

PALERMO UNION ELEMENTARY SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2025

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2025

FINANCIAL SECTION

Report on the Audit of the Financial Statements	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	14
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Notes to Financial Statements.....	17

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule	46
Cafeteria Fund – Budgetary Comparison Schedule	47
Schedule of Changes in Total OPEB Liability and Related Ratios	48
Schedule of the District's Proportionate Share of the Net Pension Liability - CalSTRS	49
Schedule of the District's Proportionate Share of the Net Pension Liability - CalPERS	50
Schedule of District Contributions - CalSTRS	51
Schedule of District Contributions - CalPERS	52
Notes to Required Supplementary Information	53

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards.....	55
Schedule of Average Daily Attendance (ADA)	56
Schedule of Instructional Time	57
Schedule of Financial Trends and Analysis	58
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	59
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	61
Notes to Supplementary Information	62

OTHER INFORMATION

Local Education Agency Organization Structure	63
---	----

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2025

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance	66
Report on State Compliance and on Internal Control Over compliance for State Programs	69

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results.....	73
Financial Statement Findings	74
Federal Award Findings and Questioned Costs	75
State Award Findings and Questioned Costs	76
Summary Schedule of Prior Audit Findings	77

FINANCIAL SECTION

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Independent Auditors' Report

Governing Board
Palermo Union Elementary School District
Palermo, 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 the Palermo Union Elementary School District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Palermo Union Elementary School District's basic financial statements as listed in the table of contents.

In our opinion, the 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 the Palermo Union Elementary School District, as of June 30, 2025, and the respective changes in financial position for the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Palermo Union Elementary School 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 Palermo Union Elementary School 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.

Auditor's 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 auditor's 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 generally accepted auditing standards 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 of the financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 Palermo Union Elementary School 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 Palermo Union Elementary School 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of district contributions for pensions 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 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 Palermo Union Elementary School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2026 on our consideration of the Palermo Union Elementary School 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 Palermo Union Elementary School 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 Palermo Union Elementary School District's internal control over financial reporting and compliance.



San Diego, California
January 16, 2026

PALERMO UNION ELEMENTARY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

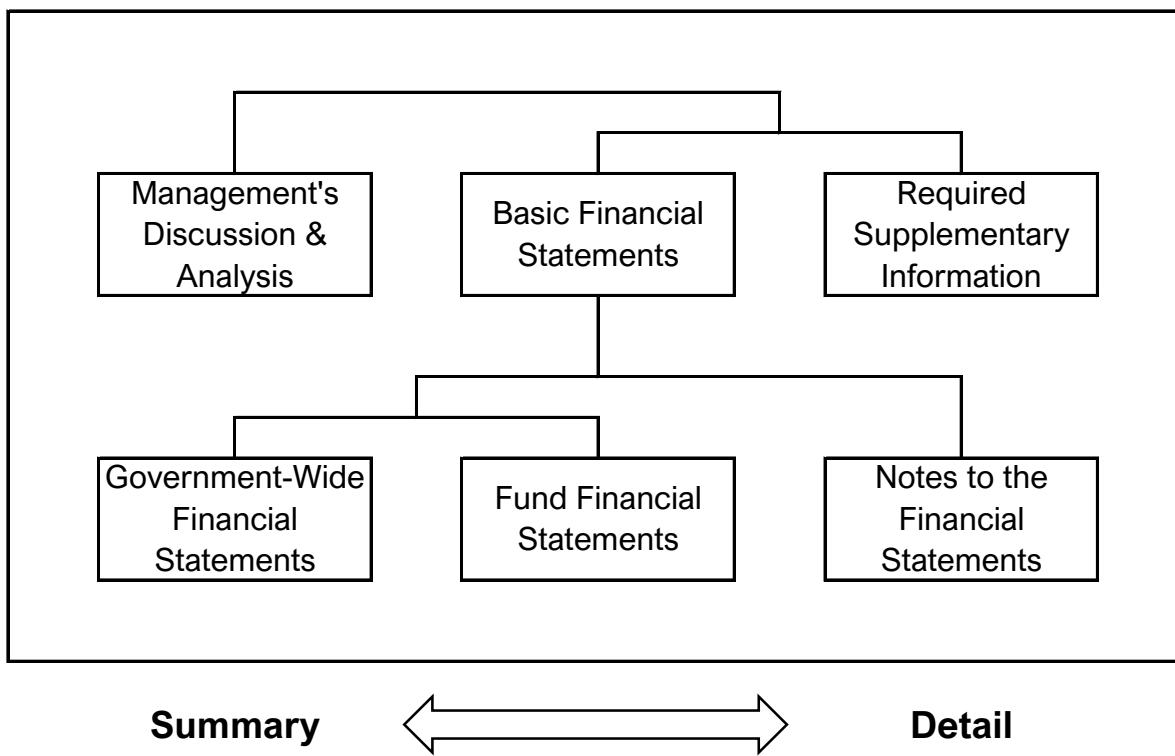
Our discussion and analysis of Palermo Union Elementary School District's (District) financial performance provide an overview of the District's financial activities for the fiscal year ended June 30, 2025. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$9,637,532 at June 30, 2025. This was an increase of \$2,651,579 from the prior year.
- Overall revenues were \$29,839,608, which exceeded expenses of \$27,188,029.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financial Section



**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Components of the Financial Section (continued)

This annual report consists of three parts – Management’s Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity’s overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental Funds** 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.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-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 government’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 government-wide statements report the District’s net position and how it has changed. Net position is one way to measure the District’s financial health. Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District’s basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$9,637,532 at June 30, 2025, as reflected in the table below. Of this amount, \$(8,284,220) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2025	2024	Net Change
ASSETS			
Current and other assets	\$ 16,745,889	\$ 16,895,093	\$ (149,204)
Capital assets	11,164,908	9,059,373	2,105,535
Total Assets	27,910,797	25,954,466	1,956,331
DEFERRED OUTFLOWS OF RESOURCES			
	7,551,210	8,019,892	(468,682)
LIABILITIES			
Current liabilities	3,474,646	3,975,185	(500,539)
Long-term liabilities	20,096,744	21,353,968	(1,257,224)
Total Liabilities	23,571,390	25,329,153	(1,757,763)
DEFERRED INFLOWS OF RESOURCES			
	2,253,085	1,659,252	593,833
NET POSITION			
Net investment in capital assets	11,164,908	9,059,373	2,105,535
Restricted	6,756,844	7,527,418	(770,574)
Unrestricted	(8,284,220)	(9,600,838)	1,316,618
Total Net Position	\$ 9,637,532	\$ 6,985,953	\$ 2,651,579

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges it slightly, so you can see our total revenues and expenses for the year.

	Governmental Activities		
	2025	2024	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 58,864	\$ 95,293	\$ (36,429)
Operating grants and contributions	9,645,853	12,327,154	(2,681,301)
Capital grants and contributions	46,297	4,223	42,074
General revenues			
Property taxes	2,091,697	2,112,071	(20,374)
Unrestricted federal and state aid	16,987,368	15,675,236	1,312,132
Other	1,009,529	808,353	201,176
Total Revenues	29,839,608	31,022,330	(1,182,722)
EXPENSES			
Instruction	16,788,667	17,618,796	(830,129)
Instruction-related services	2,124,311	2,134,249	(9,938)
Pupil services	3,250,254	3,427,498	(177,244)
General administration	1,679,142	1,826,378	(147,236)
Plant services	2,285,858	2,297,430	(11,572)
Ancillary and community services	119,133	170,860	(51,727)
Other outgo	940,664	1,158,149	(217,485)
Total Expenses	27,188,029	28,633,360	(1,445,331)
Change in net position	2,651,579	2,388,970	262,609
Net Position - Beginning	6,985,953	4,596,983	2,388,970
Net Position - Ending	\$ 9,637,532	\$ 6,985,953	\$ 2,651,579

The cost of all our governmental activities this year was \$27,188,029 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$2,091,697 because a portion of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2025	2024
Instruction	\$ 10,771,334	\$ 12,368,186
Instruction-related services	1,769,462	1,736,598
Pupil services	993,466	1,595,331
General administration	1,409,374	1,564,301
Plant services	2,018,763	(1,686,977)
Ancillary services	13,726	67,111
Transfers to other agencies	460,890	562,140
Total	\$ 17,437,015	\$ 16,206,690

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR 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 \$13,317,179, which is more than last year's ending fund balance of \$12,919,908. The District's General Fund had \$1,115,739 more in operating revenues than expenditures for the year ended June 30, 2025. The District's Child Development Fund had \$174,848 more in operating revenues than expenditures for the year ended June 30, 2025.

CURRENT YEAR BUDGET 2024-2025

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a regular basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2024-2025 the District had invested \$11,164,908 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2025	2024	Net Change
CAPITAL ASSETS			
Land	\$ 165,353	\$ 165,353	\$ -
Construction in progress	789,449	2,783,862	(1,994,413)
Land improvements	1,305,225	1,270,574	34,651
Buildings & improvements	17,738,883	13,237,911	4,500,972
Furniture & equipment	3,944,736	3,593,126	351,610
Less: Accumulated depreciation	(12,778,738)	(11,991,453)	(787,285)
Total	\$ 11,164,908	\$ 9,059,373	\$ 2,105,535

Long-Term Liabilities

At year-end, the District had \$20,096,744 in long-term liabilities, a decrease of 5.89% from last year – as shown in the table below. More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.

	Governmental Activities		
	2025	2024	Net Change
LONG-TERM LIABILITIES			
Compensated absences	153,121	148,239	4,882
Total OPEB liability	3,313,811	3,415,837	(102,026)
Net pension liability	16,675,748	17,789,892	(1,114,144)
Less: current portion of long-term liabilities	(45,936)	-	(45,936)
Total	\$ 20,096,744	\$ 21,353,968	\$ (1,257,224)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Several economic and fiscal factors could influence the District's financial condition in the coming year, including continued enrollment declines, uncertain Federal and State revenues, high pension obligations, and a cooling California economy.

Long-Term Declining Enrollment

California's K-12 system continues to experience enrollment decline. Statewide enrollment fell another 0.5% in 2024-25 to about 5.8 million students, roughly 420,000 fewer than a decade ago. The Department of Finance projects an additional 586,000-student decline by 2033-34. Lower birth rates, high housing costs, and out-migration are key drivers, along with growing competition from charter and private schools. Because many costs—such as staffing and facilities—cannot easily adjust, revenue loss from declining Average Daily Attendance (ADA) creates structural fiscal challenges that require multi-year planning.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

Revenue Uncertainties

- **Status of Proposition 98:** The 2025–26 State Budget sets the Proposition 98 guarantee at \$114.6 billion, slightly below earlier projections. To maintain K–12 funding commitments amid weaker tax receipts, the State relied on reserve drawdowns, internal borrowing, and limited deferrals. The outlook remains fragile since Proposition 98 revenues are highly sensitive to income-tax and capital-gains fluctuations. A market slowdown could trigger future adjustments. The Legislative Analyst's Office urges districts to budget cautiously and preserve flexibility given ongoing volatility.
- **Federal Funding Uncertainties:** Federal funding for K–12 education remains uncertain heading into 2025–26. Several large federal programs—including Title I, Title II, IDEA, and after-school and enrichment grants—face potential reductions or delays under current federal budget proposals and continuing appropriations negotiations. The U.S. Department of Education has also paused or delayed disbursement of certain previously approved formula and competitive grants, creating short-term cash-flow and planning challenges for districts. Analyses by nonpartisan agencies such as the Congressional Budget Office and the Learning Policy Institute note that up to \$5–6 billion in K–12 formula funds nationwide remain at risk of reduction or deferral if congressional appropriations are not finalized. While districts are expected to continue receiving baseline allocations during temporary funding resolutions, long-term federal support levels for education could decline modestly in real terms, requiring districts to plan for possible funding interruptions or reductions in future years.

Pension Liabilities and Employer Rates

The District participates in CalSTRS and CalPERS, both of which remain underfunded and continue to exert upward pressure on budgets. For 2025–26, the CalSTRS employer rate is 19.10%, and the CalPERS Schools Pool rate is 26.81%. These elevated rates—well above pre-2014 levels—will likely persist through the decade as both systems address unfunded liabilities. Districts must continue to account for escalating pension costs in long-range projections.

Economic and Market Conditions

California's economy has cooled following its post-pandemic rebound. High interest rates, weaker venture investment, and commercial-real-estate softness have slowed growth, especially in tech-dependent regions. The UCLA Anderson Forecast (Fall 2025) expects subdued growth into 2026, with unemployment near 5%. Inflation has eased, but interest-rate uncertainty continues to constrain housing and business investment.

Because the State's tax base depends heavily on capital-gains income, stock-market volatility remains a major risk to General Fund and Proposition 98 revenues. Fiscal advisors therefore recommend that districts maintain prudent reserves and avoid long-term commitments based on one-time revenue gains.

Summary

Declining enrollment, volatile revenues, persistent pension costs, and broader economic uncertainty all contribute to a challenging fiscal environment for California school districts. The District's 2025–26 budget reflects these conditions through conservative revenue assumptions, strong reserves, and continued monitoring of State fiscal trends.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact: Ruthie Anaya, Assistant Superintendent at the Palermo Union School District, Business Office, 7390 Bulldog Way, Palermo, California 95968.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2025**

	Governmental Activities
ASSETS	
Cash and investments	\$ 15,230,882
Accounts receivable	1,508,309
Inventory	6,698
Capital assets:	
Capital assets, not depreciated	954,802
Capital assets, net of accumulated depreciation	<u>10,210,106</u>
Total Assets	<u>27,910,797</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	7,014,427
Deferred outflows related to OPEB	536,783
Total Deferred Outflows of Resources	<u>7,551,210</u>
LIABILITIES	
Deficit cash	3,538
Accrued liabilities	2,907,730
Unearned revenue	517,442
Long-term liabilities, current portion	45,936
Long-term liabilities, non-current portion	<u>20,096,744</u>
Total Liabilities	<u>23,571,390</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	1,197,628
Deferred inflows related to OPEB	<u>1,055,457</u>
Total Deferred Inflows of Resources	<u>2,253,085</u>
NET POSITION	
Net investment in capital assets	11,164,908
Restricted:	
Capital projects	704,386
Debt service	1,161
Educational programs	4,514,642
Food service	1,463,386
Associated student body	73,269
Unrestricted	<u>(8,284,220)</u>
Total Net Position	<u>\$ 9,637,532</u>

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
		Governmental Activities			
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 16,788,667	\$ 7,923	\$ 5,963,113	\$ 46,297	\$ (10,771,334)
Instruction-related services					
Instructional supervision and administration	309,066	888	305,600	-	(2,578)
Instructional library, media, and technology	297,261	-	3,365	-	(293,896)
School site administration	1,517,984	70	44,926	-	(1,472,988)
Pupil services					
Home-to-school transportation	830,100	-	51,310	-	(778,790)
Food services	1,455,429	31,297	1,730,662	-	306,530
All other pupil services	964,725	13,539	429,980	-	(521,206)
General administration					
Centralized data processing	2,767	-	-	-	(2,767)
All other general administration	1,676,375	428	269,340	-	(1,406,607)
Plant services	2,285,858	4,719	262,376	-	(2,018,763)
Ancillary services	118,554	-	105,407	-	(13,147)
Community services	579	-	-	-	(579)
Other outgo	940,664	-	479,774	-	(460,890)
Total Governmental Activities	\$ 27,188,029	\$ 58,864	\$ 9,645,853	\$ 46,297	\$ (17,437,015)
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes					2,091,697
Federal and state aid not restricted for specific purposes					16,987,368
Interest and investment earnings					622,569
Interagency revenues					50,000
Miscellaneous					336,960
Subtotal, General Revenue					20,088,594
CHANGE IN NET POSITION					2,651,579
Net Position - Beginning					6,985,953
Net Position - Ending					\$ 9,637,532

The accompanying notes are an integral part of these financial statements.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2025

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 11,898,305	\$ 1,124,342	\$ 2,208,235	\$ 15,230,882
Accounts receivable	810,339	327,344	370,626	1,508,309
Due from other funds	355,097	-	151,401	506,498
Stores inventory	-	-	6,698	6,698
Total Assets	\$ 13,063,741	\$ 1,451,686	\$ 2,736,960	\$ 17,252,387
LIABILITIES				
Deficit cash	\$ -	\$ -	\$ 3,538	\$ 3,538
Accrued liabilities	2,444,989	155,559	307,182	2,907,730
Due to other funds	98,814	234,199	173,485	506,498
Unearned revenue	169,979	345,853	1,610	517,442
Total Liabilities	2,713,782	735,611	485,815	3,935,208
FUND BALANCES				
Nonspendable	2,306	3,000	8,943	14,249
Restricted	3,801,567	713,075	2,242,202	6,756,844
Assigned	1,092,098	-	-	1,092,098
Unassigned	5,453,988	-	-	5,453,988
Total Fund Balances	10,349,959	716,075	2,251,145	13,317,179
Total Liabilities and Fund Balances	\$ 13,063,741	\$ 1,451,686	\$ 2,736,960	\$ 17,252,387

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2025**

Total Fund Balance - Governmental Funds \$ 13,317,179

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

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	\$ 23,943,646
Accumulated depreciation	<u>(12,778,738)</u>
	11,164,908

Long-term liabilities:

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

Compensated absences	\$ 153,121
Total OPEB liability	3,313,811
Net pension liability	<u>16,675,748</u>
	(20,142,680)

Deferred outflows and inflows of resources relating to pensions:

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 related to pensions	\$ 7,014,427
Deferred inflows of resources related to pensions	<u>(1,197,628)</u>
	5,816,799

Deferred outflows and inflows of resources relating to OPEB:

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

Deferred outflows of resources related to OPEB	\$ 536,783
Deferred inflows of resources related to OPEB	<u>(1,055,457)</u>
	(518,674)

Total Net Position - Governmental Activities \$ 9,637,532

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2025

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 18,551,422	\$ -	\$ -	\$ 18,551,422
Federal sources	1,370,184	81,666	1,294,246	2,746,096
Other state sources	5,183,353	1,989,438	348,783	7,521,574
Other local sources	2,048,272	59,230	264,325	2,371,827
Total Revenues	27,153,231	2,130,334	1,907,354	31,190,919
EXPENDITURES				
Current				
Instruction	16,014,046	1,479,760	-	17,493,806
Instruction-related services				
Instructional supervision and administration	74,189	244,666	-	318,855
Instructional library, media, and technology	298,970	-	-	298,970
School site administration	1,623,014	21,766	-	1,644,780
Pupil services				
Home-to-school transportation	867,593	-	-	867,593
Food services	188,896	-	1,335,415	1,524,311
All other pupil services	1,072,262	2,188	-	1,074,450
General administration				
Centralized data processing	1,131	-	-	1,131
All other general administration	1,619,644	103,070	-	1,722,714
Plant services	2,193,724	39,677	-	2,233,401
Facilities acquisition and construction	1,093,707	64,359	1,394,761	2,552,827
Ancillary services	49,652	-	70,494	120,146
Transfers to other agencies	940,664	-	-	940,664
Total Expenditures	26,037,492	1,955,486	2,800,670	30,793,648
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	1,115,739	174,848	(893,316)	397,271
Fund Balance - Ending	\$ 10,349,959	\$ 716,075	\$ 2,251,145	\$ 13,317,179

The accompanying notes are an integral part of these financial statements.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

Net Change in Fund Balances - Governmental Funds \$ 397,271

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

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: \$ 2,892,820
 Depreciation expense: (787,285) 2,105,535

Compensated absences:

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

(4,882)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:

(152,136)

Pensions:

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

305,791

Change in Net Position of Governmental Activities \$ 2,651,579

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. 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. 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.

B. Component Units

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 no such component units.

C. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements. The fund financial statements provide information about the District's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (Education Code Section 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (Education Code Section 8328).

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Student Activity Fund: This fund may be used to account for student body activities that do not meet the fiduciary criteria established in GASB Statement No. 84.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code Sections 38090–38093). The Cafeteria Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (Education Code Sections 38091 and 38100).

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 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*).

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.

Debt Service Fund: This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

D. Basis of Accounting – Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school 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 school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

Unearned revenue arises when 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 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.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$10,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	25-50 Years
Portable Classrooms	25 Years
Site Improvements/Infrastructure	10-20 Years
Equipment	8-15 Years
Vehicles	8 Years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

In accordance with GASB Statement No. 101, *Compensated Absences*, accumulated unpaid employee vacation and sick leave benefits are accrued as a liability in the government-wide financial statements as the benefits are earned, provided they accumulate and are more likely than not to be used or paid. The measurement of this liability includes estimated salary amounts and the employer's share of related taxes and benefits, as applicable, that are directly related to these compensated absences.

For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. For accumulated sick leave benefits, a liability is recognized for the portion that employees have earned and that are more likely than not to be used or paid. The District's policy for sick leave recognition aligns with this criterion, accruing the liability based on historical usage patterns and other relevant factors.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2025
Measurement Date	June 30, 2025
Measurement Period	July 1, 2024 to June 30, 2025

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District 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 District 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 so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) 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, 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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance (continued)

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board 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 purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for periods beginning after December 15, 2023. The District has implemented this Statement as of June 30, 2025.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. This statement is effective for periods beginning after June 15, 2024. The District has implemented this Statement as of June 30, 2025.

GASB Statement No. 103 – In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The statement is effective for periods beginning after June 15, 2025. The District has not yet determined the impact on the financial statements.

GASB Statement No. 104 – In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The statement is effective for periods beginning after June 15, 2025. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Activities
Investment in county treasury*	\$ 15,104,836
Fair value adjustment	38,562
Cash on hand and in banks	76,395
Cash in revolving fund	7,551
Total	<u>\$ 15,227,344</u>

*net of deficit cash

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 2 – CASH AND INVESTMENTS (continued)

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Butte County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 2 – CASH AND INVESTMENTS (continued)

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$15,146,936. The average weighted maturity for this pool is 566 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2025, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Butte County Treasury Investment Pool and 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.

The District's fair value measurements at June 30, 2025 were as follows:

	Uncategorized
Investment in county treasury	\$ 15,146,936
Total	\$ 15,146,936

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Child Development Fund	Non-Major Governmental Funds	Governmental Activities
Federal Government				
Categorical aid	\$ 166,080	\$ 20,974	\$ 282,782	\$ 469,836
State Government				
Apportionment	170,093	-	-	170,093
Categorical aid	353,924	306,370	82,691	742,985
Lottery	92,901	-	-	92,901
Local Government				
Other local sources	27,341	-	5,153	32,494
Total	\$ 810,339	\$ 327,344	\$ 370,626	\$ 1,508,309

NOTE 4 – CAPITAL ASSETS

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

	Balance		Balance
	July 01, 2024	Additions	Deletions
			June 30, 2025
Governmental Activities			
Capital assets not being depreciated			
Land	\$ 165,353	\$ -	\$ 165,353
Construction in progress	2,783,862	704,958	2,699,371
Total capital assets not being depreciated	2,949,215	704,958	954,802
Capital assets being depreciated			
Land improvements	1,270,574	34,651	-
Buildings & improvements	13,237,911	4,500,972	-
Furniture & equipment	3,593,126	351,610	-
Total capital assets being depreciated	18,101,611	4,887,233	-
Less: Accumulated depreciation			
Land improvements	860,184	57,290	-
Buildings & improvements	9,237,230	454,176	-
Furniture & equipment	1,894,039	275,819	-
Total accumulated depreciation	11,991,453	787,285	-
Total capital assets being depreciated, net	6,110,158	4,099,948	-
Governmental Activities			
Capital Assets, net	\$ 9,059,373	\$ 4,804,906	\$ 2,699,371
			\$ 11,164,908

Depreciation expense was charged to governmental activities as follows:

Governmental Activities	
Instruction	\$ 467,382
Instructional supervision and administration	3,135
Instructional library, media, and technology	3,624
Home-to-school transportation	216,117
Food services	22,004
Facilities acquisition and maintenance	75,023
Total	\$ 787,285

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2025 were as follows:

Due To Other Funds	Due From Other Funds		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 98,814	\$ 98,814
Child Development Fund	181,612	52,587	234,199
Non-Major Governmental Funds	173,485	-	173,485
Total	\$ 355,097	\$ 151,401	\$ 506,498
Due from the General Fund to the Cafeteria Fund for starting balance.		\$ 1,970	
Due from the General Fund to the Special Reserve Fund for Capital Outlay Projects for construction costs.		96,844	
Due from the Child Development Fund to the General Fund for indirect and transportation costs.		181,612	
Due from the Child Development Fund to the Cafeteria Fund for preschool and adult meal reimbursements.		52,587	
Due from the Special Reserve Fund for Capital Outlay Projects to the General Fund for construction projects.		173,485	
Total		\$ 506,498	

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2025 consisted of the following:

	Child Development Fund		Non-Major Governmental Funds		Governmental Activities	
	General Fund					
Payroll	\$ 1,433,203	\$ 28,712	\$ 5,746	\$ 1,467,661		
Construction	-	-	291,464		291,464	
Vendors payable	1,011,786	126,847	9,972		1,148,605	
Total	\$ 2,444,989	\$ 155,559	\$ 307,182	\$ 2,907,730		

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2025 consisted of the following:

	Child Development Fund		Non-Major Governmental Funds		Governmental Activities	
	General Fund					
Federal sources	\$ 40,091	\$ 81,611	\$ 1,610	\$ 123,312		
State categorical sources	129,888	264,242	-	394,130		
Total	\$ 169,979	\$ 345,853	\$ 1,610	\$ 517,442		

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 8 – LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2025 consisted of the following:

	Balance July 01, 2024	Additions	Deductions	Balance June 30, 2025	Balance Due In One Year
Governmental Activities					
Compensated absences*	\$ 148,239	\$ 4,882	\$ -	\$ 153,121	\$ 45,936
Total OPEB liability	3,415,837	-	102,026	3,313,811	-
Net pension liability	17,789,892	-	1,114,144	16,675,748	-
Total	\$ 21,353,968	\$ 4,882	\$ 1,216,170	\$ 20,142,680	\$ 45,936

*The change in the compensated absences liability is presented as a net change.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2025 amounted to \$153,121. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Other Postemployment Benefits

The District's beginning total OPEB liability was \$3,415,837 and decreased by \$102,026 during the year ended June 30, 2025. The ending total OPEB liability at June 30, 2025 was \$3,313,811. See Note 10 for additional information regarding the total OPEB liability.

C. Net Pension Liability

The District's beginning net pension liability was \$17,789,892 and decreased by \$1,114,144 during the year ended June 30, 2025. The ending net pension liability at June 30, 2025 was \$16,675,748. See Note 11 for additional information regarding the net pension liability.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2025:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable				
Revolving cash	\$ 2,306	\$ 3,000	\$ 2,245	\$ 7,551
Stores inventory	-	-	6,698	6,698
Total nonspendable	2,306	3,000	8,943	14,249
Restricted				
Educational programs	3,801,567	713,075	-	4,514,642
Food service	-	-	1,463,386	1,463,386
Associated student body	-	-	73,269	73,269
Capital projects	-	-	704,386	704,386
Debt service	-	-	1,161	1,161
Total restricted	3,801,567	713,075	2,242,202	6,756,844
Assigned				
Other assignments	1,092,098	-	-	1,092,098
Total assigned	1,092,098	-	-	1,092,098
Unassigned				
Total	\$ 10,349,959	\$ 716,075	\$ 2,251,145	\$ 13,317,179

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Palermo Union Elementary School District's defined benefit OPEB plan, Palermo Union Elementary School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single-employer defined benefit plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

B. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below.

	<u>Number of participants</u>
Inactive employees receiving benefits	9
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	148
Total number of participants**	157

*Information not provided

**As of the June 30, 2025 valuation date

C. Contributions

For the measurement period, the District contributed \$122,519 to the Plan, all of which was used for current premiums. There is no actuarially determined contribution, nor any contribution requirement established by statute or contract. The District's contribution is currently based on a projected pay as-you-go funding method, that is, benefits are payable when due.

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Certified and Certificated Management</u>	<u>Classified, Confidential and Classified Management</u>
Benefit types provided	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65
Required Service*	15 years	15 years
Minimum Age	Retirement Age	Retirement Age
Dependent Coverage	Yes	Yes
District Contribution %	100% to cap	100% to cap
District Cap**	\$1,470	\$1,270

*Eligibility requirements were changed in 2019 from an age/service schedule to the criteria shown above

**Benefits were changed in 2019 from a tiered contribution schedule based coverage election to the flat amounts shown above

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Total OPEB Liability

The Palermo Union Elementary School District's total OPEB liability of \$3,313,811 was measured as of June 30, 2025.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2025 was determined by an actuarial valuation as of that same date using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

Economic assumptions:

Inflation	2.50%
Salary increases	2.75%
Discount rate	5.20%
Healthcare cost trend rate	4.00%

Non-economic assumptions:

Mortality:

Certificated	2020 CalSTRS Mortality Table
Classified	2021 CalPERS Active Mortality for Miscellaneous and Schools Employees Table

Retirement rates:

Certificated Management	Hired 2012 and earlier: 2020 CalSTRS 2.0%@60 Rates Hired 2013 and later: 2020 CalSTRS 2.0%@62 Rates
Certificated	Hired 2012 and earlier: 2020 CalSTRS 2.0%@60 Rates Hired 2013 and later: 2020 CalSTRS 2.0%@62 Rates
Classified	Hired 2012 and earlier: 2021 CalPERS 2.0%@55 Rates for Schools Employees Hired 2013 and later: 2021 CalPERS 2.0%@62 Rates for Schools Employees
Classified Management	Hired 2012 and earlier: 2021 CalPERS 2.0%@55 Rates for Schools Employees Hired 2013 and later: 2021 CalPERS 2.0%@62 Rates for Schools Employees

The actuarial assumptions used in the June 30, 2025 valuation were based on a review of plan experience during the period July 1, 2022 to June 30, 2025.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed 20 years.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Changes in Total OPEB Liability

	<u>June 30, 2025</u>
Total OPEB Liability	
Service cost	\$ 178,429
Interest on total OPEB liability	135,341
Difference between expected and actual experience	17,880
Changes of assumptions	(311,157)
Benefits payments	<u>(122,519)</u>
Net change in total OPEB liability	<u>(102,026)</u>
Total OPEB liability - beginning	<u>3,415,837</u>
Total OPEB liability - ending	<u>\$ 3,313,811</u>
 Covered-employee payroll	 \$ 13,554,326
 District's total OPEB liability as a percentage of covered-employee payroll	 24.45%

H. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Palermo Union Elementary School District, as well as what the District's total 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:

	Valuation		
	1% Decrease	Discount Rate	1% Increase
	(4.20%)	(5.20%)	(6.20%)
Total OPEB liability	\$ 3,557,021	\$ 3,313,811	\$ 3,084,911

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Palermo Union Elementary School District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	Healthcare Cost		
	1% Decrease (3.00%)	Trend Rate (4.00%)	1% Increase (5.00%)
Total OPEB liability	\$ 2,972,538	\$ 3,313,811	\$ 3,708,712

J. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the Palermo Union Elementary School District recognized OPEB expense of \$274,655. At June 30, 2025, the Palermo Union Elementary School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 343,856	\$ 137,691
Changes in assumptions	192,927	917,766
Total	\$ 536,783	\$ 1,055,457

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

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 60,389	\$ 99,504
2027	60,389	99,504
2028	60,389	99,504
2029	60,389	99,504
2030	60,389	99,504
Thereafter	234,838	557,937
Total	\$ 536,783	\$ 1,055,457

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement 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). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
CalSTRS Pension	\$ 9,901,210	\$ 4,851,547	\$ 1,149,143	\$ 1,656,987
CalPERS Pension	6,774,538	2,162,880	48,485	948,841
Total	\$ 16,675,748	\$ 7,014,427	\$ 1,197,628	\$ 2,605,828

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 10.205% of their salary for fiscal year 2025, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2025 was 19.10% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$1,840,806 for the year ended June 30, 2025.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$917,277 to CalSTRS.

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

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

District's proportionate share of the net pension liability	\$ 9,901,210
State's proportionate share of the net pension liability associated with the District	4,542,779
Total	<u>\$ 14,443,989</u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023 and rolling forward the total pension liability to June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2024, the District's proportion was 0.015 percent, which increased by 0.001 percent from its proportion measured as of June 30, 2023.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 11 – 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, 2025, the District recognized pension expense of \$1,656,987. In addition, the District recognized pension expense and revenue of \$(434,034) for support provided by the State. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	\$ -	\$ 39,951
Differences between expected and actual experience	1,119,954	432,974
Changes in assumptions	43,342	676,218
Changes in proportion and differences between District contributions and proportionate share of contributions	1,847,445	-
District contributions subsequent to the measurement date	1,840,806	-
Total	\$ 4,851,547	\$ 1,149,143

The \$1,840,806 reported as 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 year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 752,644	\$ 941,869
2027	678,961	(560,788)
2028	614,181	284,227
2029	483,668	258,134
2030	313,985	112,628
2031	167,302	113,073
Total	\$ 3,010,741	\$ 1,149,143

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Growth	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2021 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2017 through June 30, 2022.

The long-term expected rate of return on pension plan investments 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 general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2024 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. 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, 2024, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Public Equity	38%	5.25%
Real Estate	15%	4.05%
Private Equity	14%	6.75%
Fixed Income	14%	2.45%
Risk Mitigating Strategies	10%	2.25%
Inflation Sensitive	7%	3.65%
Cash/Liquidity	2%	0.05%
	100%	

*Real return is net of assumed 2.75% inflation.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 11 – 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 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan'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.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 17,611,013	\$ 9,901,210	\$ 3,463,205

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 8.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2025 was 27.05% of annual payroll. Contributions to the plan from the District were \$1,070,813 for the year ended June 30, 2025.

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

At June 30, 2025, the District reported a liability of \$6,774,538 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023 and rolling forward the total pension liability to June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2024, the District's proportion was 0.019 percent, which decreased by 0.001 percent from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$984,841. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	\$ 263,152	\$ -
Differences between expected and actual experience	567,946	48,485
Changes in assumptions	149,740	-
Changes in proportion and differences between District contributions and proportionate share of contributions	111,229	-
District contributions subsequent to the measurement date	1,070,813	-
Total	\$ 2,162,880	\$ 48,485

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 11 – 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)

The \$1,070,813 reported as 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 year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 462,951	\$ 48,485
2027	634,165	-
2028	78,215	-
2029	(83,264)	-
Total	\$ 1,092,067	\$ 48,485

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Discount Rate	6.90%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 80% of scale MP 2020.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from 2000 through 2019.

The long-term expected rate of return on pension plan investments 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. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*
Global Equity – cap-weighted	30.0%	4.54%
Global Equity – non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed securities	5.0%	0.50%
Investment grade corporates	10.0%	1.56%
High yield	5.0%	2.27%
Emerging market debt	5.0%	2.48%
Private debt	5.0%	3.57%
Real assets	15.0%	3.21%
Leverage	(5.0)%	(0.59)%
	<hr/> 100.0%	

*An expected inflation of 2.30% used for this period. Figures are based on the 2021-22 CalPERS Asset Liability Management Study

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS' website.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.90 percent) or 1-percentage-point higher (7.90 percent) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
District's proportionate share of the net pension liability	\$ 10,063,633	\$ 6,774,538	\$ 4,057,484

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2025.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2025.

C. Construction Commitments

As of June 30, 2025, the District had commitments with respect to unfinished capital projects of \$9,010,159.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in three joint ventures under joint powers authorities (JPAs), the Butte Schools Self-Funded Programs (BSSP), Self-Insured Schools of California (SISC), Bay Area Schools Insurance Group (BASIC), Schools Program Alliance (SPA), and North Bay Schools Insurance Authority (NBSIA). 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 have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2025, total deferred outflows related to pensions was \$7,014,427 and total deferred inflows related to pensions was \$1,197,628.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2025, total deferred outflows related to other postemployment benefits was \$536,783 and total deferred inflows related to other postemployment benefits was \$1,055,457.

REQUIRED SUPPLEMENTARY INFORMATION

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2025**

	Budgeted Amounts		Actual*		Variances -	
	Original	Final	(Budgetary Basis)		Final to Actual	
REVENUES						
LCFF sources	\$ 17,466,731	\$ 18,540,138	\$ 18,551,422	\$ 11,284		
Federal sources	2,194,155	1,481,526	1,427,079	(54,447)		
Other state sources	3,266,846	4,263,409	5,126,458	863,049		
Other local sources	1,188,586	1,180,053	2,018,950	838,897		
Total Revenues	24,116,318	25,465,126	27,123,909	1,658,783		
EXPENDITURES						
Certificated salaries	9,976,069	9,903,419	10,494,101	(590,682)		
Classified salaries	3,319,438	3,324,055	3,519,812	(195,757)		
Employee benefits	5,818,958	5,677,846	6,180,683	(502,837)		
Books and supplies	873,766	1,078,824	897,290	181,534		
Services and other operating expenditures	2,615,943	2,855,132	2,691,904	163,228		
Capital outlay	1,857,274	1,160,159	1,416,108	(255,949)		
Other outgo						
Excluding transfers of indirect costs	1,326,897	1,103,306	940,664	162,642		
Transfers of indirect costs	(132,715)	(133,836)	(103,070)	(30,766)		
Total Expenditures	25,655,630	24,968,905	26,037,492	(1,068,587)		
NET CHANGE IN FUND BALANCE						
Fund Balance - Beginning		(1,539,312)	496,221	1,086,417	590,196	
Fund Balance - Ending		8,768,337	8,768,337	8,768,337	-	
	\$ 7,229,025	\$ 9,264,558	\$ 9,854,754	\$ 590,196		

* 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 Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54 and adjusting entries.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
CHILD DEVELOPMENT FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2025**

	Budgeted Amounts		Actual	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
Federal sources	\$ 101,960	\$ 126,588	\$ 81,666	\$ (44,922)
Other state sources	2,129,937	2,129,937	1,989,438	(140,499)
Other local sources	-	-	59,230	59,230
Total Revenues	2,231,897	2,256,525	2,130,334	(126,191)
EXPENDITURES				
Certificated salaries	578,564	586,030	578,724	7,306
Classified salaries	452,901	464,883	456,258	8,625
Employee benefits	437,487	452,140	439,559	12,581
Books and supplies	456,958	439,564	223,921	215,643
Services and other operating expenditures	38,227	67,245	74,130	(6,885)
Capital outlay	135,045	135,045	79,824	55,221
Other outgo				
Transfers of indirect costs	132,715	133,836	103,070	30,766
Total Expenditures	2,231,897	2,278,743	1,955,486	323,257
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	-	(22,218)	174,848	197,066
Fund Balance - Ending	\$ 541,227	\$ 519,009	\$ 716,075	\$ 197,066

See accompanying notes to required supplementary information.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability								
Service cost	\$ 178,429	\$ 182,342	\$ 162,733	\$ 199,127	\$ 259,211	\$ 205,105	\$ 120,981	\$ 114,592
Interest on total OPEB liability	135,341	121,981	103,390	66,377	75,516	65,845	62,440	58,433
Changes of benefit terms	-	-	-	-	-	-	1,073,494	-
Difference between expected and actual experience	17,880	-	331,556	-	(133,090)	-	140,180	-
Changes of assumptions	(311,157)	(75,649)	(72,894)	(314,858)	(422,958)	303,715	36,658	-
Benefits payments	(122,519)	(127,248)	(99,265)	(70,372)	(145,967)	(178,285)	(73,770)	(70,933)
Net change in total OPEB liability	(102,026)	101,426	425,520	(119,726)	(367,288)	396,380	1,359,983	102,092
Total OPEB liability - beginning	3,415,837	3,314,411	2,888,891	3,008,617	3,375,905	2,979,525	1,619,542	1,517,450
Total OPEB liability - ending	<u>\$ 3,313,811</u>	<u>\$ 3,415,837</u>	<u>\$ 3,314,411</u>	<u>\$ 2,888,891</u>	<u>\$ 3,008,617</u>	<u>\$ 3,375,905</u>	<u>\$ 2,979,525</u>	<u>\$ 1,619,542</u>
Covered-employee payroll	\$ 13,554,326	\$ 13,526,638	\$ 10,474,914	\$ 10,807,234	\$ 10,098,723	\$ 9,609,462	\$ 9,609,462	\$ 9,032,008
District's total OPEB liability as a percentage of covered-employee payroll	24.45%	25.25%	31.64%	26.73%	29.79%	35.13%	31.01%	17.93%

See accompanying notes to required supplementary information.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2025

	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
District's proportion of the net pension liability	0.015%	0.014%	0.013%	0.013%	0.012%	0.012%	0.010%	0.010%	0.011%	0.012%
District's proportionate share of the net pension liability	\$ 9,901,210	\$ 10,461,143	\$ 9,275,017	\$ 6,052,922	\$ 11,764,223	\$ 10,501,186	\$ 10,109,770	\$ 9,248,000	\$ 8,896,910	\$ 7,986,327
State's proportionate share of the net pension liability associated with the District	4,542,779	5,012,318	4,644,956	3,045,659	6,064,409	5,729,144	5,788,345	5,471,083	5,065,598	2,794,727
Total	\$ 14,443,989	\$ 15,473,461	\$ 13,919,973	\$ 9,098,581	\$ 17,828,632	\$ 16,230,330	\$ 15,898,115	\$ 14,719,083	\$ 13,962,508	\$ 10,781,054
District's covered payroll	\$ 9,803,268	\$ 8,570,690	\$ 7,862,885	\$ 8,008,108	\$ 6,590,312	\$ 6,963,774	\$ 6,439,009	\$ 6,054,354	\$ 5,353,694	\$ 5,181,697
District's proportionate share of the net pension liability as a percentage of its covered payroll	101.00%	122.06%	117.96%	75.58%	178.51%	150.80%	157.01%	152.75%	166.18%	154.13%
Plan fiduciary net position as a percentage of the total pension liability	83.55%	80.62%	81.20%	87.21%	71.82%	72.56%	70.99%	69.46%	70.04%	74.02%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
District's proportion of the net pension liability	0.019%	0.020%	0.019%	0.019%	0.019%	0.018%	0.019%	0.019%	0.019%	0.019%
District's proportionate share of the net pension liability	\$ 6,774,538	\$ 7,328,749	\$ 6,677,582	\$ 3,907,494	\$ 5,687,089	\$ 5,231,210	\$ 4,943,348	\$ 4,428,375	\$ 3,772,262	\$ 2,895,727
District's covered payroll	\$ 3,723,370	\$ 3,487,642	\$ 2,944,349	\$ 2,929,326	\$ 2,670,576	\$ 2,645,688	\$ 2,592,999	\$ 2,546,433	\$ 2,116,039	\$ 1,973,711
District's proportionate share of the net pension liability as a percentage of its covered payroll	181.95%	210.13%	226.79%	133.39%	212.95%	197.73%	190.64%	173.91%	178.27%	146.71%
Plan fiduciary net position as a percentage of the total pension liability	72.29%	69.96%	69.76%	80.97%	70.00%	70.05%	70.85%	71.87%	73.90%	79.43%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying notes to required supplementary information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 1,840,806	\$ 1,871,231	\$ 1,596,734	\$ 1,316,264	\$ 1,157,008	\$ 1,117,099	\$ 1,017,467	\$ 869,778	\$ 709,211	\$ 589,415
Contributions in relation to the contractually required contribution*	(1,840,806)	(1,871,231)	(1,596,734)	(1,316,264)	(1,157,008)	(1,117,099)	(1,017,467)	(869,778)	(709,211)	(589,415)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 9,647,899	\$ 9,803,268	\$ 8,570,690	\$ 7,862,885	\$ 8,008,108	\$ 6,590,312	\$ 6,963,774	\$ 6,439,009	\$ 6,054,354	\$ 5,353,694
Contributions as a percentage of covered payroll	19.08%	19.09%	18.63%	16.74%	14.45%	16.95%	14.61%	13.51%	11.71%	11.01%

*Amounts do not include on-behalf contributions

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 1,070,813	\$ 1,005,731	\$ 886,891	\$ 681,251	\$ 570,681	\$ 527,006	\$ 449,526	\$ 384,162	\$ 328,585	\$ 272,019
Contributions in relation to the contractually required contribution*	(1,070,813)	(1,005,731)	(886,891)	(681,251)	(570,681)	(527,006)	(449,526)	(384,162)	(328,585)	(272,019)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 3,906,427	\$ 3,723,370	\$ 3,487,642	\$ 2,944,349	\$ 2,929,326	\$ 2,670,576	\$ 2,645,688	\$ 2,592,999	\$ 2,546,433	\$ 2,116,039
Contributions as a percentage of covered payroll	27.41%	27.01%	25.43%	23.14%	19.48%	19.73%	16.99%	14.82%	12.90%	12.86%

*Amounts do not include on-behalf contributions

See accompanying notes to required supplementary information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee payroll.

Changes in Benefit Terms

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

Changes in Assumptions

The interest assumption changed from 3.93% to 5.20%. Assumed rates of retirement, termination, and mortality have been updated to align with those currently being used by the statewide pension systems.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS or CalPERS.

Changes in Assumptions

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

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2025, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 9,903,419	\$ 10,494,101	\$ 590,682
Classified salaries	\$ 3,324,055	\$ 3,519,812	\$ 195,757
Employee benefits	\$ 5,677,846	\$ 6,180,683	\$ 502,837
Capital outlay	\$ 1,160,159	\$ 1,416,108	\$ 255,949
Other outgo			
Transfers of indirect costs	\$ (133,836)	\$ (103,070)	\$ 30,766
Child Development Fund			
Services and other operating expenditures	\$ 67,245	\$ 74,130	\$ 6,885

SUPPLEMENTARY INFORMATION

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 453,949
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	38,220
Title III, English Learner Student Program	84.365	14346	13,893
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	41,897
Title VI, Part B, Rural & Low Income School Program	84.358	14356	72,589
Indian Education	84.060	10011	30,845
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	122,054
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	7,803
Subtotal Special Education Cluster			129,857
Project School Emergency Response to Violence (SERV)	84.184	15446	3,810
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants:			
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425	15559	584,404
Subtotal Education Stabilization Fund Discretionary Grants			584,404
Total U. S. Department of Education			1,369,464
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster [1]			
School Breakfast Program - Needy	10.553	13526	272,375
National School Lunch Program	10.555	13391	856,033
USDA Commodities	10.555	*	89,025
Local food for Schools	10.555	15708	1,950
SNP COVID-19 Emergency Operational Costs Reimbursement	10.555	15637	74,863
Subtotal Child Nutrition Cluster			1,294,246
Forest Reserve Funds	10.665	10044	720
Total U. S. Department of Agriculture			1,294,966
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Child Care and Development Block Grant			
Child Development: Quality Improvement Activities	93.575	14130	1
Head Start	93.600	01039	80,821
Early Education: Federal Child Care, Center-based	93.575	15136	844
Total U. S. Department of Health & Human Services			81,666
Total Federal Expenditures			\$ 2,746,096

[1] - Major Program

* - Pass-Through Entity Identifying Number not available or not applicable

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2025**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	560.41	562.84
Total TK/K through Third	560.41	562.84
Fourth through Sixth		
Regular ADA	409.10	407.88
Community Day School	0.46	0.85
Total Fourth through Sixth	409.56	408.73
Seventh through Eighth		
Regular ADA	283.29	282.49
Community Day School	3.48	3.27
Total Seventh through Eighth	286.77	285.76
TOTAL SCHOOL DISTRICT	1,256.74	1,257.33

See accompanying note to supplementary information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2025**

Grade Level	Minutes Requirement	Actual Instructional Minutes	Credited Minutes Per the Approved Form J-13A*	Total Minutes Offered	Required Number of Days	Actual Number of Days	Credited Days Per the Approved Form J-13A*	Total Days Offered	Status
Kindergarten	36,000	56,730	315	57,045	180	179	1	180	Complied
Grade 1	50,400	51,930	289	52,219	180	179	1	180	Complied
Grade 2	50,400	51,930	289	52,219	180	179	1	180	Complied
Grade 3	50,400	51,930	289	52,219	180	179	1	180	Complied
Grade 4	54,000	54,930	305	55,235	180	179	1	180	Complied
Grade 5	54,000	54,930	305	55,235	180	179	1	180	Complied
Grade 6	54,000	56,730	315	57,045	180	179	1	180	Complied
Grade 7	54,000	56,730	315	57,045	180	179	1	180	Complied
Grade 8	54,000	56,730	315	57,045	180	179	1	180	Complied

*The District is pending an approved Form J-13A for the number of instructional days and the number of instructional minutes indicated above.

See accompanying note to supplementary information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2025**

	2026 (Budget)	2025	2024	2023
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 25,653,538	\$ 27,123,909	\$ 26,906,459	\$ 27,364,869
Expenditures And Other Financing Uses	27,193,189	26,037,492	28,949,286	22,149,894
Net change in Fund Balance	\$ (1,539,651)	\$ 1,086,417	\$ (2,042,827)	\$ 5,214,975
Ending Fund Balance	\$ 8,315,103	\$ 9,854,754	\$ 8,768,337	\$ 10,811,164
Available Reserves*	\$ 3,434,158	\$ 5,453,988	\$ 4,446,644	\$ 4,350,487
Available Reserves As A Percentage Of Outgo	12.63%	20.95%	15.36%	19.64%
Long-term Liabilities	\$ 20,096,744	\$ 20,142,680	\$ 21,353,968	\$ 19,389,324
Average Daily Attendance At P-2	1,266	1,257	1,193	1,103

The General Fund ending fund balance has decreased by \$956,410 over the past two years. The fiscal year 2025-26 budget projects a further decrease of \$1,539,651. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past two years but anticipates incurring an operating deficit during the 2025-26 fiscal year. Total long-term obligations have increased by \$753,356 over the past two years.

Average daily attendance has increased by 154 ADA over the past two years. A further increase of 9 ADA is anticipated during the 2025-26 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**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 Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	County School Facilities Fund
June 30, 2025, annual financial and budget report fund balance	\$ 9,854,754	\$ 495,205	\$ 619,810
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Accounts payable		-	(268,691)
Fund balance transfer (GASB 54)	495,205	(495,205)	-
Net adjustments and reclassifications	495,205	(495,205)	(268,691)
June 30, 2025, audited financial statement fund balance	<u>\$ 10,349,959</u>	<u>\$ -</u>	<u>\$ 351,119</u>

See accompanying note to supplementary information.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2025

	Student Activity Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds
ASSETS							
Cash and investments	\$ 73,269	\$ 1,054,328	\$ -	\$ 623,258	\$ 456,219	\$ 1,161	\$ 2,208,235
Accounts receivable	-	370,626	-	-	-	-	370,626
Due from other funds	-	54,557	-	-	96,844	-	151,401
Stores inventory	-	6,698	-	-	-	-	6,698
Total Assets	\$ 73,269	\$ 1,486,209	\$ -	\$ 623,258	\$ 553,063	\$ 1,161	\$ 2,736,960
LIABILITIES							
Deficit cash	\$ -	\$ -	\$ 3,538	\$ -	\$ -	\$ -	\$ 3,538
Accrued liabilities	-	12,270	-	272,139	22,773	-	307,182
Due to other funds	-	-	-	-	173,485	-	173,485
Unearned revenue	-	1,610	-	-	-	-	1,610
Total Liabilities	-	13,880	3,538	272,139	196,258	-	485,815
FUND BALANCES							
Nonspendable	-	8,943	-	-	-	-	8,943
Restricted	73,269	1,463,386	(3,538)	351,119	356,805	1,161	2,242,202
Total Fund Balances	73,269	1,472,329	(3,538)	351,119	356,805	1,161	2,251,145
Total Liabilities and Fund Balances	\$ 73,269	\$ 1,486,209	\$ -	\$ 623,258	\$ 553,063	\$ 1,161	\$ 2,736,960

See accompanying note to supplementary information.

PALERMO UNION ELEMENTARY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2025

	Student Activity Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds
REVENUES							
Federal sources	\$ -	\$ 1,294,246	-	-	-	-	\$ 1,294,246
Other state sources	-	348,783	-	-	-	-	348,783
Other local sources	72,601	79,667	21,041	46,298	44,670	48	264,325
Total Revenues	72,601	1,722,696	21,041	46,298	44,670	48	1,907,354
EXPENDITURES							
Current							
Pupil services	-	1,335,415	-	-	-	-	1,335,415
Food services	-	-	222,158	584,814	587,789	-	1,394,761
Facilities acquisition and construction	-	-	-	-	-	-	70,494
Ancillary services	70,494	-	-	-	-	-	70,494
Total Expenditures	70,494	1,335,415	222,158	584,814	587,789	-	2,800,670
NET CHANGE IN FUND BALANCE	2,107	387,281	(201,117)	(538,516)	(543,119)	48	(893,316)
Fund Balance - Beginning	71,162	1,085,048	197,579	889,635	899,924	1,113	3,144,461
Fund Balance - Ending	\$ 73,269	\$ 1,472,329	\$ (3,538)	\$ 351,119	\$ 356,805	\$ 1,161	\$ 2,251,145

See accompanying note to supplementary information.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2025**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The District has not elected to use the de minimis indirect cost rate of up to 15 percent.

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 amount of instructional time offered by the District and whether the District complied with article 8 (commencing with section 46200) of chapter 2 of part 26 of the *Education Code*.

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

OTHER INFORMATION

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2025**

The Palermo Union Elementary School District was established in 1980 in Butte County and is comprised of an area of approximately 29 square miles. There were no changes in the boundaries of the District during the current year. The District operates two elementary schools, one intermediate school, one junior high school, and one community day school.

GOVERNING BOARD

Member	Office	Term Expires
Debbie Hoffman	President	2028
Cody Nissen	Vice President	2026
Justin Younger	Member	2026
Kimberly Tyler	Clerk	2026
Mark McClaren	Member	2028

DISTRICT ADMINISTRATORS

Gary Rogers
Superintendent

Ruthie Anaya
Assistant Superintendent

OTHER INDEPENDENT AUDITORS' REPORTS



Certified Public Accountants serving
K-12 School Districts and Charter
Schools throughout California

**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**

Independent Auditors' Report

Governing Board
Palermo Union Elementary School District
Palermo, 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 Palermo Union Elementary School District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Palermo Union Elementary School District's basic financial statements, and have issued our report thereon dated January 16, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palermo Union Elementary School 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 Palermo Union Elementary School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Palermo Union Elementary School District's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palermo Union Elementary School District's financial statements are free from 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*.

348 Olive Street
San Diego, CA
92103

O: 619-270-8222
F: 619-260-9085
christywhite.com

Purpose of this Report

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

Christy White, Inc.

San Diego, California
January 16, 2026

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

Governing Board
Palermo Union Elementary School District
Palermo, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Palermo Union Elementary School District's 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 Palermo Union Elementary School District's major federal programs for the year ended June 30, 2025. Palermo Union Elementary School District's 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, Palermo Union Elementary School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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 Palermo Union Elementary School District 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 audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of Palermo Union Elementary School 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 the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Palermo Union Elementary School District's federal programs.

Auditor's Responsibilities for the Audit for 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 Palermo Union Elementary School 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance 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. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user of the report on compliance about Palermo Union Elementary School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards and *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 Palermo Union Elementary School District's compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Palermo Union Elementary School 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Palermo Union Elementary School District's 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the 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.

Report on Internal Control Over Compliance (continued)

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

A handwritten signature in blue ink that reads "Christy White, Inc." The signature is fluid and cursive, with "Christy" and "White" connected by a single stroke, and "Inc." written in a smaller, more formal script to the right.

San Diego, California
January 16, 2026

REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE FOR STATE PROGRAMS

Independent Auditors' Report

Governing Board
Palermo Union Elementary School District
Palermo, California

Report on State Compliance

Opinion on State Compliance

We have audited Palermo Union Elementary School District's compliance with the requirements specified in the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to Palermo Union Elementary School District's state program requirements as identified in the table in the Auditor's Responsibilities for the Audit of State Compliance section of our report for the year ended June 30, 2025.

In our opinion, Palermo Union Elementary School District complied, in all material respects, with the laws and regulations of the applicable laws and regulations of the applicable state programs for the year ended June 30, 2025.

Basis for Opinion on State Compliance

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 *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

We are required to be independent of Palermo Union Elementary School District 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. Our audit does not provide a legal determination of Palermo Union Elementary School 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 the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Palermo Union Elementary School District's state programs.

Auditor's Responsibilities for the Audit of State Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the state compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Palermo Union Elementary School 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 generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide 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 Palermo Union Elementary School District's compliance with the requirements of the applicable state programs as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the K-12 Audit Guide, 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 Palermo Union Elementary School District's compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of Palermo Union Elementary School 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 K-12 Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of Palermo Union Elementary School District's internal control over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine Palermo Union Elementary School District's compliance with the state laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	No
Continuation Education	Not Applicable
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 or Programs	Not Applicable
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes

Auditor's Responsibilities for the Audit of State Compliance (continued)

PROGRAM NAME	PROCEDURES PERFORMED
School Districts, County Offices of Education, and Charter Schools	
Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	Not Applicable
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	Not Applicable
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	Yes
Charter Schools	
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes - Classroom Based Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the ADA reported in the P-2 reports did not exceed materiality thresholds.

The term “Not Applicable” is used above to mean either the District did not offer the program during the current fiscal year, the District did not participate in the program during the current fiscal year, or the program applies to a different type of local education agency.

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 during the audit.

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, in 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 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 by those charged with governance.

Report on Internal Control Over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of State Compliance section 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 requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.



San Diego, California
January 16, 2026

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Any audit findings disclosed that are required to be reported in accordance with <i>2024-25 Guide for Annual Audits of California K-12 Local Education Agencies</i> ?	No
Type of auditors' report issued on compliance for state programs:	Unmodified

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
20000	Inventory of Equipment
30000	Internal Control

There were no financial statement findings for the year ended June 30, 2025.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

FIVE DIGIT CODE
50000

AB 3627 FINDING TYPE
Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2025.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
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 state award findings or questioned costs for the year ended June 30, 2025.

**PALERMO UNION ELEMENTARY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

There were no findings or questioned costs for the year ended June 30, 2024.