

**PETALUMA CITY SCHOOLS
SONOMA COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2025**

NIGRO & NIGRO PC

PETALUMA CITY SCHOOLS

For the Fiscal Year Ended June 30, 2025

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Petaluma City Schools
Petaluma, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Petaluma City Schools, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Changes in Accounting Principle

As discussed in Note 1 to the financial statements, the District has implemented the provisions of GASB Statement No. 101, *Compensated Absences*. Accordingly, prior year liabilities on the Statement of Net Position were restated to adopt this standard. Our opinion is not modified with respect to this matter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contribution, schedule of the District's proportionate share of the net OPEB liability-MPP Program, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the Schedule of Charter Schools, 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 Schedule of Expenditures of Federal Awards and other supplementary information listed in the table of contents, except for the Schedule of Charter Schools, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Charter Schools has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

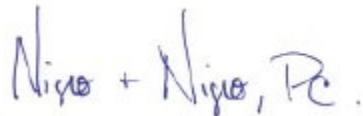
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the LEA Organization Structure but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to the materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2025, on our consideration of the District's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Nigro + Nigro, PC".

Murrieta, California
December 18, 2025

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

This discussion and analysis of Petaluma City Schools' financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$5.2 million, or 18.6%.
- Governmental expenses were about \$145.6 million. Revenues were about \$140.4 million.
- The District acquired over \$4.6 million in new capital assets during the year.
- Governmental funds increased by \$70.0 million, or 90.6%.
- Reserves for the General Fund increased by \$7.6 million or 198.3%. Revenues were \$129.1 million, and expenditures and other financing uses were \$136.0 million.

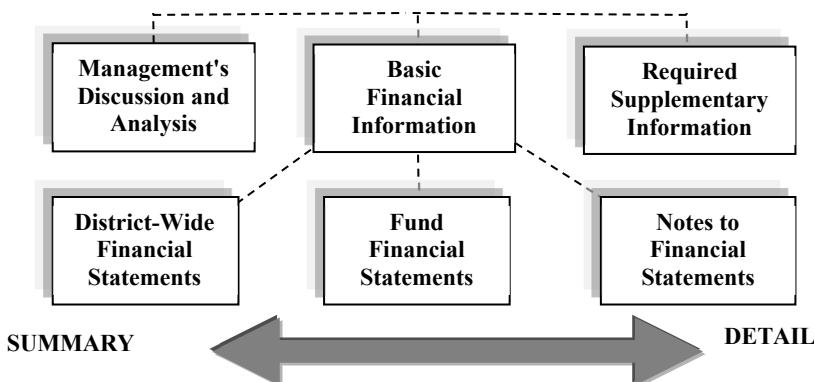
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds* statements.
 - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or custodian for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Petaluma City Schools' Annual Financial Report



PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the District-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- 1) **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

2) **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the District-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured programs for workers' compensation claims, health and welfare benefits, and property and liability claims.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2025, than it was the year before – decreasing 18.6% to \$22.6 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)	Business-Type Activities		Variance Increase (Decrease)
	2025	2024*		2025	2024	
Assets						
Current assets	\$ 160,853,979	\$ 86,463,002	\$ 74,390,977	\$ 10,187	\$ 9,678	\$ 509
Capital assets	92,973,090	97,178,180	(4,205,090)	-	1,421	(1,421)
Total Assets	253,827,069	183,641,182	70,185,887	10,187	11,099	(912)
Total Deferred Outflows of Resources	44,116,292	41,749,162	2,367,130	-	-	-
Liabilities						
Current liabilities	14,015,365	9,363,857	4,651,508	-	-	-
Long-term liabilities	248,904,246	176,988,482	71,915,764	-	-	-
Total Liabilities	262,919,611	186,352,339	76,567,272	-	-	-
Total Deferred Inflows of Resources	12,381,786	11,219,123	1,162,663	-	-	-
Net Position						
Net investment in capital assets	38,619,197	43,455,000	(4,835,803)	-	1,421	(1,421)
Restricted	36,417,574	42,553,416	(6,135,842)	10,187	9,678	509
Unrestricted	(52,394,807)	(58,189,534)	5,794,727	-	-	-
Total Net Position	\$ 22,641,964	\$ 27,818,882	\$ (5,176,918)	\$ 10,187	\$ 11,099	\$ (912)

*As restated

Changes in net position, governmental activities. The District's total revenues increased 4.5% to \$140.4 million (See Table A-2). The increase is due primarily to an increase in operating grants and contributions.

The total cost of all programs and services increased 3.0% to \$146.0 million. The District's expenses are predominantly related to educating and caring for students, 79.4%. The purely administrative activities of the District accounted for just 5.6% of total costs. A significant contributor to the increase in costs was an increase in operational expenses.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)	Business-Type Activities		Variance Increase (Decrease)
	2025	2024		2025	2024	
Revenues						
Program Revenues:						
Charges for services	\$ 5,334,347	\$ 4,882,969	\$ 451,378	\$ -	\$ -	\$ -
Operating grants and contributions	28,530,457	26,204,210	2,326,247	-	-	-
General Revenues:						
Property taxes	67,563,598	61,434,367	6,129,231	-	-	-
Federal and state aid not restricted	34,533,785	39,531,580	(4,997,795)	-	-	-
Other general revenues	4,416,226	2,300,557	2,115,669	509	163	346
Total Revenues	140,378,413	134,353,683	6,024,730	509	163	346
Expenses						
Instruction-related	93,866,918	92,835,107	1,031,811	-	-	-
Pupil services	21,696,705	20,824,907	871,798	-	-	-
Administration	8,104,535	8,006,415	98,120	-	-	-
Plant services	15,584,630	15,031,592	553,038	-	-	-
All other activities	6,302,543	4,653,821	1,648,722	1,421	-	1,421
Total Expenses	145,555,331	141,351,842	4,203,489	1,421	-	1,421
Increase (decrease) in net position	\$ (5,176,918)	\$ (6,998,159)	\$ 1,821,241	\$ (912)	\$ 163	\$ (1,075)
Total Net Position	\$ 22,641,964	\$ 27,818,882		\$ 10,187	\$ 11,099	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$147.4 million, which is above last year's ending fund balance of \$77.3 million. The primary cause of the increased fund balance is proceeds from debt issuance in the Building Fund.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2024*	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2025
General Fund	\$ 31,696,755	\$ 129,082,183	\$ 136,006,856	\$ -	\$ 24,772,082
Student Activity Fund	217,446	296,332	294,907	-	218,871
Adult Education Fund	1,984,348	1,849,065	2,525,876	-	1,307,537
Cafeteria Fund	2,396,194	5,439,917	4,781,573	-	3,054,538
Deferred Maintenance Fund	4,763	250	-	-	5,013
Building Fund	24,510,237	1,873,878	4,026,285	76,000,000	98,357,830
Capital Facilities Fund	6,129,604	1,001,986	495,764	-	6,635,826
Special Reserve Fund (Capital Outlay)	2,038,137	1,789,432	369,352	-	3,458,217
Bond Interest and Redemption Fund	8,255,292	5,633,527	7,074,688	2,647,430	9,461,561
Scholarship Fund	107,894	-	-	-	107,894
Totals	\$ 77,340,670	\$ 146,966,570	\$ 155,575,301	\$ 78,647,430	\$ 147,379,369

*As restated

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025*

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$7.5 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$14.6 million to reflect revised cost estimates.
- Other non-personnel expenses – decreased \$8.7 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$11.4 million, the actual results for the year show that expenditures exceeded revenues by roughly \$6.9 million. The actual revenues were \$1.3 million less than anticipated, and expenditures were \$5.8 million less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2024-25 the District had acquired \$4.6 million in new capital assets, related to land, construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$8.8 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2025	2024	
Land	\$ 4,266,886	\$ 4,266,886	\$ -
Improvement of sites	9,646,363	12,268,839	(2,622,476)
Buildings	68,661,059	65,829,668	2,831,391
Equipment	7,003,933	7,423,965	(420,032)
Construction in progress	3,394,849	7,388,822	(3,993,973)
Total	<u>\$ 92,973,090</u>	<u>\$ 97,178,180</u>	<u>\$ (4,205,090)</u>

Long-Term Debt

At year-end the District had \$248.9 million in long-term liabilities – an increase of 40.6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Notes 7-9 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2025	2024*	
General obligation bonds	\$ 152,728,255	\$ 78,259,824	\$ 74,468,431
Compensated absences	5,442,062	5,364,473	77,589
Other postemployment benefits	304,936	333,647	(28,711)
Net pension liability	90,428,993	93,030,538	(2,601,545)
Total	<u>\$ 248,904,246</u>	<u>\$ 176,988,482</u>	<u>\$ 71,915,764</u>

**As restated*

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

FACTORS BEARING ON THE DISTRICT'S FUTURE

California State Budget

The Budget aims to solve a \$11.8 billion General Fund deficit for 2025-26 through reductions, borrowing and fund shifts. The 2025-26 Enacted Budget relies on reserves and deferrals to meet its Proposition 98 obligations for the fiscal year, including the scheduled \$7.1 billion Budget Stabilization Act (BSA) withdrawal in 2025-26. This will leave a combined reserve balance of \$15.7 billion in 2025-26, including \$11.2 billion in the BSA and an additional \$4.5 billion in the state's discretionary reserve account (the Special Fund for Economic Uncertainties).

TK-12 Education

The Budget includes total funding of \$137.6 billion (\$80.5 billion General Fund and \$57.1 billion other funds) for all TK-12 education programs.

Proposition 98

The Budget revised estimates of General Fund revenues resulting in notable adjustments to the Proposition 98 Guarantee. The revised Guarantee for TK-14 schools is calculated to be \$98.5 billion in 2023-24, \$119.9 billion in 2024-25, and \$114.6 billion in 2025-26. These revised Proposition 98 levels represent an increase of approximately \$3.9 billion over the three-year period relative to the 2024 Budget Act. The Budget appropriates the 2024-25 Guarantee at \$118 billion, instead of the currently calculated level of \$119.9 billion. The difference between the appropriated and the calculated levels is \$1.9 billion, which is referred to as "settle-up." The 2024-25 Guarantee level will not be finalized until that fiscal year is certified—a process that will occur throughout 2026.

The Budget shifts the full TK expansion funding to the TK-12 education side of the Proposition 98 budget, beginning in the 2025-26 fiscal year. This shifts \$232.9 million in ongoing resources from community colleges to TK-12 schools. The purpose of re-benching Proposition 98 for the cost of TK expansion is to ensure that the implementation of universal TK does not create a fiscal burden on existing TK-12 programs.

The Budget includes a LCFF cost-of-living adjustment of 2.3 percent. When combined with population growth adjustments, these baseline adjustments will increase discretionary funds for local educational agencies (LEAs) by \$2.1 billion compared to the 2024 Budget Act. To fully fund the LCFF, the Budget uses \$405.3 million from the Proposition 98 Rainy Day Fund to support LCFF costs in 2025-26.

Budgetary deferrals of \$246.6 million for TK-12 education from 2024-25 will be fully repaid in 2025-26. However, to fully fund the LCFF and maintain the level of 2025-26 principal apportionments, the Budget defers \$1.9 billion in LCFF funding from June 2026 to July 2026.

Funding Results for Education Programs

In the 2025-26 school year, the Budget provides a total of \$2.1 billion ongoing Proposition 98 General Fund (inclusive of all prior years' investments) to support the full implementation of universal TK. The Budget also provides an additional \$1.2 billion ongoing Proposition 98 General Fund to support further lowering the average student-to-adult ratio from 12:1 to 10:1 in every TK classroom.

The Budget provides \$515.1 million ongoing for the full implementation of the Expanded Learning Opportunities Program by increasing the number of elementary schools that offer universal access to students. Additionally, the Budget includes \$10.4 million to increase the minimum grant amount from \$50,000 to \$100,000 per LEA.

The Budget provides \$480 million to support literacy instruction aligned with the ELA/ELD Framework and includes multiple investments intended to support teachers and improve access to the educator pipeline. In addition, the Budget allocates \$1.7 billion one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant, as well as numerous one-time grants for various new and ongoing program support.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Implications

Because the State Budget was approved in late June, it does not reflect the impact of the cuts in federal spending included in the federal omnibus tax and spending bill signed in early July. The bill does not make any statutory or direct funding adjustments to TK-12 federal education programs, including Title I and the Individuals with Disabilities Education Act. However, the bill allocates \$100 million to the OMB to conduct reviews across the executive branch aimed at identifying “budget and accounting efficiencies.”

All of these factors were considered in preparing the Petaluma City Schools budget for the 2025-26 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Business Official, Petaluma City Schools, 200 Douglas Street, Petaluma, CA 94952.

PETALUMA CITY SCHOOLS

Statement of Net Position

June 30, 2025

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Deposits and investments	\$ 145,090,690	\$ 10,187	\$ 145,100,877
Accounts receivable	15,676,887	-	15,676,887
Inventories	69,424	-	69,424
Prepaid expenses	16,978	-	16,978
Capital assets:			
Non-depreciable assets	7,661,735	-	7,661,735
Depreciable assets	234,049,012	56,833	234,105,845
Less accumulated depreciation	(148,737,657)	(56,833)	(148,794,490)
Total Assets	<u>253,827,069</u>	<u>10,187</u>	<u>253,837,256</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	44,099,760	-	44,099,760
Deferred amounts on refunding	16,532	-	16,532
Total Deferred Outflows of Resources	<u>44,116,292</u>	<u>-</u>	<u>44,116,292</u>
LIABILITIES			
Accounts payable	10,988,032	-	10,988,032
Accrued interest payable	1,673,389	-	1,673,389
Unearned revenue	1,353,944	-	1,353,944
Noncurrent liabilities:			
Due or payable within one year	4,052,560	-	4,052,560
Due in more than one year:			
Other than OPEB and pensions	154,117,757	-	154,117,757
Net OPEB liability	304,936	-	304,936
Net pension liability	90,428,993	-	90,428,993
Total Liabilities	<u>262,919,611</u>	<u>-</u>	<u>262,919,611</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	<u>12,381,786</u>	<u>-</u>	<u>12,381,786</u>
NET POSITION			
Net investment in capital assets	38,619,197	-	38,619,197
Restricted for:			
Capital projects	8,549,793	-	8,549,793
Debt service	9,461,561	-	9,461,561
Categorical programs	16,946,821	-	16,946,821
Self-insurance program	1,132,634	-	1,132,634
Student activity	326,765	-	326,765
Enterprise activities	-	10,187	10,187
Unrestricted	(52,394,807)	-	(52,394,807)
Total Net Position	<u>\$ 22,641,964</u>	<u>\$ 10,187</u>	<u>\$ 22,652,151</u>

PETALUMA CITY SCHOOLS

Statement of Activities

For the Fiscal Year Ended June 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities		Totals
<i>Governmental Activities</i>							
Instructional services:							
Instruction	\$ 78,501,563	\$ 3,647,459	\$ 16,128,814	\$ (58,725,290)	\$ -	\$ -	\$ (58,725,290)
Instruction-related services:							
Supervision of instruction	6,192,876	394,395	1,157,363	(4,641,118)	-	-	(4,641,118)
Instructional library, media and technology	1,649,683	143,467	697,369	(808,847)	-	-	(808,847)
School site administration	7,522,796	41,496	630,007	(6,851,293)	-	-	(6,851,293)
Pupil support services:							
Home-to-school transportation	4,114,464	111,570	537,154	(3,465,740)	-	-	(3,465,740)
Food services	4,752,833	311,256	4,854,287	412,710	-	-	412,710
All other pupil services	12,829,408	449,305	2,163,840	(10,216,263)	-	-	(10,216,263)
General administration services:							
Data processing services	1,081,304	-	(6,824)	(1,088,128)	-	-	(1,088,128)
Other general administration	7,023,231	76,775	647,871	(6,298,585)	-	-	(6,298,585)
Plant services	15,584,630	72,033	437,578	(15,075,019)	-	-	(15,075,019)
Ancillary services	1,305,194	46,414	513,333	(745,447)	-	-	(745,447)
Community services	371,485	10,523	224,656	(136,306)	-	-	(136,306)
Enterprise activities	94,739	29,654	143,189	78,104	-	-	78,104
Interest on long-term debt	3,272,528	-	-	(3,272,528)	-	-	(3,272,528)
Other outgo	1,258,597	-	401,820	(856,777)	-	-	(856,777)
Total Governmental Activities	<u>\$ 145,555,331</u>	<u>5,334,347</u>	<u>28,530,457</u>	<u>(111,690,527)</u>	<u>-</u>	<u>-</u>	<u>(111,690,527)</u>
<i>Business-Type Activities</i>							
Enterprise activities							
Totals	<u>\$ 145,555,331</u>	<u>\$ 5,334,347</u>	<u>\$ 28,530,457</u>	<u>(111,690,527)</u>	<u>(1,421)</u>	<u>(1,421)</u>	<u>(111,691,948)</u>
General Revenues:							
Property taxes				67,563,598	-	-	67,563,598
Federal and state aid not restricted to specific purpose				34,533,785	-	-	34,533,785
Interest and investment earnings				2,046,702	509	2,047,211	
Interagency revenues				427,402	-	-	427,402
Miscellaneous				1,942,122	-	-	1,942,122
Total general revenues				<u>106,513,609</u>	<u>509</u>	<u>106,514,118</u>	
Change in net position				(5,176,918)	(912)	(5,177,830)	
Net position, July 1, 2024, as originally stated				<u>31,075,448</u>	<u>11,099</u>	<u>31,086,547</u>	
Adjustments for restatement (Note 13)				<u>(3,256,566)</u>	<u>-</u>	<u>(3,256,566)</u>	
Net position, July 1, 2024, as restated				<u>27,818,882</u>	<u>11,099</u>	<u>27,829,981</u>	
Net position, June 30, 2025	<u>\$ 22,641,964</u>	<u>\$ 10,187</u>	<u>\$ 22,652,151</u>				

PETALUMA CITY SCHOOLS

Balance Sheet – Governmental Funds
June 30, 2025

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 23,111,552	\$ 99,381,147	\$ 21,641,629	\$ 144,134,328
Accounts receivable	14,153,589	286	1,523,012	15,676,887
Due from other funds	253,718	-	1,678,677	1,932,395
Inventories	41,386	-	28,038	69,424
Prepaid expenditures	16,978	-	-	16,978
Total Assets	\$ 37,577,223	\$ 99,381,433	\$ 24,871,356	\$ 161,830,012
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 9,649,364	\$ 1,023,603	\$ 311,156	\$ 10,984,123
Due to other funds	1,858,858	-	253,718	2,112,576
Unearned revenue	1,291,906	-	62,038	1,353,944
Total Liabilities	12,800,128	1,023,603	626,912	14,450,643
Fund Balances				
Nonspendable	82,564	-	29,038	111,602
Restricted	13,244,479	98,357,830	22,012,423	133,614,732
Assigned	-	-	2,202,983	2,202,983
Unassigned	11,450,052	-	-	11,450,052
Total Fund Balances	24,777,095	98,357,830	24,244,444	147,379,369
Total Liabilities and Fund Balances	\$ 37,577,223	\$ 99,381,433	\$ 24,871,356	\$ 161,830,012

PETALUMA CITY SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2025

Total Fund Balances - Governmental Funds	\$ 147,379,369
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	241,710,747
Accumulated depreciation	<u>(148,737,657)</u>
Net:	92,973,090

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:

16,532

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:

(1,673,389)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources from pensions	44,099,760
Deferred inflows of resources from pensions	<u>(12,381,786)</u>
Net:	31,717,974

In governmental funds, only current liabilities are reported. In the statements of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements consist of:

General obligation bonds	152,728,255
Compensated absences	5,442,062
Other postemployment benefits	304,936
Net pension liability	<u>90,428,993</u>
Total:	(248,904,246)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

1,132,634

Total Net Position - Governmental Activities	<u>\$ 22,641,964</u>
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PETALUMA CITY SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2025

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 89,783,792	\$ -	\$ -	\$ 89,783,792
Federal sources	4,123,177	-	2,118,234	6,241,411
Other state sources	17,524,294	-	4,360,900	21,885,194
Other local sources	17,651,170	1,873,878	9,531,125	29,056,173
Total Revenues	129,082,433	1,873,878	16,010,259	146,966,570
EXPENDITURES				
Current:				
Instruction	81,451,767	-	1,287,848	82,739,615
Instruction-Related Services:				
Supervision of instruction	5,617,186	-	128,390	5,745,576
Instructional library, media and technology	1,698,267	-	-	1,698,267
School site administration	7,537,781	-	715,504	8,253,285
Pupil Support Services:				
Home-to-school transportation	4,278,607	-	-	4,278,607
Food services	286,335	-	4,617,218	4,903,553
All other pupil services	12,219,784	-	199,157	12,418,941
Ancillary services	1,048,159	-	294,907	1,343,066
Community services	362,883	-	-	362,883
Enterprise activities	245,410	-	(111)	245,299
General Administration Services:				
Data processing services	1,101,146	-	-	1,101,146
Other general administration	6,525,631	-	-	6,525,631
Plant services	13,390,530	9,141	428,944	13,828,615
Transfers of indirect costs	(237,641)	-	237,641	-
Intergovernmental Transfers	206,970	-	-	206,970
Capital Outlay	274,041	3,647,144	557,974	4,479,159
Debt Service:				
Principal	-	-	3,920,000	3,920,000
Interest	-	-	2,926,688	2,926,688
Issuance costs	-	370,000	228,000	598,000
Total Expenditures	136,006,856	4,026,285	15,542,160	155,575,301
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,924,423)	(2,152,407)	468,099	(8,608,731)
OTHER FINANCING SOURCES (USES)				
Issuance of debt - general obligation bonds	-	76,000,000	-	76,000,000
Premiums on issuance of debt	-	-	2,647,430	2,647,430
Total Other Financing Sources and (Uses)	-	76,000,000	2,647,430	78,647,430
Net Change in Fund Balances	(6,924,423)	73,847,593	3,115,529	70,038,699
Fund Balances, July 1, 2024, as originally stated	30,310,856	24,510,237	21,128,915	75,950,008
Adjustments for restatement (Note 13)	1,390,662	-	-	1,390,662
Fund Balances, July 1, 2024, as restated	31,701,518	24,510,237	21,128,915	77,340,670
Fund Balances, June 30, 2025	\$ 24,777,095	\$ 98,357,830	\$ 24,244,444	\$ 147,379,369

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, 2025

Total Net Change in Fund Balances - Governmental Funds	\$ 70,038,699
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Amounts reported for governmental activities in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	4,585,722
Depreciation expense	(8,790,812)
Net:	<hr/> (4,205,090)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were:

3,920,000

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, net of issue premium or discount were:

(78,647,430)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium and discount for the period is:

258,999

In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(449,789)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This year, differences between accrual-basis pension costs and actual employer contributions was:

3,815,887

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, differences between accrual-basis OPEB costs and actual employer contributions was:

28,711

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities these amounts are amortized over the shorter of the life of the refunded bonds or the refunding bonds. The difference between current year amounts and the current year amortization was:

(9,875)

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was:

(77,589)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

 150,559

Change in Net Position - Governmental Activities

 \$ (5,176,918)

PETALUMA CITY SCHOOLS*Statement of Net Position – Proprietary Fund*
June 30, 2025

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
ASSETS		
Deposits and investments	\$ 956,362	\$ 10,187
Due from other funds	180,181	-
Capital assets:		
Equipment	-	56,833
Less accumulated depreciation	-	(56,833)
Total assets	<u>1,136,543</u>	<u>10,187</u>
LIABILITIES		
Accounts payable	<u>3,909</u>	<u>-</u>
NET POSITION		
Restricted	<u>1,132,634</u>	<u>10,187</u>
Total Net Position	<u>\$ 1,132,634</u>	<u>\$ 10,187</u>

PETALUMA CITY SCHOOLS

*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2025*

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
OPERATING REVENUES		
In-district premiums/contributions	<u>\$ 197,562</u>	<u>\$ -</u>
Total operating revenues	<u>197,562</u>	<u>-</u>
OPERATING EXPENSES		
Payments for claims and other operating expenses	<u>69,218</u>	<u>-</u>
Depreciation expense	<u>-</u>	<u>1,421</u>
Total operating expenses	<u>69,218</u>	<u>1,421</u>
Operating Income	<u>128,344</u>	<u>(1,421)</u>
NON-OPERATING REVENUE		
Interest income	<u>22,215</u>	<u>509</u>
Change in net position	<u>150,559</u>	<u>(912)</u>
Net position, July 1, 2024	<u>982,075</u>	<u>11,099</u>
Net position, June 30, 2025	<u>\$ 1,132,634</u>	<u>\$ 10,187</u>

PETALUMA CITY SCHOOLS

Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2025

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from self-insurance premiums	\$ 201,327	\$ -
Cash paid for operating expenses	<u>(84,078)</u>	<u>-</u>
Net cash provided by operating activities	117,249	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>22,215</u>	<u>509</u>
Net increase in cash	139,464	509
Cash, July 1, 2024	<u>816,898</u>	<u>9,678</u>
Cash, June 30, 2025	<u><u>\$ 956,362</u></u>	<u><u>\$ 10,187</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 128,344	\$ (1,421)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Depreciation expense	- 1,421	
Due from other funds	<u>(14,860)</u>	<u>-</u>
Accounts payable	<u>3,765</u>	<u>-</u>
Net cash provided (used) by operating activities	<u><u>\$ 117,249</u></u>	<u><u>\$ -</u></u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Petaluma City Schools (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. Pursuant to the provisions of *Education Code* Section 35110, the Petaluma Joint Union High School District and the Petaluma City Elementary School District are organized and operated under a common Board of Education and administration with combined financial management and reporting, but are legally separate governmental entities. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category – *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental funds; each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The District also maintains a Deferred Maintenance Fund. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in this fund is being reported within the General Fund. In addition, General Fund also includes activity for Mary Collins Charter School, Penngrove Elementary Charter School, Dual Language Immersion Academy, and Petaluma Accelerated Charter School.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued.

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds: Special revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Student Activity Fund: The District maintains a separate fund for each school that operates an ASB fund, whether it is organized or not.

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues that are restricted or committed for adult education programs.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090 and 38093*).

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Special Revenue Funds (continued):

Scholarship Fund: This 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.

Capital Projects Funds: Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code* Sections 15125-15262).

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds in the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code* Section 17566).

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

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the District-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's proprietary funds and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. 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 for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 as of June 30.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Sites and Improvements	10-30 years
Buildings and Improvements	25-40 years
Furniture and Equipment	5-15 years

4. Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

5. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

6. Compensated Absences

The District has implemented GASB Statement No. 101, *Compensated Absences*. A liability is reported for unused vacation leave. Although sick leave is not paid out upon separation, a liability is recorded for the portion of sick leave that is more likely than not to be used for paid time off. The liability is measured using current pay rates and includes applicable salary-related costs.

7. Leases

Lessee:

The District recognizes a lease liability and an intangible right-to-use leased asset in the government-wide financial statements. At the commencement of the lease term, the District measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. Subsequently, the leased asset is amortized on a straight-line basis over the lease term or useful life of the underlying assets.

Lessor:

The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements. At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

8. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

9. Subscription-Based Information Technology Arrangements

The District recognizes a subscription liability and an intangible right-to-use subscriptions IT asset (subscription IT asset) in the government-wide financial statements. At the commencement of the lease liability, the District measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription liability, plus certain initial direct costs. Subsequently, the subscription IT asset is amortized on a straight-line basis over the subscription term or useful life of the underlying asset. The amortization period varies from 2 to 4 years.

10. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

11. Fund Balances

The fund balance for Governmental Funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

11. Fund Balances (continued)

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

12. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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. Minimum Fund Balance Policy

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the Board of Education has provided otherwise in its commitment or assignment actions.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

G. Change in Accounting Principle

During the year ended June 30, 2025, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. This standard requires the recognition of accrued compensated absences as a liability in the financial statements. The implementation resulted in a cumulative effect adjustment to beginning net position to reflect the recognition of accumulated leave liabilities previously unrecorded. The impact on the District's beginning net position was a decrease of \$4,647,228.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2025, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 144,134,328
Proprietary funds	<u>956,362</u>
Governmental activities	145,090,690
Business-type activities	10,187
Total Deposits and Investments	<u><u>\$ 145,100,877</u></u>

Deposits and investments as of June 30, 2025, consist of the following:

Cash on hand and in banks	\$ 232,648
Cash in revolving fund	25,200
Investments	144,843,029
Total Deposits and Investments	<u><u>\$ 145,100,877</u></u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest-bearing Sonoma County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Sonoma County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Sonoma County Treasurer, which is recorded on the amortized basis.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk 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. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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.

As of June 30, 2025, \$107,087 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments – Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2025, consist of the following:

	Rating	Reported Amount	Maturity		
			Less Than One Year	One Year Through Five Years	Fair Value Measurement
Investment maturities:					
Certificates of deposit	AA	\$ 97,262	\$ 97,262	\$ -	Level 1
Sonoma County Investment Pool	N/A	144,745,767	144,745,767	-	Uncategorized
Total Investments		<u>\$ 144,843,029</u>	<u>\$ 144,843,029</u>	<u>\$ -</u>	

Investments – Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2025, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2025, the District had the following investments that represents more than five percent of the District's net investments outside the County treasury.

Certificates of deposit	100%
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PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that date if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized – Investments in the Sonoma County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

All assets have been valued using a market approach, with quoted market prices.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2025, consisted of the following:

	Governmental Funds				Total Governmental Funds
	General Fund	Building Fund	Non-Major Governmental Funds		
Federal Government:					
Categorical aid programs	\$ 3,081,474	\$ -	\$ 509,250	\$ 3,590,724	
State Government:					
LCFF	3,491,316	-	-	3,491,316	
Lottery	939,243	-	-	939,243	
Categorical aid programs	2,841,020	-	736,271	3,577,291	
Local:					
Interagency services	2,193,984	-	-	2,193,984	
Other local resources	1,606,552	286	277,491	1,884,329	
Total	\$ 14,153,589	\$ 286	\$ 1,523,012	\$ 15,676,887	

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2025, consisted of the following:

	Due from other funds				Total Governmental Funds
	General Fund	Non-Major Governmental Funds	Self- Insurance Funds		
General Fund	\$ -	\$ 1,678,677	\$ 180,181	\$ 1,858,858	
Non-Major Governmental Funds	253,718	-	-	253,718	
Totals	\$ 253,718	\$ 1,678,677	\$ 180,181	\$ 2,112,576	
General Fund due to Adult Education Fund for transportation costs				\$ 251	
General Fund due to Special Reserve Fund for Capital Outlay Projects for project expenses				1,678,426	
General Fund due to Self-Insurance Fund for VSP clearing account transfer				180,181	
Adult Education Fund due to General Fund for indirect costs and expenditure transfers				102,785	
Cafeteria Fund due to General Fund for indirect costs				150,933	
Total				\$ 2,112,576	

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 5 – FUND BALANCES

At June 30, 2025, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 24,200	\$ -	\$ 1,000	\$ 25,200
Stores inventories	41,386	-	28,038	69,424
Prepaid expenditures	16,978	-	-	16,978
Total Nonspendable	82,564	-	29,038	111,602
Restricted:				
Categorical programs	13,244,479	-	-	13,244,479
Adult education program	-	-	647,804	647,804
Food service program	-	-	3,026,500	3,026,500
Capital projects	-	98,357,830	8,549,793	106,907,623
Student activity	-	-	326,765	326,765
Debt service	-	-	9,461,561	9,461,561
Total Restricted	13,244,479	98,357,830	22,012,423	133,614,732
Assigned:				
Adult education program	-	-	658,733	658,733
Capital projects	-	-	1,544,250	1,544,250
Total Assigned	-	-	2,202,983	2,202,983
Unassigned:				
Reserve for economic uncertainties	11,445,039	-	-	11,445,039
Remaining unassigned balances	5,013	-	-	5,013
Total Unassigned	11,450,052	-	-	11,450,052
Total	\$ 24,777,095	\$ 98,357,830	\$ 24,244,444	\$ 147,379,369

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2025, was as follows:

Governmental Activities	Balance, July 1, 2024	Additions	Retirements	Balance, June 30, 2025
Capital assets not being depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in progress	7,388,822	3,675,909	7,669,882	3,394,849
Total capital assets not being depreciated	<u>11,655,708</u>	<u>3,675,909</u>	<u>7,669,882</u>	<u>7,661,735</u>
Capital assets being depreciated:				
Improvement of sites	41,391,164	236,122	-	41,627,286
Buildings	169,275,397	7,793,551	-	177,068,948
Equipment	14,802,756	550,022	-	15,352,778
Total capital assets being depreciated	<u>225,469,317</u>	<u>8,579,695</u>	<u>-</u>	<u>234,049,012</u>
Accumulated depreciation for:				
Improvement of sites	(29,122,325)	(2,858,598)	-	(31,980,923)
Buildings	(103,445,729)	(4,962,160)	-	(108,407,889)
Equipment	(7,378,791)	(970,054)	-	(8,348,845)
Total accumulated depreciation	<u>(139,946,845)</u>	<u>(8,790,812)</u>	<u>-</u>	<u>(148,737,657)</u>
Total capital assets being depreciated, net	<u>85,522,472</u>	<u>(211,117)</u>	<u>-</u>	<u>85,311,355</u>
Governmental activity capital assets, net	<u>\$ 97,178,180</u>	<u>\$ 3,464,792</u>	<u>\$ 7,669,882</u>	<u>\$ 92,973,090</u>
Business-Type Activities				
Business-Type Activities	Balance, July 1, 2024	Additions	Retirements	Balance, June 30, 2025
Capital Assets being depreciated				
Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Accumulated depreciation for:				
Equipment	(55,412)	(1,421)	-	(56,833)
Business-type activity capital assets, net	<u>\$ 1,421</u>	<u>\$ (1,421)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 5,477,096
Instruction-Related Services	953,824
Pupil Services	1,132,137
General Administration	455,453
Plant Services	<u>772,302</u>
 Total Depreciation	 <u>\$ 8,790,812</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 7 – LONG-TERM LIABILITIES OTHER THAN OPEB OR PENSIONS

Changes in long-term debt for the fiscal year ended June 30, 2025, were as follows:

	Balance, July 1, 2024	Additions	Deductions	Balance, June 30, 2025	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 74,560,000	\$ 76,000,000	\$ 3,920,000	\$ 146,640,000	\$ 3,715,000
Bond issuance premiums	3,699,824	2,647,430	258,999	6,088,255	337,560
Total - Bonds	78,259,824	78,647,430	4,178,999	152,728,255	4,052,560
Compensated Absences					
Vacation leave	717,245	204,739	-	921,984	-
Sick leave*	4,647,228	-	127,150	4,520,078	-
Totals	\$ 83,624,297	\$ 78,852,169	\$ 4,306,149	\$ 158,170,317	\$ 4,052,560

* As restated for implementation of GASB 101

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. Additions and deductions for compensated absences are reported net of their cumulative change in the current year.

General Obligation Bonds

Election of 1992

On April 14, 1992, the voters of the District approved a measure authorizing the District to issue up to \$45 million of general obligation bonds for the purpose of renovating and modernizing school facilities. All bonds authorized by this election have been issued, but only the Series G bonds remain outstanding at June 30, 2025.

Election of 2014 (Elementary District, Measure E)

On June 3, 2014, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$21 million of general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

Election of 2014 (High School District, Measure C)

On June 3, 2014, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$68 million of general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

Election of 2024 (Elementary District, Measure Z)

On November 5, 2024, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$70 million of general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

Election of 2024 (High School District, Measure AA)

On November 5, 2024, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$159 million general obligation bonds. The Bonds are being issued to finance the renovation, construction, and improvement of school facilities.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 7 – LONG-TERM LIABILITIES OTHER THAN OPEB OR PENSIONS (continued)

General Obligation Bonds (continued)

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2025, none of the defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2025, the deferred amounts on refunding were \$16,532.

Below is a schedule of bonds issued and outstanding as of June 30, 2025.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2024	Issuances	Redemptions	Balance, June 30, 2025
<u>Elementary District</u>								
<u>Election of 2014</u>								
Series A	8/27/2014	8/1/2039	3.0% - 5.0%	\$ 7,000,000	\$ 4,840,000	\$ -	\$ 125,000	\$ 4,715,000
Series B	5/24/2018	8/1/2042	2.0% - 5.0%	9,000,000	6,750,000	-	75,000	6,675,000
Series C	8/3/2022	8/1/2042	4.0% - 5.0%	5,000,000	4,730,000	-	275,000	4,455,000
<u>Election of 2024</u>								
Series A	6/4/2025	8/1/2054	4.5%-5.0%	23,200,000	-	23,200,000	-	23,200,000
<u>Refunding Issues</u>								
2011 Refunding	11/1/2011	8/1/2027	3.0% - 4.0%	8,470,000	690,000	-	165,000	525,000
2013 Refunding	5/7/2013	8/1/2028	2.0% - 4.0%	1,880,000	740,000	-	135,000	605,000
<u>Total Elementary District</u>						<u>17,750,000</u>	<u>23,200,000</u>	<u>775,000</u>
								<u>40,175,000</u>
<u>High School District</u>								
<u>Election of 1992</u>								
Series G	6/17/2010	8/1/2024	2.0% - 4.5%	2,418,791	840,000	-	840,000	-
<u>Election of 2014</u>								
Series A	8/17/2014	8/1/2039	2.0% - 4.0%	23,000,000	15,715,000	-	400,000	15,315,000
Series B	2/8/2017	8/1/2041	3.0% - 5.0%	20,000,000	16,065,000	-	285,000	15,780,000
Series C	8/3/2022	8/1/2041	2.5% - 5.0%	25,000,000	23,690,000	-	1,120,000	22,570,000
<u>Election of 2024</u>								
Series A	6/4/2025	8/1/2054	4.5%-5.0%	52,800,000	-	52,800,000	-	52,800,000
<u>Refunding Issues</u>								
2012 Refunding	8/9/2012	8/1/2024	2.0% - 4.0%	12,845,000	500,000	-	500,000	-
<u>Total High School District</u>						<u>56,810,000</u>	<u>52,800,000</u>	<u>3,145,000</u>
								<u>106,465,000</u>
<u>Total General Obligation Bonds</u>						<u>\$ 74,560,000</u>	<u>\$ 76,000,000</u>	<u>\$ 3,920,000</u>
								<u>\$ 146,640,000</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 7 – LONG-TERM LIABILITIES OTHER THAN OPEB OR PENSIONS (continued)

General Obligation Bonds (continued)

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Totals
2025-2026	\$ 3,715,000	\$ 5,218,641	\$ 8,933,641
2026-2027	6,110,000	6,273,088	12,383,088
2027-2028	7,020,000	5,965,400	12,985,400
2028-2029	3,400,000	5,733,488	9,133,488
2029-2030	3,665,000	5,585,000	9,250,000
2030-2035	17,880,000	25,946,728	43,826,728
2035-2040	31,535,000	20,914,116	52,449,116
2040-2045	26,080,000	13,791,081	39,871,081
2045-2050	18,275,000	9,538,175	27,813,175
2050-2055	28,960,000	3,866,700	32,826,700
Totals	<u>\$ 146,640,000</u>	<u>\$ 102,832,417</u>	<u>\$ 249,472,417</u>

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

For the fiscal year ended June 30, 2025, the District did not offer any retiree benefits other than pensions but reported a net OPEB liability related to the Medicare Premium Payment Program.

Medicare Premium Payment (MPP) Program

Plan Description

The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <https://www.calstrs.com/general-information/gasb-6768>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. Members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

As of June 30, 2024, 4,121 retirees participated in the MPP Program; however, the number of retired members who will participate in the program in the future is unknown as eligibility cannot be predetermined.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Medicare Premium Payment (MPP) Program (continued)

Benefits Provided (continued)

The MPP Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. In accordance with *Education Code* Section 22950, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Total OPEB Liability

At June 30, 2025, the District reported a liability of \$304,936 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2024, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total OPEB liability to June 30, 2024. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	Percentage Share of MPP Program		
	Fiscal Year Ending	Fiscal Year Ending	Change
	June 30, 2025	June 30, 2024	Increase/ (Decrease)
Measurement Date	June 30, 2024	June 30, 2023	
Proportion of the Net OPEB Liability	0.114402%	0.109956%	0.004446%

For the year ended June 30, 2025, the District reported OPEB expense of \$28,711.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date	June 30, 2024
Valuation Date	June 30, 2023
Experience Study	June 30, 2007 through June 30, 2022
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.93%
Healthcare Cost Trend Rates	5.0% for Medicare Part A, and 6.5% for Medicare Part B

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Medicare Premium Payment (MPP) Program (continued)

Actuarial Assumptions and Other Inputs (continued)

Assumptions were made about future participation (enrollment) into the MPP Program as CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' ages increase. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility but are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 154 or an average of 0.12% of the potentially eligible population of 132,333.

CalSTRS uses a generational mortality assumption, which is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP-2021 Ultimate Projection Scale.

Discount Rate

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2024, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund (SMIF), which is a pooled investment program administered by the California State Treasurer.

As the MPP Program is funded on a pay-as-you-go basis, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, the MPP Program used the Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2024, as the discount rate, which was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate as of June 30, 2024, was 3.93%, which is an increase of 0.28% from 3.65% as of June 30, 2023.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

MPP OPEB		
Discount Rate		Liability
1% decrease	\$	329,019
Current discount rate	\$	304,936
1% increase	\$	283,760

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Medicare Premium Payment (MPP) Program (continued)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

Medicare Cost Trend Rates	MPP OPEB Liability
1% decrease	\$ 282,491
Current trend rate	\$ 304,936
1% increase	\$ 329,996

NOTE 9 – PENSION PLANS

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).

For the fiscal year ended June 30, 2025, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 52,670,442	\$ 24,437,056	\$ 6,908,206	\$ 3,149,653
CalPERS	37,758,551	19,662,704	5,473,580	7,233,444
Totals	\$ 90,428,993	\$ 44,099,760	\$ 12,381,786	\$ 10,383,097

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <https://www.calstrs.com/general-information/gasb-6768>.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is a multiple-employer, cost-sharing defined benefit plan composed of four programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, Cash Balance Benefit (CBB) Program and Replacement Benefits (RB) Program. A Supplemental Benefit Maintenance Account (SBMA) exists within the STRP and provides purchasing power protection for DB Program benefits. The STRP holds assets for the exclusive purpose of providing benefits to members of these programs and their beneficiaries. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

The STRP provisions and benefits in effect at June 30, 2025, are summarized as follows:

STRP Defined Benefit Program		
Hire Date	On or before December 31, 2012	On or after January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	19.10%	19.10%
Required State Contribution Rate	10.828%	10.828%

Contributions

The parameters for member, employer and state contribution rates are set by the California Legislature and the Governor and detailed in the Teachers' Retirement Law. Current contribution rates were established by California Assembly Bill 1469 (CalSTRS Funding Plan), which was passed into law in June 2014 and established a schedule of contribution rate increases shared among members, employers and the state to bring CalSTRS toward full funding by 2046.

The contribution rates for each program for the year ended June 30, 2025, are presented above, and the District's total contributions were \$10,340,371.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2025, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 52,670,442
State's proportionate share of the net pension liability associated with the District	24,165,380
Total	\$ 76,835,822

The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2025	Fiscal Year Ending June 30, 2024	Change Increase/ (Decrease)
	Measurement Date	June 30, 2024	June 30, 2023
Proportion of the Net Pension Liability	0.078422%	0.074338%	0.004084%

For the year ended June 30, 2025, the District recognized pension expense of \$3,149,653. In addition, the District recognized pension expense and revenue of \$(2,308,874) for support provided by the State. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,340,371	\$ -
Net change in proportionate share of net pension liability	7,908,419	795,226
Difference between projected and actual earnings on pension plan investments	-	212,523
Changes of assumptions	230,560	3,597,209
Differences between expected and actual experience	5,957,706	2,303,248
Totals	\$ 24,437,056	\$ 6,908,206

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 1,855,179	\$ 3,928,286
2027	6,007,462	396,168
2028	1,765,951	858,072
2029	1,614,857	1,098,043
2030	1,799,932	312,642
Thereafter	1,053,304	314,995
Totals	\$ 14,096,685	\$ 6,908,206

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024. Significant actuarial methods and assumptions used in the financial reporting actuarial valuation to determine the total pension liability as of June 30, 2024, include:

Valuation Date	June 30, 2023
Experience Study	July 1, 2007, through June 30, 2022
Actuarial Cost Method	Individual Entry Age
Investment Rate of Return	7.00%
Inflation	2.75%
Payroll Growth	3.50%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions (continued)

CalSTRS uses a generational mortality assumption, which is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality amongst our members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP-2021 Ultimate Projection Scale.

The long-term investment rate of return assumption was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class/strategy. Expected real rates of return are net of the 2.75% inflation assumption and are derived from best-estimate ranges of 20- to 30-year geometrically linked expected returns. These best-estimate ranges were developed using capital market assumptions from CalSTRS investment staff and investment consultants as inputs to the process.

The actuarial investment rate of return assumption was adopted by the board in January 2024 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. The assumed asset allocation and best estimates of the expected rates of return for each major asset class/strategy as of June 30, 2024, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return
Public Equity	38.0%	8.00%	5.25%
Real Estate	15.0%	6.80%	4.05%
Private Equity	14.0%	9.50%	6.75%
Fixed Income	14.0%	5.20%	2.45%
Risk Mitigating Strategies	10.0%	5.00%	2.25%
Inflation Sensitive	7.0%	6.40%	3.65%
Cash/Liquidity	2.0%	2.80%	0.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%, which was unchanged from the prior fiscal year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates in accordance with the rate increases. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assume that contributions, benefit payments and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Discount Rate (continued)

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 93,683,481
Current discount rate (7.10%)	\$ 52,670,442
1% increase (8.10%)	\$ 18,422,852

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954, 22955, and 22955.1 of the *Education Code* and *Public Resources Code* Section 6217.5. Under accounting principles generally accepted in the United States of America, these contributions are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$4,879,499.

B. California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-resources/gasb>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the members' final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Benefits Provided (continued)

The CalPERS provisions and benefits in effect at June 30, 2025, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Required Employee Contribution Rate	7.00%	8.00%
Required Employer Contribution Rate	27.05%	27.05%

Contributions

The benefits for the defined benefit pension plans are funded by contributions from members, employers, non-employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. In some circumstances, contributions are made by the employer to satisfy member contribution requirements. Member and employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Non-employer contributions are not expected each year, but when provided they are accrued for. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2025, are presented above, and the total District contributions were \$6,167,489.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2025, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$37,758,551. The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year	Fiscal Year	Change
	Ending	Ending	Increase/ (Decrease)
Measurement Date	June 30, 2025	June 30, 2024	
Proportion of the Net Pension Liability	0.105651%	0.100593%	0.005058%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2025, the District recognized pension expense of \$7,233,444. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,167,489	-
Net change in proportionate share of net pension liability	3,879,042	1,053,965
Difference between projected and actual earnings on pension plan investments	5,616,080	4,149,378
Changes of assumptions	834,591	-
Differences between expected and actual experience	3,165,502	270,237
Totals	\$ 19,662,704	\$ 5,473,580

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 6,436,517	\$ 3,582,073
2027	4,965,807	963,333
2028	1,743,887	464,087
2029	349,004	464,087
2030	-	-
Thereafter	-	-
Totals	\$ 13,495,215	\$ 5,473,580

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2023
Experience Study	2000-2019
Actuarial Cost Method	Individual entry age normal
Discount Rate	6.9%
Inflation Rate	2.3%
Salary Increases	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS' experience and include generational mortality improvement using 80 percent of Scale MP 2020 published by the Society of Actuaries. These tables are used to estimate the value of benefits expected to be paid for service and disability retirements. For disability retirements, impaired longevity is recognized by a separate table.

In determining the long-term expected rate of return, CalPERS took into account 20-year market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Real Return
Global Equity Cap-weighted	30.00%	4.54%
Global Equity Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	(5.00%)	(0.59%)

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 9 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.9%. The discount rate is not adjusted for administrative expenses. The fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for the pension plan's investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (5.9%)	\$ 56,090,641
Current discount rate (6.9%)	\$ 37,758,551
1% increase (7.9%)	\$ 22,614,784

C. Social Security

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.

D. Payables to the Pension Plans

At June 30, 2025, the District reported payables of \$281 for the outstanding amount of legally required contributions to the CalSTRS pension plan for the fiscal year ended June 30, 2025.

NOTE 10 – 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.

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 11 – 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 reimbursement will not be material.

B. Construction Commitments

As of June 30, 2025, the District had commitments with respect to unfinished capital projects of \$9.0 million.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2025.

NOTE 12 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2025, the District contracted with Redwood Empire Schools Insurance Group (RESIG). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the District retains the risk of loss (claims below the District's retained limits), are administered by the Self-Insurance Fund.

Workers' Compensation

For fiscal year 2024-25, the District participated in the Redwood Empire School Insurance Group (RESIG), an insurance purchasing pool. The intent of the RESIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage.

A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG. Participation in the RESIG is limited to districts that can meet the RESIG selection criteria.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2025

NOTE 13 – ADJUSTMENTS FOR RESTATEMENTS

As discussed in Note 1 to the financial statements the District has implemented the provisions of GASB Statement No. 101, *Compensated Absences*. Accordingly, prior year's liabilities on the Statement of Activities were restated as follows:

	General Fund
	Statement of
	Revenues,
	Expenditures and
	Changes in Fund
	Balance
	Statement of
	Activities
Net position/Fund Balance - July 1, 2024, as originally stated	\$ 31,075,448
Implementation of GASB 101	(4,647,228)
Adjustments to accounts payable overstated	1,390,662
Net restatements	(3,256,566)
Net position - July 1, 2024, as restated	<u>\$ 27,818,882</u>
	<u>\$ 31,696,755</u>

NOTE 14 – SUBSEQUENT EVENTS

The High School District issued \$12.63 million of 2025 General Obligation Refunding Bonds on December 4, 2025.

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Required Supplementary Information

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PETALUMA CITY SCHOOLS

Budgetary Comparison Schedule – General Fund For the Fiscal Year Ended June 30, 2025

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 89,571,263	\$ 95,970,696	\$ 89,783,792	\$ (6,186,904)
Federal Sources	6,583,885	3,777,204	4,123,177	345,973
Other State Sources	12,735,423	14,847,407	17,524,294	2,676,887
Other Local Sources	14,048,112	15,824,136	17,650,920	1,826,784
Total Revenues	122,938,683	130,419,443	129,082,183	(1,337,260)
Expenditures				
Current:				
Certificated Salaries	52,004,119	58,402,869	55,568,113	2,834,756
Classified Salaries	21,028,653	23,838,294	23,044,858	793,436
Employee Benefits	32,749,656	38,100,762	34,018,762	4,082,000
Books and Supplies	12,303,184	6,061,927	5,909,005	152,922
Services and Other Operating	16,353,192	15,083,540	16,345,289	(1,261,749)
Capital Outlay	1,656,040	285,462	1,151,500	(866,038)
Other Outgo	(119,097)	53,031	(30,671)	83,702
Total Expenditures	135,975,747	141,825,885	136,006,856	5,819,029
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,037,064)	(11,406,442)	(6,924,673)	4,481,769
Other Financing Sources and Uses				
Interfund Transfers In	-	34,500	-	(34,500)
Total Other Financing Sources and Uses	-	34,500	-	(34,500)
Net Change in Fund Balances	(13,037,064)	(11,371,942)	(6,924,673)	4,447,269
Fund Balances, July 1, 2024	35,337,287	24,584,100	31,696,755	7,112,655
Fund Balances, June 30, 2025	\$ 22,300,223	\$ 13,212,158	24,772,082	\$ 11,559,924
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
Deferred Maintenance Fund			5,013	
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances			<u>\$ 24,777,095</u>	

PETALUMA CITY SCHOOLS

Schedule of Proportionate Share of the Net Pension Liability-CalSTRS For the Fiscal Year Ended June 30, 2025

Last Ten Fiscal Years

Employer's Fiscal Year Measurement Period	2024-25	2023-24	2022-23	2021-22	2020-21
	2023-24	2022-23	2021-22	2020-21	2019-20
District's proportion of the net pension liability	0.0784%	0.0743%	0.0730%	0.0695%	0.0711%
District's proportionate share of the net pension liability	\$ 52,670,442	\$ 56,616,876	\$ 50,733,115	\$ 31,649,242	\$ 68,934,305
State's proportionate share of the net pension liability associated with the District	24,165,380	27,126,737	25,406,946	15,924,671	35,535,643
Totals	\$ 76,835,822	\$ 83,743,613	\$ 76,140,061	\$ 47,573,913	\$ 104,469,948
District's covered-employee payroll	\$ 51,741,763	\$ 46,391,565	\$ 43,255,443	\$ 38,235,484	\$ 38,673,922
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	101.79%	122.04%	117.29%	82.77%	178.24%
Plan fiduciary net position as a percentage of the total pension liability	83.5%	81.2%	81.2%	87.2%	71.8%
Employer's Fiscal Year Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16
	2018-19	2017-18	2016-17	2015-16	2014-15
District's proportion of the net pension liability	0.0668%	0.0660%	0.0632%	0.0693%	0.0561%
District's proportionate share of the net pension liability	\$ 60,288,959	\$ 60,623,309	\$ 58,470,686	\$ 56,036,666	\$ 37,738,597
State's proportionate share of the net pension liability associated with the District	32,891,652	34,709,680	34,590,764	31,905,371	19,959,504
Totals	\$ 93,180,611	\$ 95,332,989	\$ 93,061,450	\$ 87,942,037	\$ 57,698,101
District's covered-employee payroll	\$ 36,199,016	\$ 35,536,980	\$ 33,722,901	\$ 33,761,603	\$ 32,337,613
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	166.55%	170.59%	173.39%	165.98%	116.70%
Plan fiduciary net position as a percentage of the total pension liability	72.6%	71.0%	69.5%	70.0%	74.0%

PETALUMA CITY SCHOOLS

Schedule of Proportionate Share of the Net Pension Liability-CalPERS For the Fiscal Year Ended June 30, 2025

Last Ten Fiscal Years

Employer's Fiscal Year Measurement Period	2024-25	2023-24	2022-23	2021-22	2020-21
	2023-24	2022-23	2021-22	2020-21	2019-20
District's proportion of the net pension liability	0.1057%	0.1006%	0.0919%	0.0997%	0.0922%
District's proportionate share of the net pension liability	\$ 37,758,551	\$ 36,143,662	\$ 31,615,839	\$ 20,278,837	\$ 28,299,577
District's covered-employee payroll	\$ 20,891,327	\$ 18,016,575	\$ 14,372,763	\$ 13,346,792	\$ 13,295,086
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.74%	202.11%	219.97%	151.94%	212.86%
Plan fiduciary net position as a percentage of the total pension liability	72.3%	69.8%	69.8%	81.0%	70.0%
Employer's Fiscal Year Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16
	2018-19	2017-18	2016-17	2015-16	2014-15
District's proportion of the net pension liability	0.0914%	0.0902%	0.0925%	0.0984%	0.1040%
District's proportionate share of the net pension liability	\$ 26,652,082	\$ 24,056,795	\$ 22,091,986	\$ 19,441,662	\$ 15,329,711
District's covered-employee payroll	\$ 12,705,725	\$ 11,915,852	\$ 11,828,859	\$ 11,819,178	\$ 11,510,458
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	209.76%	201.89%	186.76%	164.49%	133.18%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	70.8%	71.9%	74.0%	79.4%

PETALUMA CITY SCHOOLS

Schedule of Pension Contributions-CalSTRS *For the Fiscal Year Ended June 30, 2025*

Last Ten Fiscal Years

Employer's Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21
Contractually required contribution	\$ 10,340,371	\$ 9,882,677	\$ 8,860,789	\$ 7,318,821	\$ 6,175,031
Contributions in relation to the contractually required contribution	<u>10,340,371</u>	<u>9,882,677</u>	<u>8,860,789</u>	<u>7,318,821</u>	<u>6,175,031</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 54,138,069	\$ 51,741,763	\$ 46,391,565	\$ 43,255,443	\$ 38,235,484
Contributions as a percentage of covered-employee payroll	<u>19.10%</u>	<u>19.10%</u>	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>
Employer's Fiscal Year	2019-20	2018-19	2017-18	2016-17	2015-16
Contractually required contribution	\$ 6,613,241	\$ 5,893,200	\$ 5,127,986	\$ 4,242,341	\$ 3,622,620
Contributions in relation to the contractually required contribution	<u>6,613,241</u>	<u>5,893,200</u>	<u>5,127,986</u>	<u>4,242,341</u>	<u>3,622,620</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 38,673,922	\$ 36,199,016	\$ 35,536,980	\$ 33,722,901	\$ 33,761,603
Contributions as a percentage of covered-employee payroll	<u>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>

PETALUMA CITY SCHOOLS

Schedule of Pension Contributions-CalPERS For the Fiscal Year Ended June 30, 2025

Last Ten Fiscal Years

Employer's Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21
Contractually required contribution	\$ 6,167,489	\$ 5,573,806	\$ 4,570,805	\$ 3,292,800	\$ 2,762,786
Contributions in relation to the contractually required contribution	6,167,489	5,573,806	4,570,805	3,292,800	2,762,786
Contribution deficiency (excess):	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 22,800,329	\$ 20,891,327	\$ 18,016,575	\$ 14,372,763	\$ 13,346,792
Contributions as a percentage of covered-employee payroll	27.050%	26.680%	25.370%	22.910%	20.700%
Employer's Fiscal Year	2019-20	2018-19	2017-18	2016-17	2015-16
Contractually required contribution	\$ 2,621,924	\$ 2,294,908	\$ 1,850,651	\$ 1,642,792	\$ 1,400,218
Contributions in relation to the contractually required contribution	2,621,924	2,294,908	1,850,651	1,642,792	1,400,218
Contribution deficiency (excess):	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 13,295,086	\$ 12,705,725	\$ 11,915,852	\$ 11,828,859	\$ 11,819,178
Contributions as a percentage of covered-employee payroll	19.721%	18.062%	15.531%	13.888%	11.847%

PETALUMA CITY SCHOOLS

*Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program
For the Fiscal Year Ended June 30, 2025*

Employer's Fiscal Year Measurement Period	Last Ten Fiscal Years*							
	2024-25 2023-24	2023-24 2022-23	2022-23 2021-22	2021-22 2020-21	2020-21 2019-20	2019-20 2018-19	2018-19 2017-18	2017-18 2016-17
District's proportion of net OPEB liability	0.1144%	0.1100%	0.1096%	0.1045%	0.1078%	0.1032%	0.1037%	0.1006%
District's proportionate share of net OPEB liability	\$ 304,936	\$ 333,647	\$ 360,956	\$ 416,971	\$ 456,849	\$ 384,208	\$ 397,037	\$ 423,353
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	(1.02%)	(0.96%)	(0.94%)	(0.80%)	(0.71%)	(0.81%)	0.40%	0.01%

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

PETALUMA CITY SCHOOLS

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2025

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the *Governmental Accounting Standards Board* and provisions of the *California Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoptions with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District.

Change in benefit terms – There were no changes in benefit terms since the previous valuations for either CalSTRS and CalPERS.

Change of assumptions – There were no changes in economic assumptions since the previous valuations for either CalSTRS or CalPERS.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution.

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – The discount rate was changed from 3.65 percent to 3.93 percent since the previous valuation.

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Supplementary Information

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PETALUMA CITY SCHOOLS

*Schedule of Average Daily Attendance-Districts
For the Fiscal Year Ended June 30, 2025*

PETALUMA CITY ELEMENTARY				
	As Audited			
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA & Extended Year:				
TK/Grades K-3	908.92	916.36	908.90	911.91
Grades 4-6	642.57	641.75	642.57	641.68
Total Regular ADA	1,551.49	1,558.11	1,551.47	1,553.59
Special Education, Nonpublic, Nonsectarian Schools:				
TK/Grades K-3	1.50	1.79	1.50	1.79
Grades 4-6	2.24	1.95	1.92	1.95
Total ADA	1,555.23	1,561.85	1,554.89	1,557.33

PETALUMA JOINT UNION HIGH				
	As Audited			
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA & Extended Year:				
Grades 7-8	1,207.92	1,205.12	1,209.40	1,206.03
Grades 9-12	2,823.28	2,803.82	2,824.23	2,804.75
Total Regular ADA	4,031.20	4,008.94	4,033.63	4,010.78
Special Education, Nonpublic, Nonsectarian Schools:				
Grades 7-8	8.63	9.04	8.63	9.04
Grades 9-12	19.32	19.08	19.33	19.08
Total Special Education ADA	27.95	28.12	27.96	28.12
Total ADA	4,059.15	4,037.06	4,061.59	4,038.90

PETALUMA CITY SCHOOLS

*Schedule of Average Daily Attendance-Charters
For the Fiscal Year Ended June 30, 2025*

Mary Collins School at Cherry Valley

	Second Period Report	Annual Report
Regular ADA & Extended Year:		
TK/Grades K-3	204.10	204.77
Grades 4-6	172.94	173.45
Grades 7-8	87.04	87.39
 Total ADA	 464.08	 465.61
 Total Classroom-Based ADA	 464.08	 465.61

Penngrove Elementary

	Second Period Report	Annual Report
Regular ADA & Extended Year:		
TK/Grades K-3	289.34	288.60
Grades 4-6	155.98	155.36
 Total ADA	 445.32	 443.96
 Total Classroom-Based ADA	 445.32	 443.96

Petaluma Accelerated Charter School

	Second Period Report	Annual Report
Regular ADA & Extended Year:		
Grades 7-8	107.89	107.33
 Total Classroom-Based ADA	 107.89	 107.33

Dual Language Immersion Academy at McDowell

	Second Period Report	Annual Report
Regular ADA & Extended Year:		
Grades 7-8	28.44	28.23
 Total Classroom-Based ADA	 28.44	 28.23

PETALUMA CITY SCHOOLS

*Schedule of Instructional Time - District
For the Fiscal Year Ended June 30, 2025*

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Kindergarten	36,000	47,720	180	Complied
Grade 1	50,400	50,540	180	Complied
Grade 2	50,400	50,540	180	Complied
Grade 3	50,400	50,540	180	Complied
Grade 4	54,000	54,340	180	Complied
Grade 5	54,000	54,340	180	Complied
Grade 6	54,000	54,340	180	Complied
Grade 7	54,000	55,030	180	Complied
Grade 8	54,000	55,030	180	Complied
Grade 9	64,800	64,800	180	Complied
Grade 10	64,800	64,800	180	Complied
Grade 11	64,800	64,800	180	Complied
Grade 12	64,800	64,800	180	Complied

PETALUMA CITY SCHOOLS

*Schedule of Instructional Time - Charters
For the Fiscal Year Ended June 30, 2025*

Mary Collins School at Cherry Valley

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Kindergarten	36,000	50,265	180	Complied
Grade 1	50,400	51,500	180	Complied
Grade 2	50,400	51,500	180	Complied
Grade 3	50,400	51,500	180	Complied
Grade 4	54,000	56,040	180	Complied
Grade 5	54,000	56,040	180	Complied
Grade 6	54,000	56,040	180	Complied
Grade 7	54,000	57,600	180	Complied
Grade 8	54,000	57,600	180	Complied

Penngrove Elementary

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Kindergarten	36,000	47,830	180	Complied
Grade 1	50,400	52,475	180	Complied
Grade 2	50,400	52,475	180	Complied
Grade 3	50,400	52,475	180	Complied
Grade 4	54,000	54,645	180	Complied
Grade 5	54,000	54,645	180	Complied
Grade 6	54,000	54,645	180	Complied

Petaluma Accelerated Charter School

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Grade 7	54,000	56,120	180	Complied
Grade 8	54,000	56,120	180	Complied

Dual Language Immersion Academy at McDowell

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Grade 7	54,000	54,950	180	Complied

PETALUMA CITY SCHOOLS

Schedule of Financial Trends and Analysis For the Fiscal Year Ended June 30, 2025

General Fund	(Budget)			
	2026 ³	2025 ⁴	2024*	2023
Revenues and other financing sources	\$ 127,862,394	\$ 129,082,183	\$ 122,683,327	\$ 126,037,450
Expenditures	137,361,228	136,006,856	127,934,524	116,479,394
Other uses and transfers out	-	-	-	1,046
Total outgo	137,361,228	136,006,856	127,934,524	116,480,440
Change in fund balance (deficit)	(9,498,834)	(6,924,673)	(5,251,197)	9,557,010
Ending fund balance	\$ 15,273,248	\$ 24,772,082	\$ 31,696,755	\$ 35,557,290
Available reserves ¹	\$ 5,792,569	\$ 11,450,052	\$ 3,838,036	\$ 7,795,765
Available reserves as a percentage of total outgo	4.2%	8.4%	3.0%	6.7%
Total long-term debt	\$ 244,851,686	\$ 248,904,246	\$ 176,988,482	\$ 166,206,115
Average daily attendance at P-2 ²	6,690	6,660	6,638	6,553

**As restated*

The General Fund balance has decreased by \$10.8 million over the past two years. The fiscal year 2025-26 adopted budget projects a decrease of \$9.5 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years, and does anticipates incurring an operating deficit during the 2025-26 fiscal year. Long-term debt has increased by \$82.7 million over the past two years.

Average daily attendance increased by 107 ADA compared to 2022-23. Budgeted ADA for 2025-26 is projected to be 6,690.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Average daily attendance includes District and charter school ADA.

³ Revised Final Budget August, 2025.

⁴ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

PETALUMA CITY SCHOOLS

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2025*

	Governmental Fund	Business-Type Activities
	General Fund	Enterprise Fund
June 30, 2025, annual financial and budget report fund balance	\$ 23,276,564	\$ 11,608
<hr/>		
Adjustments and reclassifications:		
Increase (decrease) in fund balances:		
Depreciation understated	-	(1,421)
Accounts payable overstated	1,495,518	-
Net adjustments and reclassifications	<u>1,495,518</u>	<u>(1,421)</u>
June 30, 2025, audited financial statement fund balance	<u>\$ 24,772,082</u>	<u>\$ 10,187</u>

PETALUMA CITY SCHOOLS

Schedule of Charter Schools

For the Fiscal Year Ended June 30, 2025

Charter School		Inclusion of Financial Statements
Name	Number	
Live Oak Charter	0382	Not included
Mary Collins School at Cherry Valley	0480	Included
Penngrove Elementary	1512	Included
Petaluma Accelerated Charter	1726	Included
Dual Language Immersion Academy at McDowell	2136	Included

PETALUMA CITY SCHOOLS

Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2025

Grantor/Program or Cluster Title	Federal Assistance Listing	Pass-Through Entity Identifying Number	Sub-total Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	\$ 427,827	
School Breakfast Program - Especially Needy	10.553	13526	92,139	
National School Lunch Program	10.555	13523	1,152,571	
Supply Chain Assistance Funds	10.555	15655	33,156	
Local Food for Schools	10.555	15708	46,409	
USDA Donated Foods	10.555	N/A	220,935	
Subtotal Child Nutrition Cluster:				<u>1,973,037</u>
Total U.S. Department of Agriculture				<u>1,973,037</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A Grants:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,098,700	
School Improvement Funding for LEAs	84.010	15438	<u>721,784</u>	
Subtotal Title I, Part A Grants				<u>1,820,484</u>
Title II, Part A, Supporting Effective Instruction	84.367	14341		<u>94,297</u>
English Language Acquisition Grants:				
Title III, Immigrant Education Program	84.365	15146	20,109	
Title III, Limited English Proficiency	84.365	14346	<u>94,711</u>	
Subtotal English Language Acquisition Grants Cluster				<u>114,820</u>
Title IV, Part A Student Support & Academic Enrichment Grants	84.424	15396		<u>64,434</u>
Adult Education:				
Adult Basic Education & ELA	84.002A	14508	56,408	
Adult Secondary Education	84.002	13978	<u>121,945</u>	
Subtotal Adult Education				<u>178,353</u>
Carl D. Perkins Career Technical Education	84.048	14894		<u>60,465</u>
COVID-19 Education Stabilization Funds:				
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	2,644	
Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	47,065	
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425U	15620	11,361	
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425U	15621	13,526	
ESSER III State Reserve Summer Learning Programs	84.425	15652	<u>27,821</u>	
Subtotal COVID-19 Education Stabilization Funds				<u>102,417</u>
Passed through Sonoma County SELPA:				
Individuals with Disabilities Education Act (IDEA) Cluster:				
IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,692,435	
IDEA Preschool Grants, Part B, Section 619	84.173	13430	87,375	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	<u>86,450</u>	
Subtotal Special Education (IDEA) Cluster				<u>1,866,260</u>
Total U.S. Department of Education				<u>4,301,530</u>
Total Expenditures of Federal Awards				<u>\$ 6,274,567</u>

Of the Federal expenditures presented in this schedule, the District provided no federal awards to subrecipients.

PETALUMA CITY SCHOOLS

Note to the Supplementary Information
June 30, 2025

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the number of instructional days offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the *Education Code*.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District and displays information for each charter school and whether or not the charter school is included in the District audit.

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity 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 the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

	Assistance Listing	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 6,241,411
Differences between Federal Revenues and Expenditures:		
Supply Chain Assistance (SCA) Funds	10.555	<u>33,156</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 6,274,567</u>

Other Information

PETALUMA CITY SCHOOLS

*Local Educational Agency Organization Structure
June 30, 2025*

The Petaluma City Schools was established in 1857 and is comprised of the Petaluma Joint Union High School District and the Petaluma City Elementary School District. The District operates five elementary schools, two junior high schools, two comprehensive high schools, three continuation schools, a community day school, and five 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

Member	Office	Term Expires
Mady Cloud	President	December 2026
Caitlin Quinn	Vice President	December 2026
Joanna Paun	Member	December 2026
Ellen Webster	Member	December 2028
Ryan Williams	Member	December 2028

DISTRICT ADMINISTRATORS

Matthew Harris,
Superintendent

Esmeralda Sanchez Moscley,
Assistant Superintendent, Student Services

Tony Hua¹,
Assistant Superintendent, Educational Services

Jason Sutter,
Assistant Superintendent, Human Resources

Amanda Bonivert,
Chief Business Official

¹ Tony Hua left the District after June 30, 2025

Other Independent Auditors' Reports

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**INDEPENDENT AUDITORS' 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, each major fund, and the aggregate remaining fund information of Petaluma City Schools as of and for the year ended June 30, 2025, 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 18, 2025.

Report on 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) as a basis for designing 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.

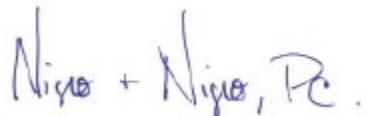
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Nigro + Nigro, PC".

Murrieta, California
December 18, 2025



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
Petaluma City Schools
Petaluma, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Petaluma City Schools' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Petaluma City Schools' major federal programs for the year ended June 30, 2025. The Petaluma City Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the 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, 2025.

Basis for Opinion on Each Major Federal Program

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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Petaluma City Schools and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Petaluma City Schools' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Petaluma City Schools' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Petaluma City Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Petaluma City Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Petaluma City Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Petaluma City Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Petaluma City Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2025-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Petaluma City Schools' response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Petaluma City Schools' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

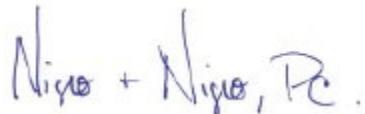
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance. Accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Nigro + Nigro, PC".

Murrieta, California
December 18, 2025



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education
Petaluma City Schools
Petaluma, California

Report on Compliance

Opinion

We have audited the Petaluma City Schools' (District) compliance with the requirements specified in the *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the District's state program requirements identified below for the year ended June 30, 2025.

In our opinion, Petaluma City Schools complied in all material aspects, with the laws and regulations of the state programs noted in the table below for the year ended June 30, 2025.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Petaluma City Schools' state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the 2024-25 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the 2024-25 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the 2024-25 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	No*
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	Yes
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Yes
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom-Based	Yes
Charter School Facility Grant Program	Not Applicable

*We did not perform testing for independent study because the ADA was below the level that requires testing.

Areas marked as “Not Applicable” were not operated by the District.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify in the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as Findings 2025-002 and 2025-003. Our opinion on each state program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the District’s response to the noncompliance findings identified in our audit and 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.

Report on 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, the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Nigro + Nigro, PC.

Murrieta, California
December 18, 2025

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Schedule of Findings and Questioned Costs

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PETALUMA CITY SCHOOLS

Summary of Auditors' Results

For the Fiscal Year Ended June 30, 2025

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516(a)?	<u>Yes</u>
Identification of major programs:	

Assistance Listing Numbers	Name of Federal Program or Cluster
84.027, 84.173, 84.173A	Individuals with Disabilities Education Act Cluster
84.010	Title I, Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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PETALUMA CITY SCHOOLS

Financial Statement Findings

For the Fiscal Year Ended June 30, 2025

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2024-25.

PETALUMA CITY SCHOOLS

*Federal Award Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2025*

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding 2025-001: Procurement (50000)

Repeat Finding? No

Program Identification:

Federal Agency: U.S. Department of Education

Pass-through Entity: California Department of Education

Program Name: Individuals with Disabilities Education Act (IDEA) (AL No. 84.027, 84.173)

Criteria: Code of Federal Regulations, CFR 200.320(b), mandates formal bidding methods are required for purchases over the simplified acquisition threshold, currently \$250,000, requiring public solicitation, detailed specifications, written awards to the lowest responsible bidder and transparent evaluation.

Condition: During our testing of procurement, we sampled one contract that would require “formal procurement methods” when awarding a contract. The district could not provide documentation that would demonstrate that formal procurement methods were followed when awarding the contract.

Context: Deficiency was isolated to the one contract tested.

Questioned Costs: \$553,091 in awarded contracts.

Cause: Lack of oversight resulted in a contract being awarded without following the required formal procurement method.

Effect: This resulted in roughly \$553,091 awarded in contracts, without following proper procedures.

Recommendation: We recommend that the District train employees and implement the required federal procurement procedures to ensure compliance. In addition, we recommend that the District adopt a board policy that addresses procedures related to federal procurement.

Views of Responsible Officials: During the 2025-26 fiscal year, the District implemented changes to reclassify certain contracts from federal funding sources to state funding. The District utilized the SELPA Master Contract for applicable vendors to ensure proper contracting and compliance. Federal funds will continue to be used to support Instructional Aides (IAs). These actions were taken to improve alignment with funding requirements and strengthen fiscal compliance.

PETALUMA CITY SCHOOLS

State Award Findings and Questioned Costs For the Fiscal Year Ended June 30, 2025

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2025-002: Attendance Accounting (10000)

Repeat Finding? No

Criteria: California Education Code section 46000 states: Attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education, subject to the provisions of this chapter.

Condition: During our review of ADA totals reported by the District to CDE, we noted the following misstatements:

- Petaluma City Elementary
 - On the P-2 the following misstatements were identified.
 - District overreported Line A-1, by 0.02 in grades TK-03
 - District overreported Line A-3, by 0.32 in grades 4-6
 - On the Annual the following misstatements were identified.
 - District overreported Line A-1, by 4.45 in grades TK-3
 - District overreported Line A-1, by 0.07 in grades 4-6
 - District underreported Line B-5, by 0.03 in grades TK-3
- Petaluma Joint Union High
 - On the P-2 the following misstatements were identified.
 - District underreported Line A-1, by 1.48 in grades 7-8
 - District underreported Line A-1, by 0.95 in grades 9-12
 - District underreported Line A-3, by 0.01 in grades 9-12
 - District underreported Line B-1, by 0.59 in grades 7-8
 - On the Annual the following misstatements were identified.
 - District underreported Line A-1, by 0.91 in grades 7-8
 - District underreported Line A-1, by 0.93 in grades 9-12
- Penngrove Elementary
 - On the Annual the following misstatements were identified.
 - Charter school underreported Line E-1, by 0.23 in grades TK-3
- Mary Collins School at Cherry Valey
 - On the Annual the following misstatements were identified.
 - Charter school underreported Line E-1, by 0.21 in grades TK-3

Effect: Lines B-5 & E-1 are for informational purposes only and have no impact on funding. The derived value of ADA results are as follows.

- Petaluma City Elementary overreporting of ADA resulted in a questioned cost of \$3,818.
- Petaluma Joint Union High School underreporting of ADA resulted in the LEA being owed \$30,030.

Context: The error impacted both P-2 and Annual.

PETALUMA CITY SCHOOLS

*State Award Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2025*

Finding 2025-002: Attendance Accounting (10000) (continued)

Cause: The District noted this error during the audit process and attempted to make revisions but was unable to do so because of a closure in the reporting window.

Recommendation: We recommend that the District develop policies and procedures, and implement controls, to ensure that pupil attendance is recorded and reported consistently and accurately.

District's Response: The District agrees with this recommendation. Policies and procedures are being developed, and internal controls will be implemented to ensure pupil attendance is recorded and reported consistently and accurately. At the time of the audit, the reporting window was closed, and revisions could not be made. Once the reporting window reopens, the District will update the attendance records as needed to address the audit finding and ensure compliance going forward.

Finding 2025-003: Local Control and Accountability Plan (62000)

Repeat Finding? No

Criteria: Education Code Section 52062(a)(1) mandates that before a school district's governing board approves its Local Control and Accountability Plan (LCAP) the district must provide the plan to the parent advisory committee for review and comment, and then respond in writing to those comments, ensuring parental involvement.

In addition, Education Code Section 52062(a)(6) mandates that the school district report on their Local Control and Accountability Plan progress to the governing board and parents, including presenting mid-year data on outcomes and spending for actions at a public meeting by February 28th each year.

Condition: District was unable to provide documentation to demonstrate that they met and presented the LCAP to their parent advisory committee prior to its adoption. In addition, it was identified that the District held its mid-year update on March 11th.

Effect: Failure to follow both areas above can result in a lack of transparency in the development of the LCAP as well as progress toward meeting the established goals.

Context: The noncompliance was noted at both schools sampled.

Cause: The Department that oversees compliance requirements for the LCAP lacked procedures to maintain documentation to demonstrate meetings took place with the parent advisory committee. In addition, the department lacked knowledge that the mid-year update had to occur by February 28th of each year.

PETALUMA CITY SCHOOLS

*State Award Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2025*

Finding 2025-003: Local Control and Accountability Plan (62000) (continued)

Recommendation: We recommend that the District incorporate a compliance checklist pertaining to the development of their LCAP for each fiscal year. In addition, the compliance checklist should also incorporate the requirement to maintain minutes, agendas and feedback from meetings held with the parent advisory committee. Lastly the compliance checklist should also incorporate that a mid-year update and presentation must take place on or prior to February 28th of each year.

Views of Responsible Officials: The District agrees with this recommendation. Beginning with the development of the LCAP for the upcoming fiscal year, the District will incorporate a comprehensive compliance checklist to ensure all statutory and procedural requirements are met. The checklist will include documentation requirements for agendas, minutes, and stakeholder feedback from Parent Advisory Committee meetings, as well as confirmation of the required mid-year update and presentation occurring on or before February 28 of each year. District administration will be responsible for maintaining and reviewing the checklist annually to ensure ongoing compliance.

PETALUMA CITY SCHOOLS

Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2025

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2024-001: Expanded Learning Opportunity Program</i>	<p>Pursuant to EC Section 46120(b)(2)(D), requires programs serving transitional kindergarten or kindergarten pupils, must maintain a pupil-to-staff member ratio of no more than 10 to 1 and all other grades must maintain a pupil-to-staff member ratio of no more than 20 to 1, pursuant to EC Section 46120(b)(2)(D).</p> <p>Two of the three sites tested were noted to be out of compliance with required ratios in one or more classes.</p>	40000	We recommend that the LEA update their policies and procedures to align with ELOP guidance.	Implemented.



A Professional Accountancy Corporation

Board of Education
Petaluma City Schools
Petaluma, California

In planning and performing our audit of the basic financial statements of Petaluma City School District for the year ending June 30, 2025, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 18, 2025, on the financial statements of Petaluma City School District.

ASSOCIATED STUDENT BODY FUNDS

Observation: During our cash receipts at Kenilworth Junior High, we identified two instances in which deposits lacked sufficient supporting documentation. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

Recommendation: We recommend that before any events are held, control procedures, such as ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts, should be established that will allow for the reconciliation between money collected and event sales.

Observation: During our expenditure testing at Casa Grand High, we identified an instance of goods being shipped to an individual's personal address. In addition, the associated student body lacked compensating controls to demonstrate that the items made it to campus and were utilized for the pupils.

Recommendation: We recommend that items purchased for ASB be shipped directly to the school site to ensure that the items are properly received on campus and utilized for the pupil's benefit.

Observation: During our visit to Casa Grande High and Kenilworth Junior High we identified instances in which bank reconciliations were not prepared in a timely manner. Bank reconciliations took from one to two months after the bank statement had been received.

Recommendation: Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or ASB Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

We will review the status of the current year's comments during our next audit engagement.

Nigro + Nigro, PC.

Murrieta, California
December 18, 2025