

**PETALUMA CITY SCHOOLS
SONOMA COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2023**

NIGRO & NIGRO^{PC}

PETALUMA CITY SCHOOLS

For the Fiscal Year Ended June 30, 2023

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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, 2023, 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, 2023, 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 *2022-23 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.

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.

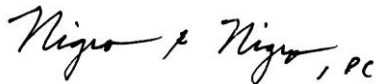
Supplementary Information

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 LEA Organization Structure and 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 LEA Organization Structure and the Schedule of Charter Schools, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The LEA Organization Structure and the Schedule of Charter Schools have 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 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.



Murrieta, California
March 28, 2024

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2023

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, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

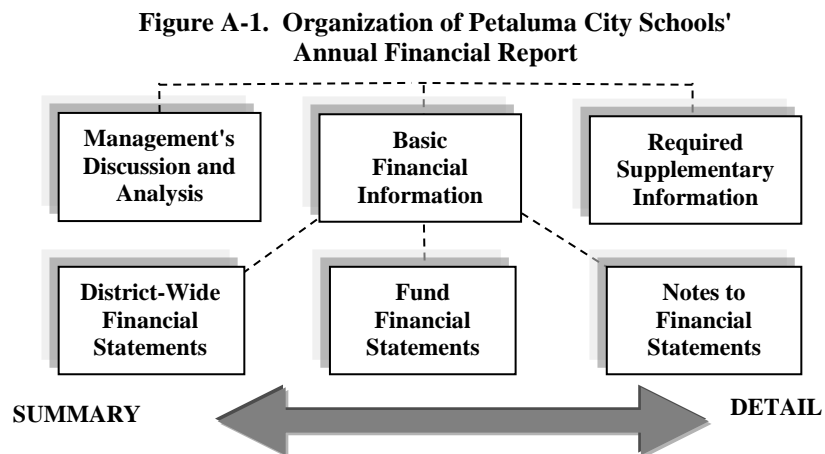
- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$15.2 million, or 68.4%.
- Governmental expenses were about \$123.2 million. Revenues were about \$138.4 million.
- The District acquired over \$11.6 million in new capital assets during the year.
- Governmental funds increased by \$37.2 million, or 72.4%.
- Reserves for the General Fund decreased by \$896,590, or 10.3%. Revenues were \$126.0 million and expenditures and transfers out were \$116.5 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.



PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) *For the Fiscal Year Ended June 30, 2023*

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 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.
- 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.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2023

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2023, than it was the year before – increasing 68.4% to \$37.4 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance	Business-Type Activities		Variance
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
Assets						
Current assets	\$ 101,133,380	\$ 62,837,250	\$ 38,296,130	\$ 9,515	\$ 9,356	\$ 159
Capital assets	95,145,591	91,542,888	3,602,703	1,421	1,421	-
Total assets	<u>196,278,971</u>	<u>154,380,138</u>	<u>41,898,833</u>	<u>10,936</u>	<u>10,777</u>	<u>159</u>
Total deferred outflows of resources	<u>38,115,911</u>	<u>26,968,457</u>	<u>11,147,454</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities						
Current liabilities	13,047,583	11,513,427	1,534,156	-	-	-
Long-term liabilities	166,206,115	106,131,585	60,074,530	-	-	-
Total liabilities	<u>179,253,698</u>	<u>117,645,012</u>	<u>61,608,686</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>17,733,031</u>	<u>41,489,375</u>	<u>(23,756,344)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position						
Net investment in capital assets	44,722,237	46,691,238	(1,969,001)	1,421	1,421	-
Restricted	43,042,520	29,522,090	13,520,430	9,515	9,356	159
Unrestricted	(50,356,604)	(53,999,120)	3,642,516	-	-	-
Total net position	<u>\$ 37,408,153</u>	<u>\$ 22,214,208</u>	<u>\$ 15,193,945</u>	<u>\$ 10,936</u>	<u>\$ 10,777</u>	<u>\$ 159</u>

Changes in net position, governmental activities. The District's total revenues increased 18.6% to \$138.4 million (See Table A-2). The increase is due primarily to increased state categorical funds.

The total cost of all programs and services increased 21.0% to \$123.2 million. The District's expenses are predominantly related to educating and caring for students, 77.0%. The purely administrative activities of the District accounted for just 5.8% of total costs. A significant contributor to the increase in costs was an increase in salaries, benefits, and pension costs.

Table A-2: Statement of Activities

	Governmental Activities		Variance	Business-Type Activities		Variance
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
Revenues						
Program Revenues:						
Charges for services	\$ 4,170,974	\$ 4,475,923	\$ (304,949)	\$ -	\$ -	\$ -
Operating grants and contributions	35,007,862	24,896,720	10,111,142	-	-	-
General Revenues:						
Property taxes	60,298,190	56,814,569	3,483,621	-	-	-
Federal and state aid not restricted	35,065,495	28,979,129	6,086,366	-	-	-
Other general revenues	3,820,322	1,516,131	2,304,191	159	53	106
Total Revenues	<u>138,362,843</u>	<u>116,682,472</u>	<u>21,680,371</u>	<u>159</u>	<u>53</u>	<u>106</u>
Expenses						
Instruction-related	77,874,630	67,760,097	10,114,533	-	-	-
Pupil services	16,975,355	14,206,641	2,768,714	-	-	-
Administration	7,156,539	5,673,923	1,482,616	-	-	-
Plant services	13,967,197	10,890,277	3,076,920	-	-	-
All other activities	7,195,177	3,300,471	3,894,706	-	-	-
Total Expenses	<u>123,168,898</u>	<u>101,831,409</u>	<u>21,337,489</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ 15,193,945</u>	<u>\$ 14,851,063</u>	<u>\$ 342,882</u>	<u>\$ 159</u>	<u>\$ 53</u>	<u>\$ 106</u>
Total net position	<u>\$ 37,408,153</u>	<u>\$ 22,214,208</u>		<u>\$ 10,936</u>	<u>\$ 10,777</u>	

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2023

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 \$88.5 million, which is above last year's ending fund balance of \$51.4 million. The primary cause of the increased fund balance is new debt issuance and one time state categorical funds.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2022	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2023
General Fund	\$ 26,000,280	\$ 126,009,124	\$ 116,479,394	\$ 27,280	\$ 35,557,290
Student Activity Fund	191,434	316,105	256,435	-	251,104
Adult Education Fund	2,880,522	2,200,067	2,600,011	-	2,480,578
Cafeteria Fund	1,258,838	5,045,339	4,405,529	-	1,898,648
Deferred Maintenance Fund	4,605	78	-	-	4,683
Building Fund	8,363,242	578,484	6,726,477	30,161,046	32,376,295
Capital Facilities Fund	4,603,484	718,223	109,298	(28,326)	5,184,083
Special Reserve Fund (Capital Outlay)	1,882,526	1,285,478	1,622,544	-	1,545,460
Bond Interest and Redemption Fund	6,075,299	5,899,049	5,125,145	2,286,902	9,136,105
Scholarship Fund	107,795	50	-	-	107,845
Totals	<u>\$ 51,368,025</u>	<u>\$ 142,051,997</u>	<u>\$ 137,324,833</u>	<u>\$ 32,446,902</u>	<u>\$ 88,542,091</u>

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 \$23.5 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$7.9 million to reflect revised cost estimates.
- Other non-personnel expenses – increased \$16.9 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about \$2.3 million, the actual results for the year show that revenues exceeded expenditures by roughly \$9.5 million. Actual revenues were \$5.1 million less than anticipated, and expenditures were \$17.0 million less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2022-23 the District had acquired \$11.6 million in new capital assets, related to 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 \$8.0 million.

PETALUMA CITY SCHOOLS

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

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

	Governmental Activities		Variance
	2023	2022	Increase (Decrease)
Land	\$ 4,266,886	\$ 4,266,886	\$ -
Improvement of sites	13,370,702	15,406,115	(2,035,413)
Buildings	63,065,662	64,123,942	(1,058,280)
Equipment	7,152,517	5,057,364	2,095,153
Construction in progress	7,289,824	2,688,581	4,601,243
Total	<u>\$ 95,145,591</u>	<u>\$ 91,542,888</u>	<u>\$ 3,602,703</u>

Long-Term Debt

At year-end the District had \$166.2 million in long-term liabilities – an increase of 56.6% 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
	2023	2022	Increase (Decrease)
General obligation bonds	\$ 82,856,825	\$ 53,298,054	\$ 29,558,771
Compensated absences	639,380	488,481	150,899
Other postemployment benefits	360,956	416,971	(56,015)
Net pension liability	82,348,954	51,928,079	30,420,875
Total	<u>\$ 166,206,115</u>	<u>\$ 106,131,585</u>	<u>\$ 60,074,530</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

State Budget

The Legislature passed an initial budget package on June 15, 2023. The Legislature's budget package adopted LAO estimates of local property tax revenues, which resulted in an increase to the Proposition 98 guarantee by \$2.1 billion across 2022-23 and 2023-24. The legislative package used this additional funding primarily to help maintain previously approved programs. Relative to the May Revision, the Legislature's budget package also: (1) reallocated projected unspent funds in child care and State Preschool programs to increase provider rates and reduce family fees beginning October 1, 2023; (2) included a slightly different mix of reductions as the Governor from climate change-related packages (although a similar overall level); (3) restored \$1 billion in 2023-24 in proposed General Fund reductions to transit capital funding and added flexibility to allow local agencies to use this funding for operations; (4) rejected the Governor's proposals to use General Fund cash to pay for certain capital outlay project costs, instead using lease revenue bond financing to pay for these costs; and (5) accelerated the time line to spend funds for MCO tax-related augmentations to around four years from eight to ten years. The Legislature passed an amended budget act and associated trailer bills on June 27, 2023 and June 29, 2023.

PETALUMA CITY SCHOOLS

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-14 Education

Funds Modest Increase in School and Community College Funding

The Proposition 98 minimum guarantee depends upon various formulas that adjust for several factors, including changes in state General Fund revenue. For 2022-23, the guarantee is down \$3 billion (2.7 percent) compared with the estimates made in June 2022. The decrease in the guarantee is primarily attributable to lower General Fund revenue estimates, somewhat offset by higher local property tax revenue. For 2023-24, the guarantee increases by \$953 million (0.9 percent) relative to the revised 2022-23 level. For 2023-24, projected increases in property tax revenue offset declines associated with lower General Fund revenue estimates.

Increase in Required Reserve Deposits

In certain circumstances, the Constitution requires the state to deposit some of the available Proposition 98 funding into a statewide reserve account for schools and community colleges. Under the adopted budget plan, the state deposits a total of \$7.5 billion into this account across the 2021-22 through 2023-24 period—an increase of \$1.3 billion compared with the estimates made in June 2022. The higher required deposits are primarily due to revenue estimates from the administration that have capital gains accounting for a larger share of General Fund revenue over the period.

Provides Large COLA to School and Community College Districts

In addition to the required reserve deposits, the budget package has several ongoing and one-time increases. The largest ongoing augmentation is \$4.8 billion to provide an 8.22 percent COLA for K-12 and community college programs. In K-12, the budget also includes \$300 million ongoing targeted to low-income schools with relatively high rates of student mobility within the school year, as well as \$250 million one time for literacy coaches and reading specialists.

Budget Has Notable K-14 Structural Gap

The 2023-24 Proposition 98 spending level is not sufficient to fully fund all ongoing spending authorized in the budget package. To cover these costs, the budget package uses \$1.9 billion in one-time, prior-year funding to fund the primary school and community college funding formulas (\$1.6 billion for schools and \$290 million for California Community Colleges). Using one-time funds to cover ongoing costs creates a deficit in the Proposition 98 budget the following year.

Funds School Facilities Grants

The 2022-23 budget package provided \$1.3 billion one-time non-Proposition 98 General Fund to cover the state share for new construction and modernization projects under the School Facility Program (SFP). The 2022-23 budget package also included intent language to provide an additional \$2.1 billion in 2023-24 and \$875 million in 2024-25. The budget provides about \$2 billion to the SFP in 2023-24, which is \$100 million less than the previously intended augmentation, and continues to assume an additional \$875 million will be provided in 2024-25. The budget also delays the intended \$550 million non-Proposition 98 General Fund increase to the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program from 2023-24 to 2024-25.

All of these factors were considered in preparing the Petaluma City Schools budget for the 2023-24 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, 2023*

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Deposits and investments	\$ 84,907,146	\$ 9,515	\$ 84,916,661
Accounts receivable	16,150,864	-	16,150,864
Inventories	75,370	-	75,370
Capital assets:			
Non-depreciable assets	11,556,710	-	11,556,710
Depreciable assets	214,882,175	56,833	214,939,008
Less accumulated depreciation	<u>(131,293,294)</u>	<u>(55,412)</u>	<u>(131,348,706)</u>
Total assets	<u>196,278,971</u>	<u>10,936</u>	<u>196,289,907</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	38,058,735	-	38,058,735
Deferred amounts on refunding	<u>57,176</u>	<u>-</u>	<u>57,176</u>
Total deferred outflows of resources	<u>38,115,911</u>	<u>-</u>	<u>38,115,911</u>
LIABILITIES			
Accounts payable	10,068,934	-	10,068,934
Accrued interest payable	1,281,284	-	1,281,284
Unearned revenue	1,697,365	-	1,697,365
Noncurrent liabilities:			
Due or payable within one year	4,597,001	-	4,597,001
Due in more than one year:			
Other than OPEB and pensions	78,899,204		78,899,204
Net OPEB liability	360,956	-	360,956
Net pension liability	<u>82,348,954</u>	<u>-</u>	<u>82,348,954</u>
Total liabilities	<u>179,253,698</u>	<u>-</u>	<u>179,253,698</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>17,733,031</u>	<u>-</u>	<u>17,733,031</u>
NET POSITION			
Net investment in capital assets	44,722,237	1,421	44,723,658
Restricted for:			
Capital projects	6,729,543	-	6,729,543
Debt service	9,136,105	-	9,136,105
Categorical programs	25,992,933	-	25,992,933
Self-insurance program	824,990	-	824,990
Student activity	358,949	-	358,949
Enterprise activities	-	9,515	9,515
Unrestricted	<u>(50,356,604)</u>	<u>-</u>	<u>(50,356,604)</u>
Total net position	<u>\$ 37,408,153</u>	<u>\$ 10,936</u>	<u>\$ 37,419,089</u>

PETALUMA CITY SCHOOLS
Statement of Activities
For the Fiscal Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<i>Governmental Activities</i>						
Instructional services:						
Instruction	\$ 64,333,021	\$ 2,030,586	\$ 21,965,353	\$ (40,337,082)	\$ -	\$ (40,337,082)
Instruction-related services:						
Supervision of instruction	5,317,119	256,459	2,021,276	(3,039,384)	-	(3,039,384)
Instructional library, media and technology	1,469,767	78,167	293,763	(1,097,837)	-	(1,097,837)
School site administration	6,754,723	26,888	558,754	(6,169,081)	-	(6,169,081)
Pupil support services:						
Home-to-school transportation	2,475,803	116,197	467,865	(1,891,741)	-	(1,891,741)
Food services	4,223,053	520,978	5,158,130	1,456,055	-	1,456,055
All other pupil services	10,276,499	247,354	2,686,896	(7,342,249)	-	(7,342,249)
General administration services:						
Data processing services	1,015,975	236	(5,858)	(1,021,597)	-	(1,021,597)
Other general administration	6,140,564	151,570	710,781	(5,278,213)	-	(5,278,213)
Plant services	13,967,197	675,132	534,427	(12,757,638)	-	(12,757,638)
Ancillary services	1,060,970	23,620	87,204	(950,146)	-	(950,146)
Community services	262,176	5,398	403,433	146,655	-	146,655
Enterprise activities	270,661	28,302	111,051	(131,308)	-	(131,308)
Interest on long-term debt	5,506,355	-	-	(5,506,355)	-	(5,506,355)
Other outgo	95,015	10,087	14,787	(70,141)	-	(70,141)
Total Governmental Activities	123,168,898	4,170,974	35,007,862	(83,990,062)	-	(83,990,062)
<i>Business-Type Activities</i>						
Enterprise activities	-	-	-	-	-	-
Totals	\$ 123,168,898	\$ 4,170,974	\$ 35,007,862	(83,990,062)	-	(83,990,062)
General Revenues:						
Property taxes				60,298,190	-	60,298,190
Federal and state aid not restricted to specific purpose				35,065,495	-	35,065,495
Interest and investment earnings				340,325	159	340,484
Interagency revenues				355,207	-	355,207
Miscellaneous				3,124,790	-	3,124,790
Total general revenues				99,184,007	159	99,184,166
Change in net position				15,193,945	159	15,194,104
Net position, July 1, 2022				22,214,208	10,777	22,224,985
Net position, June 30, 2023				\$ 37,408,153	\$ 10,936	\$ 37,419,089

PETALUMA CITY SCHOOLS
Balance Sheet – Governmental Funds
June 30, 2023

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 32,012,666	\$ 34,127,415	\$ 17,942,264	\$ 84,082,345
Accounts receivable	14,129,328	-	2,021,508	16,150,836
Due from other funds	237,010	-	1,331,170	1,568,180
Inventories	41,386	-	33,984	75,370
Total Assets	<u>\$ 46,420,390</u>	<u>\$ 34,127,415</u>	<u>\$ 21,328,926</u>	<u>\$ 101,876,731</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 7,898,311	\$ 1,751,120	\$ 419,503	\$ 10,068,934
Due to other funds	1,331,331	-	237,010	1,568,341
Unearned revenue	1,628,775	-	68,590	1,697,365
Total Liabilities	<u>10,858,417</u>	<u>1,751,120</u>	<u>725,103</u>	<u>13,334,640</u>
Fund Balances				
Nonspendable	65,586	-	34,984	100,570
Restricted	23,491,821	32,376,295	18,691,725	74,559,841
Assigned	4,208,801	-	1,877,114	6,085,915
Unassigned	7,795,765	-	-	7,795,765
Total Fund Balances	<u>35,561,973</u>	<u>32,376,295</u>	<u>20,603,823</u>	<u>88,542,091</u>
Total Liabilities and Fund Balances	<u>\$ 46,420,390</u>	<u>\$ 34,127,415</u>	<u>\$ 21,328,926</u>	<u>\$ 101,876,731</u>

PETALUMA CITY SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2023

Total fund balances - governmental funds \$ 88,542,091

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	226,438,885	
Accumulated depreciation	<u>(131,293,294)</u>	
Net:		95,145,591

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:

57,176

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:

(1,281,284)

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	38,058,735	
Deferred inflows of resources from pensions	<u>(17,733,031)</u>	
Net:		20,325,704

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	82,856,825	
Compensated absences	639,380	
Other postemployment benefits	360,956	
Net pension liability	<u>82,348,954</u>	
Total:		(166,206,115)

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:

824,990

Total net position - governmental activities \$ 37,408,153

PETALUMA CITY SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2023

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 83,553,068	\$ -	\$ -	\$ 83,553,068
Federal sources	5,943,179	-	2,262,196	8,205,375
Other state sources	22,504,786	-	4,245,642	26,750,428
Other local sources	14,008,169	578,484	8,956,473	23,543,126
Total Revenues	126,009,202	578,484	15,464,311	142,051,997
EXPENDITURES				
Current:				
Instruction	66,698,569	-	1,235,253	67,933,822
Instruction-Related Services:				
Supervision of instruction	4,786,011	-	117,696	4,903,707
Instructional library, media and technology	1,524,010	-	-	1,524,010
School site administration	6,692,779	-	794,597	7,487,376
Pupil Support Services:				
Home-to-school transportation	3,847,667	-	-	3,847,667
Food services	72,365	-	4,297,194	4,369,559
All other pupil services	9,753,885	-	186,578	9,940,463
Ancillary services	869,560	-	256,435	1,125,995
Community services	261,537	-	-	261,537
Enterprise activities	396,383	-	-	396,383
General Administration Services:				
Data processing services	1,051,348	-	-	1,051,348
Other general administration	5,705,580	-	-	5,705,580
Plant services	13,069,507	10,300	251,626	13,331,433
Transfers of indirect costs	(178,946)	-	178,946	-
Intergovernmental Transfers	95,015	-	-	95,015
Capital Outlay	1,834,124	6,297,533	1,675,492	9,807,149
Debt Service:				
Principal	-	-	2,565,000	2,565,000
Interest	-	-	2,560,145	2,560,145
Issuance costs	-	418,644	-	418,644
Total Expenditures	116,479,394	6,726,477	14,118,962	137,324,833
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	9,529,808	(6,147,993)	1,345,349	4,727,164
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	28,326	1,046	-	29,372
Interfund transfers out	(1,046)	-	(28,326)	(29,372)
Issuance of debt - general obligation bonds	-	30,000,000	-	30,000,000
Premiums on issuance of debt	-	160,000	2,286,902	2,446,902
Total Other Financing Sources and (Uses)	27,280	30,161,046	2,258,576	32,446,902
Net Change in Fund Balances	9,557,088	24,013,053	3,603,925	37,174,066
Fund Balances, July 1, 2022	26,004,885	8,363,242	16,999,898	51,368,025
Fund Balances, June 30, 2023	\$ 35,561,973	\$ 32,376,295	\$ 20,603,823	\$ 88,542,091

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, 2023*

Total net change in fund balances - governmental funds \$ 37,174,066

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	11,621,694	
Depreciation expense	<u>(8,018,991)</u>	
Net:		3,602,703

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: 2,565,000

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: (32,446,902)

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: 323,131

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: (537,813)

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: 4,508,909

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: 56,015

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: (25,986)

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: (150,899)

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: 125,721

Change in net position - governmental activities \$ 15,193,945

PETALUMA CITY SCHOOLS

Statement of Net Position – Proprietary Fund

June 30, 2023

	Governmental Activities	Business-Type Activities
	Self-Insurance Fund	Enterprise Fund
ASSETS		
Deposits and investments	\$ 824,801	\$ 9,515
Accounts receivable	28	-
Due from other funds	161	-
Capital assets:		
Equipment	-	56,833
Less accumulated depreciation	-	(55,412)
Total assets	<u>824,990</u>	<u>10,936</u>
NET POSITION		
Net investment in capital assets	-	1,421
Restricted	<u>824,990</u>	<u>9,515</u>
Total Net Position	<u>\$ 824,990</u>	<u>\$ 10,936</u>

PETALUMA CITY SCHOOLS*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2023*

	Governmental Activities <u>Self-Insurance Fund</u>	Business-Type Activities <u>Enterprise Fund</u>
OPERATING REVENUES		
In-district premiums/contributions	\$ 168,043	\$ -
Total operating revenues	168,043	-
OPERATING EXPENSES		
Payments for claims and other operating expenses	54,275	-
Operating Income	113,768	-
NON-OPERATING REVENUE		
Interest income	11,953	159
Change in net position	125,721	159
Net position, July 1, 2022	699,269	10,777
Net position, June 30, 2023	<u>\$ 824,990</u>	<u>\$ 10,936</u>

PETALUMA CITY SCHOOLS
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2023

	Governmental Activities Self-Insurance Fund	Business-Type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from self-insurance premiums	\$ 206,778	\$ -
Cash paid for operating expenses	(57,093)	-
Net cash provided by operating activities	149,685	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	11,953	159
Net increase in cash	161,638	159
Cash, July 1, 2022	663,163	9,356
Cash, June 30, 2023	\$ 824,801	\$ 9,515
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 113,768	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	964	
Due from other funds	37,771	-
Accounts payable & due to other funds	(2,818)	-
Net cash provided (used) by operating activities	\$ 149,685	\$ -

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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, 2023

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.

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).

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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)

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.

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 resource 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting (continued)

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.

C. Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the Board of Education to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District Board of Education satisfied these requirements. 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 adoption 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. For budget purposes, on behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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.

E. 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.

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Compensated Absences

The liability for compensated absences reported in the District-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Leases

Lessee:

At the commencement of a lease, the District initially 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 lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long- term debt on the statement of net position.

Lessor:

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Leases (continued)

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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.

9. Subscription-Based Information Technology Arrangements

A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which the District has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend or to terminate.

The District recognizes a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. The District recognizes the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability is measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments are discounted using the interest rate the SBITA vendor charges the District which may be implicit, or the District's incremental borrowing rate if the interest rate is not readily determinable. The District recognizes amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

F. 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.

G. 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2023 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 84,082,345
Proprietary funds	824,801
Governmental activities	<u>84,907,146</u>
Business-type activities	9,515
Total deposits and investments	<u>\$ 84,916,661</u>

Deposits and investments as of June 30, 2023 consist of the following:

Cash on hand and in banks	\$ 268,246
Cash in revolving fund	25,200
Investments	<u>84,623,215</u>
Total deposits and investments	<u>\$ 84,916,661</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.

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, 2023, \$734 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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, 2023, consist of the following:

	Rating	Reported Amount	Maturity		Fair Value Measurement
			Less Than One Year	One Year Through Five Years	
Investment maturities:					
Certificates of deposit	AA	\$ 97,262	\$ 97,262	\$ -	Level 1
Sonoma County Investment Pool	N/A	84,525,953	84,525,953	-	Uncategorized
Total Investments		<u>\$ 84,623,215</u>	<u>\$ 84,623,215</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, 2023, 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, 2023, 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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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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements (continued)

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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2023, consisted of the following:

	Governmental Funds			Proprietary Fund
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Self-Insurance Fund
Federal Government:				
Categorical aid programs	\$ 5,056,085	\$ 1,808,255	\$ 6,864,340	\$ -
State Government:				
LCFF	1,160,768	-	1,160,768	-
Lottery	428,200	-	428,200	-
Categorical aid programs	2,592,103	147,149	2,739,252	-
Local:				
Interagency services	1,791,427	-	1,791,427	-
Developer fees	-	66,104	66,104	-
Other local resources	3,100,745	-	3,100,745	28
Total	<u>\$ 14,129,328</u>	<u>\$ 2,021,508</u>	<u>\$ 16,150,836</u>	<u>\$ 28</u>

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2023, consisted of the following:

	Due from other funds			
	General Fund	Non-Major Governmental Funds	Self - Insurance Funds	Total Governmental Funds
General Fund	\$ -	\$ 1,331,170	\$ 161	\$ 1,331,331
Non-Major Governmental Funds	237,010	-	-	237,010
Totals	<u>\$ 237,010</u>	<u>\$ 1,331,170</u>	<u>\$ 161</u>	<u>\$ 1,568,341</u>
General Fund due to Cafeteria Fund to reconcile Titan prepaid balances				\$ 93,930
General Fund due to Special Reserve Fund for Capital Outlay Proejcts for erate credits & expenses				1,237,240
General Fund due to Self-Insurance Fund for VSP clearing account transfer				161
Adult Education Fund due to General Fund for indirect costs and expenditure transfers				94,971
Cafeteria Fund due to General Fund for indirect costs and expenditure transfers				142,039
Total				<u>\$ 1,568,341</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2023

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers in/out of other funds during the 2022-23 year consisted of the following:

General Fund transfer to Building Fund for TFR PG&E Scale refund.	\$ 1,046
Building Fund transfer to General Fund for MCCV Modular Leases.	<u>28,326</u>
Total	<u>\$ 29,372</u>

NOTE 5 – FUND BALANCES

At June 30, 2023, 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	-	33,984	75,370
Total Nonspendable	<u>65,586</u>	<u>-</u>	<u>34,984</u>	<u>100,570</u>
Restricted:				
Categorical programs	23,491,821	-	-	23,491,821
Adult education program	-	-	602,464	602,464
Food service program	-	-	1,864,664	1,864,664
Capital projects	-	32,376,295	6,729,543	39,105,838
Student activity	-	-	358,949	358,949
Debt service	-	-	9,136,105	9,136,105
Total Restricted	<u>23,491,821</u>	<u>32,376,295</u>	<u>18,691,725</u>	<u>74,559,841</u>
Assigned:				
2% Reserve for economic uncertainty	2,328,614	-	-	2,328,614
South County Consortium reserve	1,331,277	-	-	1,331,277
Education protection account	544,227	-	-	544,227
Deferred maintenance program	4,683	-	-	4,683
Adult education program	-	-	1,877,114	1,877,114
Total Assigned	<u>4,208,801</u>	<u>-</u>	<u>1,877,114</u>	<u>6,085,915</u>
Unassigned:				
Remaining unassigned balances	7,795,765	-	-	7,795,765
Total Unassigned	<u>7,795,765</u>	<u>-</u>	<u>-</u>	<u>7,795,765</u>
Total	<u>\$ 35,561,973</u>	<u>\$ 32,376,295</u>	<u>\$ 20,603,823</u>	<u>\$ 88,542,091</u>

PETALUMA CITY SCHOOLS
Notes to Financial Statements
June 30, 2023

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2023, was as follows:

Governmental Activities	Balance, July 1, 2022	Additions	Retirements	Balance, June 30, 2023
Capital assets not being depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in progress	2,688,581	9,259,808	4,658,565	7,289,824
Total capital assets not being depreciated	<u>6,955,467</u>	<u>9,259,808</u>	<u>4,658,565</u>	<u>11,556,710</u>
Capital assets being depreciated:				
Improvement of sites	38,957,947	721,116	-	39,679,063
Buildings	158,051,200	3,522,860	-	161,574,060
Equipment	11,913,967	2,776,475	1,061,390	13,629,052
Total capital assets being depreciated	<u>208,923,114</u>	<u>7,020,451</u>	<u>1,061,390</u>	<u>214,882,175</u>
Accumulated depreciation for:				
Improvement of sites	(23,551,832)	(2,756,529)	-	(26,308,361)
Buildings	(93,927,258)	(4,581,140)	-	(98,508,398)
Equipment	(6,856,603)	(681,322)	(1,061,390)	(6,476,535)
Total accumulated depreciation	<u>(124,335,693)</u>	<u>(8,018,991)</u>	<u>(1,061,390)</u>	<u>(131,293,294)</u>
Total capital assets being depreciated, net	<u>84,587,421</u>	<u>(998,540)</u>	<u>-</u>	<u>83,588,881</u>
Governmental activity capital assets, net	<u>\$ 91,542,888</u>	<u>\$ 8,261,268</u>	<u>\$ 4,658,565</u>	<u>\$ 95,145,591</u>
Business-Type Activities	Balance, July 1, 2022	Additions	Retirements	Balance, June 30, 2023
Capital Assets being depreciated				
Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Accumulated depreciation for:				
Equipment	(55,412)	-	-	(55,412)
Business-type activity capital assets, net	<u>\$ 1,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,421</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 4,996,216
Instruction-Related Services	870,080
Pupil Services	1,032,738
General Administration	415,465
Plant Services	<u>704,492</u>
 Total Depreciation	 <u>\$ 8,018,991</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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

Changes in long-term debt for the fiscal year ended June 30, 2023, were as follows:

	Balance, July 1, 2022	Additions	Deductions	Balance, June 30, 2023	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 51,440,000	\$ 30,000,000	\$ 2,565,000	\$ 78,875,000	\$ 4,315,000
Bond issuance premiums	1,858,054	2,446,902	323,131	3,981,825	282,001
Total - Bonds	53,298,054	32,446,902	2,888,131	82,856,825	4,597,001
Compensated Absences	488,481	150,899	-	639,380	-
Totals	\$ 53,786,535	\$ 32,597,801	\$ 2,888,131	\$ 83,496,205	\$ 4,597,001

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. Compensated absences liabilities are primarily obligations of the fund for which the employee worked.

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, 2023.

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.

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, 2023, 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, 2023, deferred amounts on refunding were \$57,176.

PETALUMA CITY SCHOOLS
Notes to Financial Statements
 June 30, 2023

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

General Obligation Bonds (continued)

Below is a schedule of bonds issued and outstanding as of June 30, 2023.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2022	Issuances	Redemptions	Balance, June 30, 2023
<u>Elementary District</u>								
Election of 2014								
Series A	8/27/2014	8/1/2039	3.0% - 5.0%	\$ 7,000,000	\$ 5,035,000	\$ -	\$ 90,000	\$ 4,945,000
Series B	5/24/2018	8/1/2042	2.0% - 5.0%	9,000,000	6,870,000	-	55,000	6,815,000
Series C	8/3/2022	8/1/2042	4.0% - 5.0%	5,000,000	-	5,000,000	-	5,000,000
Refunding Issues								
2011 Refunding	11/1/2011	8/1/2027	3.0% - 4.0%	8,470,000	1,005,000	-	155,000	850,000
2013 Refunding	5/7/2013	8/1/2028	2.0% - 4.0%	1,880,000	1,000,000	-	130,000	870,000
2015 Refunding	11/17/2015	8/1/2023	2.0% - 4.0%	3,260,000	405,000	-	200,000	205,000
Total Elementary District					14,315,000	5,000,000	630,000	18,685,000
<u>High School District</u>								
Election of 1992								
Series G	6/17/2010	8/1/2024	2.0% - 4.5%	2,418,791	2,415,000	-	770,000	1,645,000
Election of 2014								
Series A	8/17/2014	8/1/2039	2.0% - 4.0%	23,000,000	16,350,000	-	290,000	16,060,000
Series B	2/8/2017	8/1/2041	3.0% - 5.0%	20,000,000	16,550,000	-	230,000	16,320,000
Series C	8/3/2022	8/1/2041	2.5% - 5.0%	25,000,000	-	25,000,000	-	25,000,000
Refunding Issues								
2012 Refunding	8/9/2012	8/1/2024	2.0% - 4.0%	12,845,000	1,810,000	-	645,000	1,165,000
Total High School District					37,125,000	25,000,000	1,935,000	60,190,000
Total General Obligation Bonds					\$ 51,440,000	\$ 30,000,000	\$ 2,565,000	\$ 78,875,000

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

Fiscal Year	Principal	Interest	Totals
2023-2024	\$ 4,315,000	\$ 3,055,056	\$ 7,370,056
2024-2025	3,920,000	2,920,463	6,840,463
2025-2026	1,895,000	2,794,775	4,689,775
2026-2027	2,125,000	2,710,588	4,835,588
2027-2028	2,365,000	2,618,900	4,983,900
2028-2033	14,295,000	11,588,578	25,883,578
2033-2038	22,480,000	7,947,122	30,427,122
2038-2043	27,480,000	2,540,463	30,020,463
Totals	<u>\$ 78,875,000</u>	<u>\$ 36,175,945</u>	<u>\$ 115,050,945</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

For the fiscal year ended June 30, 2023, 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, 2021 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, 2022, 4,770 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.

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, 2023, the District reported a liability of \$360,956 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, 2022, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021 and rolling forward the total OPEB liability to June 30, 2022. 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		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022	
Measurement Date	June 30, 2022	June 30, 2021	
Proportion of the Net OPEB Liability	0.109576%	0.104540%	0.005036%

For the year ended June 30, 2023, the District reported OPEB expense of \$(56,015).

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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

Medicare Premium Payment (MPP) Program (continued)

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2021 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, 2022
Valuation Date	June 30, 2021
Experience Study	June 30, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.54%
Healthcare Cost Trend Rates	4.5% for Medicare Part A, and 5.4% for Medicare Part B

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 209 or an average of 0.14% of the potentially eligible population of 145,282.

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table issued by the Society of Actuaries.

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, 2022, 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, 2022, 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, 2022, was 3.54%, which is an increase of 1.38% from 2.16% as of June 30, 2021.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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

Medicare Premium Payment (MPP) Program (continued)

Sensitivity of the District’s 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:

<u>Discount Rate</u>	<u>MPP OPEB Liability</u>
1% decrease	\$ 481,760
Current discount rate	360,956
1% increase	332,767

Sensitivity of the District’s 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:

<u>Medicare Cost Trend Rates</u>	<u>MPP OPEB Liability</u>
1% decrease	\$ 331,191
Current trend rate	360,956
1% increase	394,696

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, 2023, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 50,733,115	\$ 19,517,535	\$ 8,800,421	\$ 2,344,409
CalPERS	31,615,839	18,541,200	8,932,610	4,678,028
Totals	<u>\$ 82,348,954</u>	<u>\$ 38,058,735</u>	<u>\$ 17,733,031</u>	<u>\$ 7,022,437</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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, 2021, 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>.

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 District contributes exclusively to the STRP Defined Benefit Program; thus, disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2023, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	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%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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

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 various subsequent legislation.

The CalSTRS Funding Plan established a schedule of contribution rate increases shared among members, employers and the state to bring CalSTRS toward full funding by 2046. California Senate Bill 90 (Chapter 33, Statutes of 2019) and California Assembly Bill 84 (Chapter 16, Statutes of 2020) (collectively, special legislation)—signed into law in June 2019 and June 2020, respectively —provided supplemental contributions to the DB Program along with supplemental contribution rate relief to employers through fiscal year 2021–22.

The contribution rates for each program for the year ended June 30, 2023, are presented above, and the District's total contributions were \$8,860,789.

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

At June 30, 2023, 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	\$	50,733,115
State's proportionate share of the net pension liability associated with the District		<u>25,406,946</u>
Total	\$	<u><u>76,140,061</u></u>

The net pension liability was measured as of June 30, 2022. 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:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2023</u>	<u>Fiscal Year Ending June 30, 2022</u>	
Measurement Date	<u>June 30, 2022</u>	<u>June 30, 2021</u>	
Proportion of the Net Pension Liability	0.073012%	0.069547%	0.003465%

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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)

For the year ended June 30, 2023, the District recognized pension expense of \$2,344,409. In addition, the District recognized pension expense and revenue of \$(1,900,255) for support provided by the State. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Pension contributions subsequent to measurement date	\$ 8,860,789	\$ -
Net change in proportionate share of net pension liability	8,099,136	2,515,548
Difference between projected and actual earnings on pension plan investments	-	2,480,948
Changes of assumptions	2,515,993	-
Differences between expected and actual experience	41,617	3,803,925
Totals	<u>\$ 19,517,535</u>	<u>\$ 8,800,421</u>

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
2024	\$ 4,913,355	\$ 3,478,006
2025	1,441,264	3,672,218
2026	1,441,264	3,989,224
2027	1,132,129	(3,452,158)
2028	931,805	732,889
Thereafter	796,929	380,242
Totals	<u>\$ 10,656,746</u>	<u>\$ 8,800,421</u>

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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

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, 2021 and rolling forward the total pension liability to June 30, 2022. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Experience Study	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.00%
Inflation	2.75%
Payroll Growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table issued by the Society of Actuaries.

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 (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The 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 2020 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. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2022, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public Equity	42.0%	4.8%
Real Estate	15.0%	3.6%
Private Equity	13.0%	6.3%
Fixed Income	12.0%	1.3%
Risk Mitigating Strategies	10.0%	1.8%
Inflation Sensitive	6.0%	3.3%
Cash/Liquidity	2.0%	(0.4%)

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10%, which was unchanged from 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.

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%)	\$ 86,163,646
Current discount rate (7.10%)	50,733,115
1% increase (8.10%)	21,315,122

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. Through the special legislation approved in June 2019 and June 2020, the State made supplemental contributions of approximately \$2.2 billion to CalSTRS on behalf of employers to supplant the amounts submitted by employers for fiscal years 2019–20 through 2021–22. Under accounting principles generally accepted in the United States of America, these amounts 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 \$4,075,796.

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, 2021 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>.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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

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 member's 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.

The CalPERS provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
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	25.37%	25.37%

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, 2023 are presented above, and the total District contributions were \$4,570,805.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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

As of June 30, 2023, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$31,615,839. The net pension liability was measured as of June 30, 2022. 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:

	<u>Percentage Share of Risk Pool</u>		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	
Measurement Date	June 30, 2022	June 30, 2021	
Proportion of the Net Pension Liability	0.091882%	0.099727%	(0.007845%)

For the year ended June 30, 2023, the District recognized pension expense of \$4,678,028. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Pension contributions subsequent to measurement date	\$ 4,570,805	\$ -
Net change in proportionate share of net pension liability	1,773,213	2,163,401
Difference between projected and actual earnings on pension plan investments	9,715,537	5,982,566
Changes of assumptions	2,338,760	-
Differences between expected and actual experience	142,885	786,643
Totals	<u>\$ 18,541,200</u>	<u>\$ 8,932,610</u>

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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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)

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
2024	\$ 4,203,519	\$ 2,824,719
2025	3,951,323	2,824,719
2026	3,539,318	2,783,925
2027	2,276,235	499,247
2028	-	-
Thereafter	-	-
Totals	\$ 13,970,395	\$ 8,932,610

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, 2021 and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021 used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2021
Experience Study	2000-2019
Actuarial Cost Method	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 long-term 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 9 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

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%)

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%)	\$ 45,670,680
Current discount rate (6.9%)	31,615,839
1% increase (7.9%)	20,000,029

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 the Social Security as its alternative plan.

D. Payables to the Pension Plans

At June 30, 2023, the District reported payables of \$281 and \$0 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2023.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

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.

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, 2023, the District had commitments with respect to unfinished capital projects of \$5.1 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, 2023.

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 fiscal year ending June 30, 2023, 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.

PETALUMA CITY SCHOOLS

Notes to Financial Statements

June 30, 2023

NOTE 12 – RISK MANAGEMENT (continued)

Workers' Compensation

For fiscal year 2022-23, 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.

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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, 2023

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 80,630,273	\$ 83,886,050	\$ 83,553,068	\$ (332,982)
Federal Sources	6,579,174	8,671,732	5,943,179	(2,728,553)
Other State Sources	10,425,619	23,702,848	22,504,786	(1,198,062)
Other Local Sources	10,003,805	14,831,154	14,008,091	(823,063)
Total Revenues	107,638,871	131,091,784	126,009,124	(5,082,660)
Expenditures				
Current:				
Certificated Salaries	42,015,835	47,107,241	46,693,123	414,118
Classified Salaries	16,827,065	18,794,254	18,383,350	410,904
Employee Benefits	30,875,869	31,730,247	29,547,960	2,182,287
Books and Supplies	5,375,833	15,493,522	5,393,483	10,100,039
Services and Other Operating	13,004,826	15,421,510	12,909,926	2,511,584
Capital Outlay	586,887	5,002,676	3,635,483	1,367,193
Other Outgo	(103,570)	(113,602)	(83,931)	(29,671)
Total Expenditures	108,582,745	133,435,848	116,479,394	16,956,454
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(943,874)	(2,344,064)	9,529,730	11,873,794
Other Financing Sources and Uses				
Interfund Transfers In	-	66,467	28,326	(38,141)
Interfund Transfers Out	-	(22,365)	(1,046)	21,319
Total Other Financing Sources and Uses	-	44,102	27,280	(16,822)
Net Change in Fund Balances	(943,874)	(2,299,962)	9,557,010	11,856,972
Fund Balances, July 1, 2022	14,532,427	26,000,283	26,000,280	(3)
Fund Balances, June 30, 2023	\$ 13,588,553	\$ 23,700,321	35,557,290	\$ 11,856,969
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
		Deferred Maintenance Fund	4,683	
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances			\$ 35,561,973	

PETALUMA CITY SCHOOLS

*Schedule of Proportionate Share of the Net Pension Liability-CalSTRS
For the Fiscal Year Ended June 30, 2023*

	<i>Last Ten Fiscal Years*</i>				
	<u>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>
District's proportion of the net pension liability	0.0730%	0.0695%	0.0711%	0.0668%	0.0660%
District's proportionate share of the net pension liability	\$ 50,733,115	\$ 31,649,242	\$ 68,934,305	\$ 60,288,959	\$ 60,623,309
State's proportionate share of the net pension liability associated with the District	25,406,946	15,924,671	35,535,643	32,891,652	34,709,680
Totals	<u>\$ 76,140,061</u>	<u>\$ 47,573,913</u>	<u>\$ 104,469,948</u>	<u>\$ 93,180,611</u>	<u>\$ 95,332,989</u>
District's covered-employee payroll	\$ 43,255,443	\$ 38,235,484	\$ 38,673,922	\$ 36,199,016	\$ 35,536,980
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	117.29%	82.77%	178.24%	166.55%	170.59%
Plan fiduciary net position as a percentage of the total pension liability	81%	87%	72%	73%	71%
	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	
District's proportion of the net pension liability	0.0632%	0.0693%	0.0561%	0.0639%	
District's proportionate share of the net pension liability	\$ 58,470,686	\$ 56,036,666	\$ 37,738,597	\$ 37,339,236	
State's proportionate share of the net pension liability associated with the District	34,590,764	31,905,371	19,959,504	22,547,269	
Totals	<u>\$ 93,061,450</u>	<u>\$ 87,942,037</u>	<u>\$ 57,698,101</u>	<u>\$ 59,886,505</u>	
District's covered-employee payroll	\$ 33,722,901	\$ 33,761,603	\$ 32,337,613	\$ 28,459,709	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.39%	165.98%	116.70%	131.20%	
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%	

* 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

*Schedule of Proportionate Share of the Net Pension Liability-CalPERS
For the Fiscal Year Ended June 30, 2023*

	<i>Last Ten Fiscal Years*</i>				
	<u>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>
District's proportion of the net pension liability	0.0919%	0.0997%	0.0922%	0.0914%	0.0902%
District's proportionate share of the net pension liability	\$ 31,615,839	\$ 20,278,837	\$ 28,299,577	\$ 26,652,082	\$ 24,056,795
District's covered-employee payroll	\$ 14,372,763	\$ 13,346,792	\$ 13,295,086	\$ 12,705,725	\$ 11,915,852
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	219.97%	151.94%	212.86%	209.76%	201.89%
Plan fiduciary net position as a percentage of the total pension liability	70%	81%	70%	70%	71%
		<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
District's proportion of the net pension liability		0.0925%	0.0984%	0.1040%	0.1038%
District's proportionate share of the net pension liability		\$ 22,091,986	\$ 19,441,662	\$ 15,329,711	\$ 11,782,491
District's covered-employee payroll		\$ 11,828,859	\$ 11,819,178	\$ 11,510,458	\$ 10,895,176
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		186.76%	164.49%	133.18%	108.14%
Plan fiduciary net position as a percentage of the total pension liability		72%	74%	79%	83%

* 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
Schedule of Pension Contributions-CalSTRS
For the Fiscal Year Ended June 30, 2023

	<i>Last Ten Fiscal Years*</i>				
	<u>2022-23</u>	<u>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>
Contractually required contribution	\$ 8,860,789	\$ 7,318,821	\$ 6,175,031	\$ 6,613,241	\$ 5,893,200
Contributions in relation to the contractually required contribution	8,860,789	7,318,821	6,175,031	6,613,241	5,893,200
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 46,391,565	\$ 43,255,443	\$ 38,235,484	\$ 38,673,922	\$ 36,199,016
Contributions as a percentage of covered-employee payroll	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>
		<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Contractually required contribution		\$ 5,127,986	\$ 4,242,341	\$ 3,622,620	\$ 2,871,580
Contributions in relation to the contractually required contribution		5,127,986	4,242,341	3,622,620	2,871,580
Contribution deficiency (excess):		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll		\$ 35,536,980	\$ 33,722,901	\$ 33,761,603	\$ 32,337,613
Contributions as a percentage of covered-employee payroll		<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>

* 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
Schedule of Pension Contributions-CalPERS
For the Fiscal Year Ended June 30, 2023

	<i>Last Ten Fiscal Years*</i>				
	<u>2022-23</u>	<u>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>
Contractually required contribution	\$ 4,570,805	\$ 3,292,800	\$ 2,762,786	\$ 2,621,924	\$ 2,294,908
Contributions in relation to the contractually required contribution	<u>4,570,805</u>	<u>3,292,800</u>	<u>2,762,786</u>	<u>2,621,924</u>	<u>2,294,908</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 18,016,575</u>	<u>\$ 14,372,763</u>	<u>\$ 13,346,792</u>	<u>\$ 13,295,086</u>	<u>\$ 12,705,725</u>
Contributions as a percentage of covered-employee payroll	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>
		<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Contractually required contribution		\$ 1,850,651	\$ 1,642,792	\$ 1,400,218	\$ 1,354,896
Contributions in relation to the contractually required contribution		<u>1,850,651</u>	<u>1,642,792</u>	<u>1,400,218</u>	<u>1,354,896</u>
Contribution deficiency (excess):		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll		<u>\$ 11,915,852</u>	<u>\$ 11,828,859</u>	<u>\$ 11,819,178</u>	<u>\$ 11,510,458</u>
Contributions as a percentage of covered-employee payroll		<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

* 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

*Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program
For the Fiscal Year Ended June 30, 2023*

*Last Ten Fiscal Years**

Employer's Fiscal Year Measurement Period	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
District's proportion of net OPEB liability	0.1096%	0.1045%	0.1078%	0.1032%	0.1037%	0.1006%
District's proportionate share of net OPEB liability	\$ 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
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	(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, 2023

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. 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 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. In the future, as data becomes available, ten years of information will be presented.

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 2.16 percent to 3.54 percent since the previous valuation.

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Supplementary Information

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PETALUMA CITY SCHOOLS

Local Educational Agency Organization Structure

June 30, 2023

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 four charter schools. The District also operates an independent study school and an adult school. There were no boundary changes during the year.

BOARD OF EDUCATION

Member	Office	Term Expires
Joanna Paun	President	December 2026
Caitlin Quinn	Clerk/Vice President	December 2026
Mady Cloud	Member	December 2026
Sheldon Gen	Member	December 2024
Ellen Webster	Member	December 2024

DISTRICT ADMINISTRATORS

Matthew Harris,
Superintendent

Maita Iturri,
Assistant Superintendent, Student Services

Tony Hua,
Assistant Superintendent, Educational Services

Jason Sutter,
Assistant Superintendent, Human Resources

Chris Thomas¹,
Chief Business Official

¹Retired effective June 30, 2023. The position is now held by Amanda Bonivert.

PETALUMA CITY SCHOOLS
Schedule of Average Daily Attendance-Districts
For the Fiscal Year Ended June 30, 2023

PETALUMA CITY ELEMENTARY				
	As Reported to CDE		Adjusted for Audit Finding	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA:				
TK/Grades K-3	824.38	837.15	824.62	837.34
Grades 4-6	625.99	627.67	626.13	627.79
Total Regular ADA	1,450.37	1,464.82	1,450.75	1,465.13
Special Education, Nonpublic, Nonsectarian Schools:				
TK/Grades K-3	2.07	2.09	2.08	2.10
Grades 4-6	2.37	2.50	2.37	2.50
Total ADA	1,454.81	1,469.41	1,455.20	1,469.73

PETALUMA JOINT UNION HIGH				
	As Reported to CDE		Adjusted for Audit Finding	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA:				
Grades 7-8	1,166.13	1,167.98	1,166.03	1,168.75
Grades 9-12	2,927.97	2,916.19	2,934.83	2,921.40
Total Regular ADA	4,094.10	4,084.17	4,100.86	4,090.15
Special Education, Nonpublic, Nonsectarian Schools:				
Grades 7-8	5.59	5.83	5.61	5.85
Grades 9-12	18.52	18.62	18.57	18.67
Total Special Education ADA	24.11	24.45	24.18	24.52
Total ADA	4,118.21	4,108.62	4,125.04	4,114.67

PETALUMA CITY SCHOOLS*Schedule of Average Daily Attendance-Charters**For the Fiscal Year Ended June 30, 2023*

Mary Collins School at Cherry Valley		
	Second Period Report	Annual Report
Regular ADA:		
TK/Grades K-3	198.60	200.47
Grades 4-6	133.13	133.75
Grades 7-8	86.19	85.90
Total ADA	417.92	420.12
Total Classroom-Based ADA	417.92	420.12

Penngrove Elementary		
	Second Period Report	Annual Report
Regular ADA:		
TK/Grades K-3	276.13	277.94
Grades 4-6	166.90	167.62
Total ADA	443.03	445.56
Total Classroom-Based ADA	443.03	445.56

Petaluma Accelerated		
	Second Period Report	Annual Report
Regular ADA:		
Grades 7-8	118.89	119.01
Total Classroom-Based ADA	118.89	119.01

PETALUMA CITY SCHOOLS
Schedule of Instructional Time - District
For the Fiscal Year Ended June 30, 2023

Petaluma City Schools				
<u>Grade Level</u>	<u>Instructional Minutes Requirement</u>	<u>Instructional Minutes Offered</u>	<u>Instructional Days Offered</u>	<u>Status</u>
Kindergarten	36,000	46,140	180	Complied
Grade 1	50,400	51,430	180	Complied
Grade 2	50,400	51,430	180	Complied
Grade 3	50,400	51,430	180	Complied
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	54,000	180	Complied
Grade 7	54,000	54,975	180	Complied
Grade 8	54,000	54,975	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, 2023

Mary Collins School at Cherry Valley

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Kindergarten	36,000	45,450	180	Complied
Grade 1	50,400	50,460	180	Complied
Grade 2	50,400	50,460	180	Complied
Grade 3	50,400	50,460	180	Complied
Grade 4	54,000	54,960	180	Complied
Grade 5	54,000	54,960	180	Complied
Grade 6	54,000	57,360	180	Complied
Grade 7	54,000	57,360	180	Complied
Grade 8	54,000	57,360	180	Complied

Penngrove Elementary

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Kindergarten	36,000	47,260	180	Complied
Grade 1	50,400	51,732	180	Complied
Grade 2	50,400	51,732	180	Complied
Grade 3	50,400	51,732	180	Complied
Grade 4	54,000	54,868	180	Complied
Grade 5	54,000	54,868	180	Complied
Grade 6	54,000	54,868	180	Complied

Petaluma Accelerated

Grade Level	Instructional Minutes Requirement	Instructional Minutes Offered	Instructional Days Offered	Status
Grade 7	54,000	55,680	180	Complied
Grade 8	54,000	55,680	180	Complied

PETALUMA CITY SCHOOLS
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2023

General Fund	(Budget)			
	2024 ³	2023 ⁴	2022	2021
Revenues and other financing sources	\$ 120,022,057	\$ 126,037,450	\$ 108,889,461	\$ 98,809,004
Expenditures	129,213,131	116,479,394	105,523,281	93,359,055
Other uses and transfers out	-	1,046	-	500,000
Total outgo	129,213,131	116,480,440	105,523,281	93,859,055
Change in fund balance (deficit)	(9,191,074)	9,557,010	3,366,180	4,949,949
Ending fund balance	\$ 26,366,216	\$ 35,557,290	\$ 26,000,280	\$ 22,634,100
Available reserves ¹	\$ 8,077,298	\$ 7,795,765	\$ 8,692,355	\$ 8,729,741
Available reserves as a percentage of total outgo	6.3%	6.7%	8.2%	9.3%
Total long-term debt	\$ 161,609,114	\$ 166,206,115	\$ 106,131,585	\$ 158,980,791
Average daily attendance at P-2 ²	6,943	6,553	6,632	N/A

The General Fund balance has increased by \$12.9 million over the past two years. The fiscal year 2023-24 adopted budget projects a decrease of \$9.2 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 not incurred operating deficits in any of the past three years, but does anticipate incurring an operating deficit during the 2023-24 fiscal year. Long-term debt has increased by \$7.2 million over the past two years.

Average daily attendance decreased by 79 ADA in 2022-23 compared to 2021-22. Budgeted ADA for 2023-24 is projected to be 6,943.

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, 2023.

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, 2023*

	Cafeteria Fund	Bond Interest and Redemption Fund
June 30, 2023, annual financial and budget report fund balance	\$ 2,135,851	\$ 9,508,928
Adjustments and reclassifications:		
Increase (decrease) in fund balances:		
Fair market value on investments	-	(372,823)
Accounts receivable overstated	(237,203)	-
Net adjustments and reclassifications	(237,203)	(372,823)
June 30, 2023, audited financial statement fund balance	<u>\$ 1,898,648</u>	<u>\$ 9,136,105</u>

PETALUMA CITY SCHOOLS

Schedule of Charter Schools

For the Fiscal Year Ended June 30, 2023

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

PETALUMA CITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2023

Grantor/Program or Cluster Title	Federal Assistance Listing	Pass-Through Entity Identifying Number	Cluster 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	\$ 40,528	
School Breakfast Program - Especially Needy	10.553	13526	1,255,064	
National School Lunch Program	10.555	13523	2,614,511	
Supply Chain Assistance Program	10.555	15655	172,366	
USDA Donated Foods	10.555	13391	<u>217,547</u>	
Subtotal Child Nutrition Cluster:				\$ 4,300,016
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	74,385	
CACFP in Lieu of Commodities	10.558	N/A	<u>31,126</u>	
Subtotal Child and Adult Food Program Cluster				<u>105,511</u>
Total U.S.Department of Agriculture				<u>4,405,527</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	462,316	
School Improvement Funding for LEAs	84.010	15438	<u>312,200</u>	
Subtotal Title I, Part A Grants				774,516
Title II, Part A, Supporting Effective Instruction	84.367	14341		230,151
English Language Acquisition Grants:				
Title III, Immigrant Education Program	84.365	15146	6,000	
Title III, Limited English Proficiency	84.365	14346	<u>103,519</u>	
Total English Language Acquisition Grants Cluster				109,519
Title IV, Part A Student Support & Academic Enrichment Grants	84.424	15396		30,176
Adult Education Cluster:				
Adult Basic Education & ELA	84.002A	14508	64,500	
Adult Secondary Education	84.002	13978	<u>215,560</u>	
Total Adult Education Cluster				280,060
Carl D. Perkins Career Technical Education	84.048	14894		53,844
COVID-19 Education Stabilization Funds:				
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	279,627	
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	1,254,127	
Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	226,367	
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425D	15618	537,991	
Expanded Learning Opportunities (ELO) Grant GEER II	84.425C	15619	129,401	
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425U	15620	111,930	
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425U	15621	<u>206,406</u>	
Total COVID-19 Education Stabilization Funds				2,745,849
Passed through Sonoma County SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Basic Local Assistance Entitlement, Part B	84.027	13379	1,825,605	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	78,850	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	<u>69,705</u>	
Total Special Education (IDEA) Cluster				<u>1,974,160</u>
Total U.S.Department of Education				<u>6,198,275</u>
Total Expenditures of Federal Awards				<u>\$ 10,603,802</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, 2023

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 Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

	<u>Assistance Listing</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 8,205,375
Differences between Federal Revenues and Expenditures:		
Special Education (IDEA) Cluster	84.027	(24,965)
Child Nutrition Cluster	10.553, 10.555	<u>2,423,392</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,603,802</u>

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2024.

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.

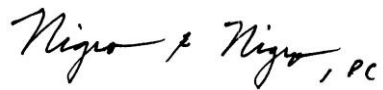
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
March 28, 2024



**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, 2023. 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, 2023.

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 for 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 Matters

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 2023-001. 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's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Petaluma City Schools's 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

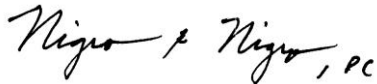
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant 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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 2023-001 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.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
March 28, 2024



INDEPENDENT AUDITORS' REPORT ON STATE 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 *2022-23 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, 2023.

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, 2023.

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 *2022-23 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 *2022-23 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 for 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 *2022-23 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 *2022-23 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
Kindergarten Continuance	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
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Yes
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes
Independent Study Certification for ADA Loss Mitigation	Yes

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	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
Transitional Kindergarten	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

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

*Independent study was not tested, because it was below materiality levels.

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 Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying schedule of findings and questioned costs as Finding 2023-002.

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 an, accordingly, we express no opinion on the response.

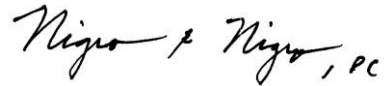
Report on Internal Control over Compliance

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 *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

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Murrieta, California
March 28, 2024

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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, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

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:	
<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.425C, 84.425D, 84.425U	Education Stabilization Funds

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, 2023

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:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
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 2022-23.

PETALUMA CITY SCHOOLS

Federal Award Findings and Questioned Costs For the Fiscal Year Ended June 30, 2023

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 2023-001: Child Nutrition Meal Claims Reporting (50000)

Program Identification:

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: Child Nutrition Cluster:
National School Lunch Program (AL No. 10.555)
School Breakfast Program – Especially Needy (AL No. 10.553)
School Breakfast Program – Basic (AL No. 10.553)

Criteria: LEAs must submit monthly claims for reimbursement for meals and snacks served to eligible students within 60 days following the last day of the month covered by the claim. Each month's claim for reimbursement and all data used in the claims review process must be maintained on file. Accurate records must be maintained justifying all meals claimed and documenting that all Program funds were spent only on allowable Child Nutrition Program costs.

Condition: During our testing of compliance and controls over claims reporting, we identified that six months of claims had instances in which the District over or under reported meals served, as follows:

- August 2022 – overreported one free lunch.
- September 2022 – overreported one free lunch.
- September 2022 – underreported one free especially needy school breakfast.
- September 2022 – underreported one paid especially needy school breakfast.
- February 2023 – overreported one paid lunch.
- February 2023 – overreported one free especially needy school breakfast.
- February 2023 – overreported one paid especially needy school breakfast.
- March 2023 – overreported two free lunches.
- March 2023 – underreported fifty-six free especially needy school breakfast.
- March 2023 – underreported five reduced especially needy school breakfast.
- March 2023 – underreported one paid especially needy school breakfast.
- April 2023 – overreported one free lunch.
- April 2023 – overreported one paid lunch.
- April 2023 – overreported one paid especially needy school breakfast.
- May 2023 – overreported one paid especially needy school breakfast.

Context: Errors were noted in six months out of the ten months reported.

Questioned Costs: In total the District under claimed \$137.54 for all six months.

Cause: Lack of review process to ensure all corrections to meals served are captured and verified prior to the claim being submitted.

Effect: Errors can result in potential overclaiming or under claiming of meals, as well as the District being over reimbursed or under reimbursed for meals served.

Recommendation: We recommend the District implement a review process to ensure that all corrections have been confirmed and captured prior to CNIPs claims being submitted.

PETALUMA CITY SCHOOLS

*Federal Award Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2023*

Finding 2023-001: Child Nutrition Meal Claims Reporting (50000) (continued)

Views of Responsible Officials: We will implement a review process to confirm all corrections before submitting claims for reimbursement, ensuring compliance with the 60-day claim submission requirement and accurate record-keeping. This will guarantee that Program funds are spent solely on allowable Child Nutrition Program costs.

PETALUMA CITY SCHOOLS

State Award Findings and Questioned Costs For the Fiscal Year Ended June 30, 2023

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

Finding 2023-002: Attendance Accounting (10000)

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.

Good internal controls require the District to review its pupil attendance reporting processes and ensure that attendance policies and procedures are maintained and followed at all school sites.

Condition: During our review of ADA reported to CDE, we noted the following adjustments:

Petaluma City Elementary

P-2 Report of Attendance

- The District understated ADA (Line A-1) by 0.24 ADA in grades TK-3.
- The District understated ADA (Line A-1) by 0.14 ADA in grades 4-6.
- The District understated ADA (Line A-4) by 0.01 ADA in grades TK-3.

Annual Report of Attendance

- The District understated ADA (Line A-1) by 0.19 ADA in grades TK-3.
- The District understated ADA (Line A-1) by 0.12 ADA in grades 4-6.
- The District understated ADA (Line A-4) by 0.01 ADA in grades TK-3.

Petaluma Joint Union High

P-2 Report of Attendance

- The District overstated ADA (Line A-1) by 0.10 ADA in grades 7-8.
- The District understated ADA (Line A-1) by 6.86 ADA in grades 9-12.
- The District understated ADA (Line A-4) by 0.02 ADA in grades 7-8.
- The District understated ADA (Line A-4) by 0.05 ADA in grades 9-12.

Annual Report of Attendance

- The District understated ADA (Line A-1) by 0.77 ADA in grades 7-8.
- The District understated ADA (Line A-1) by 5.21 ADA in grades 9-12.
- The District understated ADA (Line A-4) by 0.02 ADA in grades 7-8.
- The District understated ADA (Line A-4) by 0.05 ADA in grades 9-12.

Cause: This was due to data entry errors, as well as the District receiving CDE approval for material decreases in ADA, which resulted in a net increase in ADA.

Effect: Petaluma City Elementary's Line A-1 is funded at P-2 and Line A-4 is funded at Annual, therefore the derived financial impact is that the District is owed \$4,169. Petaluma Joint Union High's Line A-1 is funded at P-2 and Line A-4 is funded at Annual, therefore the derived financial impact is that District is owed \$84,769.

Recommendation: We recommend that the District revise the P2 and Annual to reflect the corrections above when the window is opened to allow revisions.

Views of Responsible Officials: We have thoroughly reviewed our pupil attendance policies and procedures to ensure compliance with California Education Code section 46000. Additionally, we have implemented staff training sessions, monitoring mechanisms, and communication channels to address discrepancies and maintain accurate attendance reporting across all school sites.

PETALUMA CITY SCHOOLS

*Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2023*

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2022-001: Instructional Materials</i>	<p>Education Code Section 60119 requires a school district’s governing board to hold a public hearing on or before the end of the eighth week from the first day pupils attended school. In addition, the school district’s governing board must provide a 10-day notice of the required public hearing. The notice must include the time, place, and purpose of the hearing and the notice must be posted in a minimum of three public locations in the school district.</p> <p>The school district failed to provide a 10-day notice of the required meeting and did not hold the meeting on or before the eighth week from the first day pupils attended school. The public hearing was held on November 15, 2021.</p>	70000	The District should incorporate deadlines for instructional materials in their internal calendar. This would allow management to hold the Education Services department accountable in ensuring that the District is in compliance with instructional materials requirements.	Implemented.
<i>Finding 2022-002: California Clean Energy</i>	<p>Local Educational Agencies (LEAs) are required to submit a final project completion report to the California Clean Energy Commission 12-15 month after the energy expenditure plan is completely installed. An energy expenditure plan is considered complete when the LEA has completed all measures in the approved energy expenditure plan. A final project completion report is required for each approved energy expenditure plan.</p> <p>The district completed one project on April 5, 2016 and submitted the final report on December 4, 2019. A second project was completed on November 30, 2016 and submitted the final report on March 20, 2018. In both instances, the final reports were submitted after 15 months of the project’s completion date.</p>	40000	Not applicable as this is the final year of this state compliance requirement.	Not Applicable in 2022-23.