Fund Balances:			
Nonspendable		21,494	300
Restricted	673,326	35,573	
Assigned	254,013		750,683
Total Fund Balances	<u>927,339</u>	<u>57,067</u>	<u>750,983</u>
Total Liabilities and Fund Balances	<u>\$ 1,130,101</u>	<u>\$ 386,990</u>	<u>\$ 918,245</u>

Capital Facilities	Building	County School Facilities	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
\$ 1,383,924	\$ 144,185	\$ 161	\$ 850,957	\$ 3,090,302
	8,950		43	349,590
			66,025	1,428,195
				21,494
<u>\$ 1,383,924</u>	<u>\$ 153,135</u>	<u>\$ 161</u>	<u>\$ 917,025</u>	<u>\$ 4,889,581</u>
\$ 24,671	\$ 17,108		\$ 129,116	\$ 560,451
9,784	247		250,000	570,422
<u>34,455</u>	<u>17,355</u>		<u>379,116</u>	<u>1,130,873</u>
1,349,469	135,780	\$ 161	288,316	21,794
			249,593	2,482,625
<u>1,349,469</u>	<u>135,780</u>	<u>161</u>	<u>537,909</u>	<u>1,254,289</u>
<u>\$ 1,383,924</u>	<u>\$ 153,135</u>	<u>\$ 161</u>	<u>\$ 917,025</u>	<u>\$ 4,889,581</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, 2014

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Adult Education</u>
<u>Revenues</u>			
LCFF Sources:			
State Apportionment / Transfers	\$ 320,000		\$ 643,428
Federal Revenue		\$ 1,062,324	79,440
State Revenue		85,350	200,365
Local Revenue	569,619	757,076	348,853
Total Revenues	<u>889,619</u>	<u>1,904,750</u>	<u>1,272,086</u>
<u>Expenditures</u>			
Instruction			660,157
School Site Administration			301,419
Food Services		1,950,827	
Other Pupil Services			84,825
Other General Administration			3,980
Plant Services	731,338	7,029	16,476
Facilities Acquisition and Construction	170		
Debt Service:			
Principal Retirement		4,248	
Interest and Issuance Costs		25	
Total Expenditures	<u>731,508</u>	<u>1,962,129</u>	<u>1,066,857</u>
Excess of Revenues Over (Under) Expenditures	158,111	(57,379)	205,229
<u>Other Financing Sources</u>			
Operating Transfers In			
Net Change in Fund Balances	158,111	(57,379)	205,229
Fund Balances - July 1, 2013	<u>769,228</u>	<u>114,446</u>	<u>545,754</u>
Fund Balances - June 30, 2014	<u>\$ 927,339</u>	<u>\$ 57,067</u>	<u>\$ 750,983</u>

<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>
				\$ 963,428
				1,141,764
			\$ 288,879	574,594
\$ 349,202	\$ 1,164	\$ 88	72,593	2,098,595
<u>349,202</u>	<u>1,164</u>	<u>88</u>	<u>361,472</u>	<u>4,778,381</u>
				660,157
				301,419
				1,950,827
				84,825
				3,980
49,211	112		31,096	835,262
185,721	101,510	80,348	150,356	518,105
			300,000	304,248
			125,084	125,109
<u>234,932</u>	<u>101,622</u>	<u>80,348</u>	<u>606,536</u>	<u>4,783,932</u>
114,270	(100,458)	(80,260)	(245,064)	(5,551)
		100		100
<u>114,270</u>	<u>(100,458)</u>	<u>(80,160)</u>	<u>(245,064)</u>	<u>(5,451)</u>
<u>1,235,199</u>	<u>236,238</u>	<u>80,321</u>	<u>782,973</u>	<u>3,764,159</u>
<u>\$ 1,349,469</u>	<u>\$ 135,780</u>	<u>\$ 161</u>	<u>\$ 537,909</u>	<u>\$ 3,758,708</u>

PETALUMA CITY SCHOOLS
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<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>
06/30/14	\$ 0	\$ 86,957	\$ 86,957	0%	\$ 0	0%
06/30/13	0	122,347	122,347	0%	0	0%
06/30/12	0	230,824	230,824	0%	0	0%

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

ORGANIZATION

Petaluma City Schools was established in 1857 under the laws of the State of California. The District operates five elementary schools, two junior high schools, two comprehensive high schools, three continuation schools, a community day school, and four charter schools. The District also operates an independent study school and an 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
Phoebe Ellis	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, 2014

	P-2 Report				Total
	TK / K - 3	4 - 6	7 - 8	9 - 12	
Regular	929.04	701.25	1,610.50	3,115.33	6,356.12
Extended Year - Special Education	0.54	0.50	0.34	0.33	1.71
Special Education - Nonpublic	1.29	3.83	6.59	17.80	29.51
Extended Year - Nonpublic	0.13	0.91	0.35	2.06	3.45
Community Day School			10.76	7.93	18.69
Totals	<u>931.00</u>	<u>706.49</u>	<u>1,628.54</u>	<u>3,143.45</u>	<u>6,409.48</u>

	Annual Report				Total
	TK / K - 3	4 - 6	7 - 8	9 - 12	
Regular	930.15	701.98	1,606.55	3,094.66	6,333.34
Extended Year - Special Education	0.54	0.50	0.34	0.33	1.71
Special Education - Nonpublic	1.27	4.24	6.43	18.03	29.97
Extended Year - Nonpublic	0.14	0.91	0.37	2.09	3.51
Community Day School			12.69	7.87	20.56
Totals	<u>932.10</u>	<u>707.63</u>	<u>1,626.38</u>	<u>3,122.98</u>	<u>6,389.09</u>

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE - CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>P-2 Report</u>				<u>Annual Report</u>			
	<u>(Unaudited)</u>		<u>(Audited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
<u>Penngrove</u>								
TK / K - 3	223.41	223.77	223.41	223.77	222.75	223.06	222.75	223.06
Grades 4 - 6	167.93	168.20	167.93	168.20	167.02	167.32	167.02	167.32
<u>Sixth Grade Charter Academy</u>								
Grades 4 - 6	53.83	54.16	53.83	54.16	54.07	54.37	54.07	54.37
<u>Mary Collins School at Cherry Valley</u>								
TK / K - 3	198.47	198.89	198.47	198.89	198.51	198.95	198.51	198.95
Grades 4 - 6	125.46	125.67	125.46	125.67	125.23	125.38	125.23	125.38
Grades 7 - 8	86.08	86.34	86.08	86.34	86.05	86.24	86.05	86.24
<u>Gateway to College Academy</u>								
Grades 9 - 12	<u>36.26</u>	<u>36.26</u>	<u>0.00</u> *	<u>0.00</u> *	<u>37.09</u>	<u>37.09</u>	<u>0.00</u> *	<u>0.00</u> *
Totals	<u>891.44</u>	<u>893.29</u>	<u>855.18</u> *	<u>857.03</u> *	<u>890.72</u>	<u>892.41</u>	<u>853.63</u> *	<u>855.32</u> *

* Balance has been adjusted to reflect **Finding 14 - 5 / 40000** in the Findings and Questioned Costs Section of this report.

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	47,352	180	N/A	In Compliance
Grade 1	50,400	49,000	50,476	180	N/A	In Compliance
Grade 2	50,400	49,000	50,476	180	N/A	In Compliance
Grade 3	50,400	49,000	50,476	180	N/A	In Compliance
Grade 4	54,000	52,500	54,014	180	N/A	In Compliance
Grade 5	54,000	52,500	54,014	180	N/A	In Compliance
Grade 6	54,000	52,500	54,014	180	N/A	In Compliance
Grade 7	54,000	52,500	53,915	180	N/A	In Compliance
Grade 8	54,000	52,500	53,915	180	N/A	In Compliance
Grade 9	64,800	63,000	64,070	180	N/A	In Compliance
Grade 10	64,800	63,000	64,070	180	N/A	In Compliance
Grade 11	64,800	63,000	64,070	180	N/A	In Compliance
Grade 12	64,800	63,000	64,070	180	N/A	In Compliance

PETALUMA CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME - CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2013-14 Minutes</u>		<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	
<u>Penngrove</u>			
Kindergarten	34,971	47,730	In Compliance
Grade 1	48,960	50,925	In Compliance
Grade 2	48,960	50,925	In Compliance
Grade 3	48,960	50,925	In Compliance
Grade 4	52,457	54,469	In Compliance
Grade 5	52,457	54,469	In Compliance
Grade 6	52,457	54,469	In Compliance
<u>6th Grade Charter Academy</u>			
Grade 6	52,457	54,049	In Compliance
<u>Mary Collins School at Cherry Valley</u>			
Kindergarten	34,971	37,665	In Compliance
Grade 1	48,960	50,445	In Compliance
Grade 2	48,960	50,445	In Compliance
Grade 3	48,960	50,445	In Compliance
Grade 4	52,457	54,028	In Compliance
Grade 5	52,457	54,028	In Compliance
Grade 6	52,457	54,028	In Compliance
Grade 7	52,457	54,028	In Compliance
Grade 8	52,457	54,028	In Compliance
<u>Gateway to College Academy</u>			
Grade 9	62,949	0	Not In Compliance *
Grade 10	62,949	0	Not In Compliance *
Grade 11	62,949	0	Not In Compliance *
Grade 12	62,949	0	Not In Compliance *

* Gateway to College Academy Charter did not meet requirements of Education Code Section 47612.5 (e)(1). (See **Finding 14 - 5 / 40000** 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, 2014

<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	\$ 828,428
School Basic Breakfast	10.553	13525	1,673
School Needy Breakfast	10.553	13526	232,223
U.S. Department of Education:			
Passed through CDE:			
<i>Adult Education Cluster:</i>			
Adult Basic Education & ESL	84.002A	14508	36,741
Adult Secondary Education	84.002	13978	11,201
English Literacy & Civics	84.002A	14109	31,498
<i>Title I, Part A Cluster:</i>			
NCLB: Title I Basic Grant Low-Income & Neglected	84.010	14329	559,486
NCLB: Title I School Improvement Grant	84.377	14971	222,926
NCLB: Title II Improving Teacher Quality	84.367	14341	125,186
NCLB: Title III Limited English Proficient	84.365	10084	149,576
NCLB: Title X McKinney-Vento Homeless Assistance	84.196	14332	16,645
Carl D. Perkins Career and Technical Education	84.048	14894	55,782
Passed through Sonoma County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Local Assistance	84.027	13379	1,493,272
IDEA Part B Preschool Grants	84.173	13430	114,412
IDEA Part B Preschool Local Entitlement	84.027A	13682	147,948
IDEA Part B Mental Health Allocation	84.027	14468	55,253
Received Direct:			
Smaller Learning Communities Grant	84.215L	n/a	16,499
Total			<u>\$ 4,098,749</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, 2014

	Deferred Maintenance Fund	Enterprise Fund
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 947,559	\$ 57,269
Adjustments (Decreasing) Fund Balances:		
Understatement of Contracted Service Expenditures	(20,220)	
Understatement of Depreciation Expense		(5,484)
Total Adjustments	(20,220)	(5,484)
June 30, 2014 Audited Financial Statements Fund Balances	\$ 927,339	\$ 51,785

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, 2014.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND			
	(Budget)* 2014-15	2013-14	2012-13	2011-12
Revenues and Other Financial Sources	\$ 68,703,235	\$ 67,782,823	\$ 64,181,694	\$ 66,209,586
Expenditures	71,275,481	68,639,651	65,153,968	66,490,987
Other Uses and Transfers Out	0	100	0	0
Total Outgo	71,275,481	68,639,751	65,153,968	66,490,987
Change in Fund Balance	(2,572,246)	(856,928)	(972,274)	(281,401)
Ending Fund Balance	\$ 8,034,011	\$ 10,606,257	\$ 11,463,185	\$ 12,435,459
Available Reserves	\$ 5,714,370	\$ 7,353,491	\$ 8,800,624	\$ 9,774,030
Reserve for Economic Uncertainties **	\$ 2,138,264	\$ 2,057,671	\$ 1,954,619	\$ 1,994,013
Available Reserves as a Percentage of Total Outgo	8.0%	10.7%	13.5%	14.7%
Total Long-Term Liabilities	\$ 53,256,367	\$ 59,335,655	\$ 63,826,904	\$ 67,507,673
Average Daily Attendance at P-2 *** (Inclusive of Charter School ADA)	7,439	7,303	7,231	7,209

* The fiscal year 2014-15 budget information is presented for analytical purposes only and has not been audited.

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

*** Includes 36.26 ADA disallowed as a result of **Finding 14 - 4** in the Findings and Questioned Costs Section of this report.

The fund balance of the General Fund decreased \$1,829,202 (14.7%) over the past two years. The fiscal year 2014-15 budget projects a decrease of \$2,572,246 (24.3%). 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 incurred operating deficits of \$281,401, \$972,274, and \$856,928, during fiscal years 2011-12, 2012-13, and 2013-14, respectively.

Total long-term liabilities decreased \$8,172,018 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 94 ADA over the past two years. The District anticipates an increase of 136 ADA during fiscal year 2014-15.

**PETALUMA CITY SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Charter Schools</u>	<u>District Audit</u>
Penngrove	Included
6 th Grade Charter Academy	Included
Mary Collins School at Cherry Valley	Included
Gateway to College Academy	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, 2014

	<u>Elementary Measure C</u>	<u>High School Measure K</u>	<u>Totals</u>
<u>Revenues</u>			
Parcel Tax Revenue, Net	\$ 749,222	\$ 1,156,935	\$ 1,906,157
<u>Expenditures</u>			
Certificated Salaries	430,745	364,554	795,299
Classified Salaries	105,407	131,543	236,950
Employee Benefits	168,456	154,163	322,619
Books and Supplies	12,802	175,357	188,159
Services and Operating Expenditures	10,084	95,632	105,716
Other Outgo	9,497		9,497
Total Expenditures	<u>736,991</u>	<u>921,249</u>	<u>1,658,240</u>
Net Change in Fund Balances	12,231	235,686	247,917
Fund Balances - Beginning	<u>312,169</u>	<u>822,851</u>	<u>1,135,020</u>
Fund Balances - Ending	<u><u>\$ 324,400</u></u>	<u><u>\$ 1,058,537</u></u>	<u><u>\$ 1,382,937</u></u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 spans 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 spans.

PETALUMA CITY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONTINUED)

F. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year, but the District did not meet or exceed its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

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 2013-14, 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, 2014

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 2013-14* for the fiscal year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, 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. Our audit does not provide a legal determination of Petaluma City Schools' compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine Petaluma City Schools' compliance with state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in 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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time for School Districts	10	Yes
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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance For Charter Schools	8	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
Charter School Facility Grant Program	1	Not Applicable

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 State Compliance

In our opinion, Petaluma City Schools complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 14-5**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 5, 2014

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, 2014, 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 5, 2014.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies, as noted in **Findings 14-1, 14-2, 14-3, and 14-4**.

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 Responses 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 them.

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 5, 2014

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND 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, 2014. 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, 2014.

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 5, 2014

FINDINGS AND QUESTIONED COSTS SECTION

PETALUMA CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	X	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)

	_____	Yes	_____	X	No
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.027 / 84.027A / 84.173	Special Education Cluster
10.553 / 10.555	Child Nutrition Cluster
84.365	Title III Limited English Proficient

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

Auditee qualified as low-risk auditee?

	_____	Yes	_____	X	No
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State Awards

Internal control over state programs:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified not considered to be material weaknesses?	_____	X	_____		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, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

14 - 1 / 30000

SIGNIFICANT DEFICIENCY

DEFICIT SPENDING

Criteria: In accordance with Title 5, CCR, Section 15483, the State recommends that the District maintain available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

Condition: Although the District currently has available reserves that are well above the state recommended minimum, the District incurred operating deficits of \$281,401, \$972,274 and \$856,928, during fiscal years 2011-12, 2012-13 and 2013-14, respectively. As a result, the fund balance of the General Fund has decreased \$2,110,603 over the past three years. In addition, the District's fiscal year 2014-15 budget projects a further decrease of \$2,572,246.

Questioned Costs: None.

Context: Available reserves as a percentage of total outgo have decreased from 14.7% down to 10.7% over the past two years.

Effect: If appropriate program cuts are not made in a timely manner, and available reserves are allowed to continue to decline, it may impair the District's ability to meet its obligations as they become due in future years.

Cause: The District has not reduced its program spending down to a level, which can be supported by the amount of revenue received by the District.

Recommendation: The District should take appropriate action to reduce its program spending down to a level, which can be supported by the amount of revenue received by the District.

District Response: The District had planned to spend down reserves to eliminate furlough days. In future years, the District will reduce spending to levels that can be supported by revenue received.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

14 - 2 / 30000

SIGNIFICANT DEFICIENCY

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 significant misstatements.

Condition: The District’s internal control over financial reporting in the current fiscal year was ineffective. As a result, the fiscal year 2013-14 “Unaudited Actuals” contained several significant misstatements, as follows:

- An accounts payable balance was not recorded in the Deferred Maintenance Fund to recognize expenditures that were incurred during fiscal year 2013-14.
- 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 2013-14.
- Depreciation expense was not recorded in the Enterprise Fund to reflect the District’s actual net investment in capital assets.

Questioned Costs: None.

Context: Similar financial reporting deficiencies have been noted in recent audits reports.

Effect: The fiscal year 2013-14 “Unaudited Actuals” approved by the Governing Board contained misstatements, one of which required an adjustment to be made to ensure that the financial statements were fairly presented.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 significant misstatements.

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

District Response: The District will remind staff of proper internal controls over financial reporting and implement the recommended changes.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

14 - 3 / 30000

SIGNIFICANT DEFICIENCY

FINANCIAL REPORTING - CHARTER SCHOOLS

Criteria: The financial activities of Petaluma City Elementary School District, Petaluma Joint Union High School District, and each of the dependent charter schools are all reported in the General Fund of Petaluma City Schools. Each of these entities receive funding under the new Local Control Funding Formula (LCFF) in the form of LCFF state aid, EPA state aid, LCFF transfers to charter schools in lieu of property taxes, and local property taxes, as appropriate. The total amount of LCFF sources earned by each entity is independently determined, however, the allocation of LCFF state aid, EPA state aid, LCFF transfers to charter schools in lieu of property taxes, and local property taxes, are intertwined. Accordingly, to ensure that LCFF funding is recorded in the appropriate amount in total, and on an individual entity basis, the district should reconcile each entities LCFF funding to the apportionment exhibits on the California Department of Education (CDE) website, and the charter school apportionment worksheets provided by Sonoma County Office of Education (SCOE).

Condition: The District did not reconcile LCFF funding for the districts and dependent charter schools on an individual entity basis. As a result, the amounts recorded in each of the individual funds, which roll up into the General Fund for financial reporting purpose, do not accurately reflect the amounts earned by each entity.

Questioned Costs: None.

Context: Since the individual districts and dependent charter schools are all combined in the General Fund for financial reporting purposes, the misstatements at the individual entity level do not typically translate to misstatements at the financial statements presentation level.

Effect: Reconciling LCFF funding on a fund level basis verses an entity level basis is prone to errors and may result in unreliable financial information at the entity level.

Cause: The District's current procedures do not adequately ensure that the financial information maintained in the accounting system is current accurate and complete on both a fund basis and an individual entity basis.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

FINANCIAL REPORTING - CHARTER SCHOOLS (CONCLUDED)

Recommendation: The District should establish appropriate procedures to ensure that the financial information maintained in the accounting system is current accurate and complete on both a fund basis and an individual entity basis.

District Response: The District will reconcile to the most current CDE Principal Apportionment calculations individually by District and dependent Charter Schools.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

14 - 4 / 30000

BOOSTER ORGANIZATIONS

<u>Criteria:</u>	Booster organizations are legally separate tax exempt entities that have been organized to provide support to school districts and their students. As a result, the financial activities and fundraising activities of the booster organization should not be accounted for student body personnel or processed through student body bank accounts. The support provided by booster organizations should be limited to formal donations of cash and/or equipment as approved by the governing board.
<u>Condition:</u>	Expenditures relating to fundraising activities of the booster organization at Petaluma High School have been processed through the student body account.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The condition appears to be limited to Petaluma High School.
<u>Effect:</u>	District personnel are performing services that are a responsibility of the booster organization and the student body fund is not being used solely for its intended purpose.
<u>Cause:</u>	Student body personnel were not aware that booster organization financial and fundraising activities should not be accounted for by student body personnel or processed through student body bank accounts.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that all booster organization financial and fundraising activities are not accounted for by student body personnel or processed through student body bank accounts.
<u>District Response:</u>	The District will remind Student Body personnel that the booster organization is a legally separate entity and that their financial and fundraising activities should not be accounted for by student body staff or processed through student body accounts.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2014.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

14 - 5 / 40000

SIGNIFICANT DEFICIENCY

MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES

Criteria: In accordance with Education Code Section 47612.5, notwithstanding any other provision of law, and as a condition of apportionment, "classroom-based instruction" in a charter school occurs only when charter school pupils are engaged in educational activities required of those pupils and are under the immediate supervision and control of an employee of the charter school who possesses a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605.

Condition: Pupils who attended the Gateway to College Academy Charter School were engaged in educational activities required of those pupils, however, the pupils were not under the immediate supervision and control of an employee of the charter school who possessed a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605. Accordingly, the average daily attendance reported as classroom-based instruction on the charter school's P-2 and Annual attendance reports for fiscal year 2013-14, was overstated by 36.26 ADA and 37.09 ADA, respectively. In addition, as a result of the lack of valid teaching certifications for the instructors, the Charter School also did not comply with the annual instruction minute provisions of Education Code Section 47612.5(a)(1), as reduced by the provisions of Education Code Sections 46201.2, or attendance guidelines that require teacher certified attendance records.

Questioned Costs: \$272,024. (The Charter School's entire LCFF transition entitlement based on 36.26 P-2 ADA.)

Context: Charter school pupils were instructed by community college instructors who were not employed by the Charter School and did not possess a valid teaching certification in accordance with subdivision (I) of Education Code Section 47605.

Effect: The Charter School incurred substantial costs to provide education to pupils, but did not receive funding for doing so, by not complying with one of the basic requirements that is a condition of apportionment.

PETALUMA CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

MODE OF INSTRUCTION / ANNUAL INSTRUCTIONAL MINUTES (CONCLUDED)

Cause: The Charter School was initially established in a manner that directly conflicts with the requirements of Education Code Section 47612.5. In addition, District procedures did not detect or resolve the conflicts prior to opening the Charter School.

Recommendation: The District should establish appropriate procedures that will detect and resolve potential conflicts in a timely manner. The District should also modify its current Charter School operations to ensure that it will comply with all relevant requirements during future years. In addition, the Charter School's fiscal year 2013-14 P-2 and Annual attendance reports should be revised to report zero (0) ADA for classroom-based instruction, as presented on page 61.

District Response: The District has committed reserves to account for the loss of ADA funding, relating to the Gateway to College, if the application for a waiver is denied. Gateway to College is now employing certificated personnel through the District to ensure that pupils are receiving instruction from a teacher with a valid teaching credential.

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
13 - 1 / 30000		
MATERIAL WEAKNESS		
<u>FINANCIAL REPORTING – UNAUDITED ACTUALS</u>		
The District should establish procedures to ensure the “Unaudited Actuals” financial reports are free of material misstatements.	Partially Implemented	Comment Repeated (See Finding 14 - 2)
13 - 2 / 30000		
SIGNIFICANT DEFICIENCY		
<u>COMMERCIAL BANK ACCOUNTS</u>		
The District should establish 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.	Implemented	
13 - 3 / 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	Implemented	

PETALUMA CITY SCHOOLS
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
13 - 4 / 10000 / 40000		
MATERIAL WEAKNESS		
<u>REVENUE LIMIT REPORTING</u>		
The District should report 32.02 ADA in the space on the 2013-14 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 procedures to ensure that future prior year ADA adjustments are computed in accordance with the guidance provided in Education Code Section 42238.51.	Implemented	
13 - 5 / 40000		
SIGNIFICANT DEFICIENCY		
<u>ANNUAL INSTRUCTIONAL MINUTES – CLASSROOM BASED CHARTER SCHOOLS</u>		
The District should correct the instructional time spreadsheet and add protection to the appropriate cells within the spreadsheet to prevent unauthorized changes.	Implemented	