

Financial Statements
For the Fiscal Year Ended June 30, 2025
Palo Alto Unified School District

Independent Auditor’s Report 1

Management’s Discussion and Analysis 5

Government Wide Financial Statements

 Statement of Net Position 21

 Statement of Activities..... 22

Government Fund Financial Statements

 Balance Sheet – Governmental Funds 23

 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 24

 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 26

 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 27

Proprietary Fund Financial Statements

 Statement of Net Position – Proprietary Fund 29

 Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund 30

 Statement of Cash Flows – Proprietary Fund 31

Fiduciary Fund Financial Statements

 Statement of Fiduciary Net Position 32

 Statement of Changes in Fiduciary Net Position 33

Notes to Financial Statements 34

Required Supplementary Information

 Budgetary Comparison Schedule – General Fund 74

 Schedule of Changes in the District’s Net OPEB Liability and Related Ratios..... 75

 Schedule of the District’s Contributions for OPEB..... 76

 Schedule of the District’s Proportionate Share of the Net Pension Liability 77

 Schedule of the District’s Contributions 78

 Note to Required Supplementary Information..... 79

Supplementary Information

 Schedule of Average Daily Attendance 81

 Schedule of Instructional Time 82

 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements 83

 Schedule of Financial Trends and Analysis 84

 Combining Balance Sheet – Nonmajor Governmental Funds 86

 Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Nonmajor Governmental Funds 87

Other Information

 Local Education Agency Organization Structure (Unaudited) 89

Independent Auditor’s Reports

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	90
Independent Auditor’s Report on State Compliance.....	92
Schedule of Findings and Questioned Costs	
Summary of Auditor’s Results.....	96
Financial Statement Findings	97
Federal Awards Findings and Questioned Costs.....	98
State Compliance Findings and Questioned Costs.....	99
Summary Schedule of Prior Audit Findings.....	100



Independent Auditor's Report

To the Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Palo Alto Unified School District (District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Notes 1 and 15 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the general fund budgetary comparison schedule, schedule of changes in the District's net OPEB liability and related ratios, schedule of the District's contributions for OPEB, schedules of the District's proportionate share of the net pension liability, and the schedule of the District's pension contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of average daily attendance, schedule of instructional time, reconciliation of the unaudited actuals to the audited financial statements, schedule of financial trends and analysis, schedule of charter schools, and the combining statements of the nonmajor governmental funds are presented for purposes of additional analysis and are 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 GAAS. In our opinion, the schedule of average daily attendance, schedule of instructional time, reconciliation of the unaudited actuals to the audited financial statements, schedule of financial trends and analysis, schedule of charter schools, and the combining schedules of the nonmajor governmental funds are 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 November 21, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
November 21, 2025

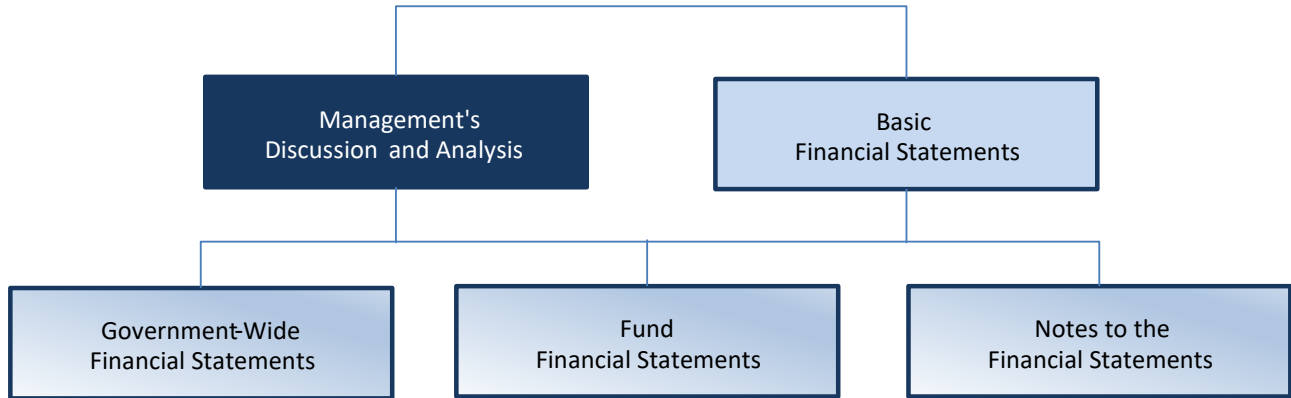
**Management's Discussion and Analysis
June 30, 2025**

Introduction

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2025. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



Financial Highlights

For the fiscal year ended June 30, 2025, the Palo Alto Unified School District experienced several significant financial developments:

Total Net Position Increased: The District's total net position increased by \$55.7 million (37.9%), rising from \$146.8 million (as restated) at June 30, 2024, to \$202.5 million at June 30, 2025. This growth was primarily driven by reductions in long-term liabilities, including scheduled debt service payments and decreases in net pension and OPEB liabilities.

Implementation of GASB Statement No. 101: The District adopted GASB Statement No. 101, *Compensated Absences*, in FY25. This resulted in a restatement of the beginning net position, decreasing it by \$1.8 million to reflect the new recognition and measurement requirements for compensated absences.

Deferred Outflows and Inflows of Resources: Deferred outflows of resources totaled \$79.5 million, nearly unchanged from the prior year. Deferred inflows of resources decreased by 13.2% to \$113.7 million, primarily due to changes in pension-related amounts.

Government-wide Revenues and Expenses: Total government-wide revenues were \$421.1 million, while total expenses were \$365.5 million, representing 86.8% of total revenues (compared to 87.5% in the prior year). Program-specific revenues, including operating grants and charges for services, accounted for \$34.1 million, or 8% of total revenues.

General Revenues: General revenues, including property taxes, unrestricted federal and state grants, and LCFF sources, totaled \$386.8 million, representing 91.9% of total revenues, up from 89.2% in the prior year.

Governmental Fund Balances: The combined fund balances of all governmental funds decreased by \$68.4 million (18.6%), from \$367.7 million at June 30, 2024, to \$299.3 million at June 30, 2025. This decrease was primarily due to significant capital outlay expenditures in the Building Fund as major projects were completed or advanced.

General Fund Performance: The General Fund balance increased by \$10.2 million (7.0%), mainly due to higher property tax revenues and prudent expenditure management.

Capital Assets and Long-Term Liabilities: The District's capital assets increased by \$67.1 million (13.1%) to \$578.8 million, reflecting continued investment in facilities and equipment. Long-term liabilities decreased by \$66.7 million (8.5%), primarily due to scheduled bond repayments and reductions in pension and OPEB liabilities.

Pension and OPEB Funding: The District continued to make substantial contributions to CalSTRS and CalPERS, as well as to its OPEB trust, resulting in a decrease in net pension liability to \$215.4 million and net OPEB liability to \$12.1 million.

Reserves and Fiscal Stability: The District maintained a 13% reserve for economic uncertainties and basic aid, well above the state-required minimum, supporting ongoing fiscal stability.

These highlights reflect the District's continued commitment to strong financial management, investment in educational facilities, and compliance with evolving governmental accounting standards.

Using the Annual Report

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statement and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund financial statements also look at the District's most significant funds with all other-nonmajor funds presented in total in one column. The basic financial statements also include notes that explain some of the information on the financial statements and provide more detailed data.

Overview of the Financial Statements

The Palo Alto Unified School District's annual financial report is designed to provide readers with a comprehensive understanding of the District's financial condition and activities for the fiscal year ended June 30, 2025. The report consists of several key components, each serving a distinct purpose in presenting the District's financial information in accordance with generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements.

Management's Discussion and Analysis (MD&A)

This section, prepared by District management, offers a narrative overview and analysis of the financial activities of the District for the fiscal year. It highlights significant financial results, trends, and factors affecting the District's financial position.

Basic Financial Statements

The basic financial statements include two types of statements that present financial information from different perspectives:

Government-wide Financial Statements

These statements provide a broad overview of the District's finances, using the accrual basis of accounting. They present information about all of the District's assets, liabilities, deferred inflows/outflows, revenues, and expenses, regardless of fund structure. The government-wide statements include:

Statement of Net Position: Presents the District's financial position at year-end, including all assets and liabilities.

Statement of Activities: Reports the revenues and expenses for all of the District's activities during the year, showing how the net position changed.

Fund Financial Statements: These statements provide more detailed information about the District's most significant funds, focusing on short-term inflows and outflows of spendable resources, and the balances available for future spending. The fund financial statements include:

- **Governmental Funds:** Report the majority of the District's basic services and show how these services were financed in the short term, as well as what remains for future spending.
- **Proprietary Fund:** Presents information about the District's self-insurance activities.
- **Fiduciary Fund:** Reports resources held in trust for scholarships and other purposes that are not available to support District operations.

Notes to the Financial Statements

The notes provide additional detail and context for the amounts reported in the basic financial statements. They include a summary of significant accounting policies, explanations of specific line items, and required disclosures about the District's financial practices and obligations.

Required Supplementary Information

This section includes additional schedules and information required by GASB, such as budgetary comparisons for the General Fund, schedules of the District's net pension and OPEB liabilities, and related contributions.

Supplementary Information

Additional schedules are provided to give further detail on federal awards, average daily attendance, instructional time, and other data relevant to California school district operations.

Collectively, these components provide a comprehensive picture of the District's financial health, operational results, and accountability for the public resources entrusted to its care.

Government-Wide Financial Statements – Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2024-2025?". The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets of the District (including capital assets), deferred outflows of resources, as well as all liabilities (including long-term liabilities) and deferred inflows of resources. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins with the balance sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds were the General Fund, Building Fund, and Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting.

Proprietary Funds

When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. We use internal service funds (a component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities – such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others. The District's fiduciary activities are reported in the Fiduciary Fund Financial Statements. We excluded these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2025 as compared to June 30, 2024.

Table 1 - Summary of Statement of Net Position				
(Amounts in millions)	2025	2024*	Change	Percentage Change
Assets				
Current and other assets	\$ 410.35	\$ 484.51	\$ (74.16)	-15.31%
Capital assets	578.75	511.66	67.09	13.11%
Total Assets	989.10	996.17	(7.07)	-0.71%
Total Deferred Outflows of Resources	79.45	79.67	(0.22)	-0.27%
Liabilities				
Current liabilities	37.01	45.10	(8.09)	-17.93%
Long-term liabilities	715.29	781.64	(66.35)	-8.49%
Total Liabilities	752.31	826.74	(74.43)	-9.00%
Total Deferred Inflows of Resources	113.70	100.45	13.25	13.19%
Net Position				
Net investment in capital assets	253.48	236.93	16.55	6.99%
Restricted	36.58	39.63	(3.05)	-7.71%
Unrestricted: excluding pension activities	93.36	70.48	22.88	32.47%
Unrestricted: related to pension activities	(180.87)	(198.39)	17.52	8.83%
Total Net Position	\$ 202.55	\$ 148.65	\$ 53.90	36.26%

* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

The District reported a net position surplus of \$202.04 million for the fiscal year ending June 30, 2025. Of this total, an \$88.02 million deficit is addressed by the unrestricted net position. The deficit in the unrestricted net position of governmental activities reflects the cumulative outcomes of past operations. Restricted net position is presented separately to indicate legal restrictions from debt covenants and enabling legislation that limit the School Board's use of these resources for regular operations.

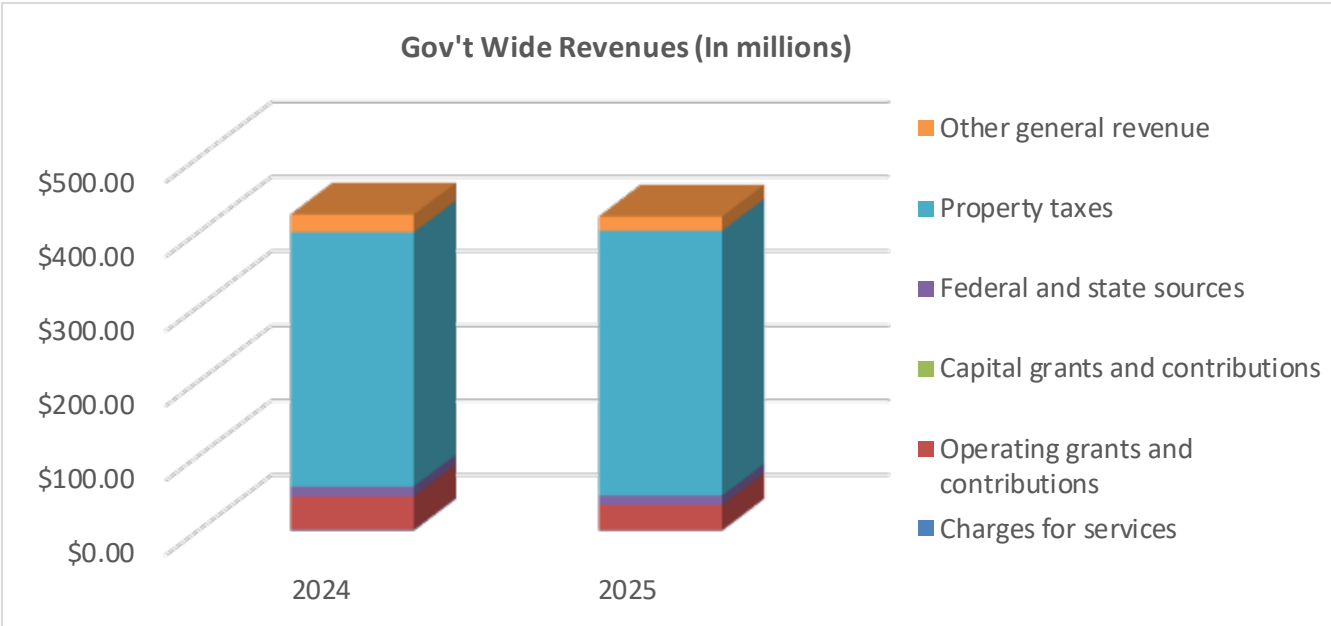
Table 2 shows the changes in net position for fiscal year 2025 as compared to 2024:

Table 2 - Summary of Changes in Statement of Activities				
(Amounts in millions)	2025	2024*	Change	Percentage Change
Revenues				
Program revenues	\$ 34.25	\$ 45.86	\$ (11.61)	-25.32%
General revenues				
Federal and state sources	12.74	13.22	(0.48)	-3.63%
Property taxes	355.22	340.90	14.32	4.20%
Other general revenue	18.93	23.77	(4.84)	-20.36%
Total Revenues	<u>421.14</u>	<u>423.75</u>	<u>(2.61)</u>	-0.62%
Program Expenses				
Instruction	213.09	221.14	(8.05)	-3.64%
Instruction-related services	33.66	33.88	(0.22)	-0.65%
Pupil services	37.20	33.98	3.22	9.48%
General administration	23.55	23.39	0.16	0.68%
Plant services	35.03	33.74	1.29	3.82%
Ancillary services	4.26	3.96	0.30	7.58%
Community services	0.48	0.53	(0.05)	-9.43%
Interest on long-term debt	18.12	20.08	(1.96)	-9.76%
Total Expenditures	<u>365.42</u>	<u>370.70</u>	<u>(5.28)</u>	-1.43%
Change in Net Position	55.72	53.05	2.67	5.04%
Net Position - Beginning, as restated	146.81	95.61	51.20	53.55%
Net Position - Ending	\$ 202.53	\$ 148.66	\$ (53.87)	58.59%

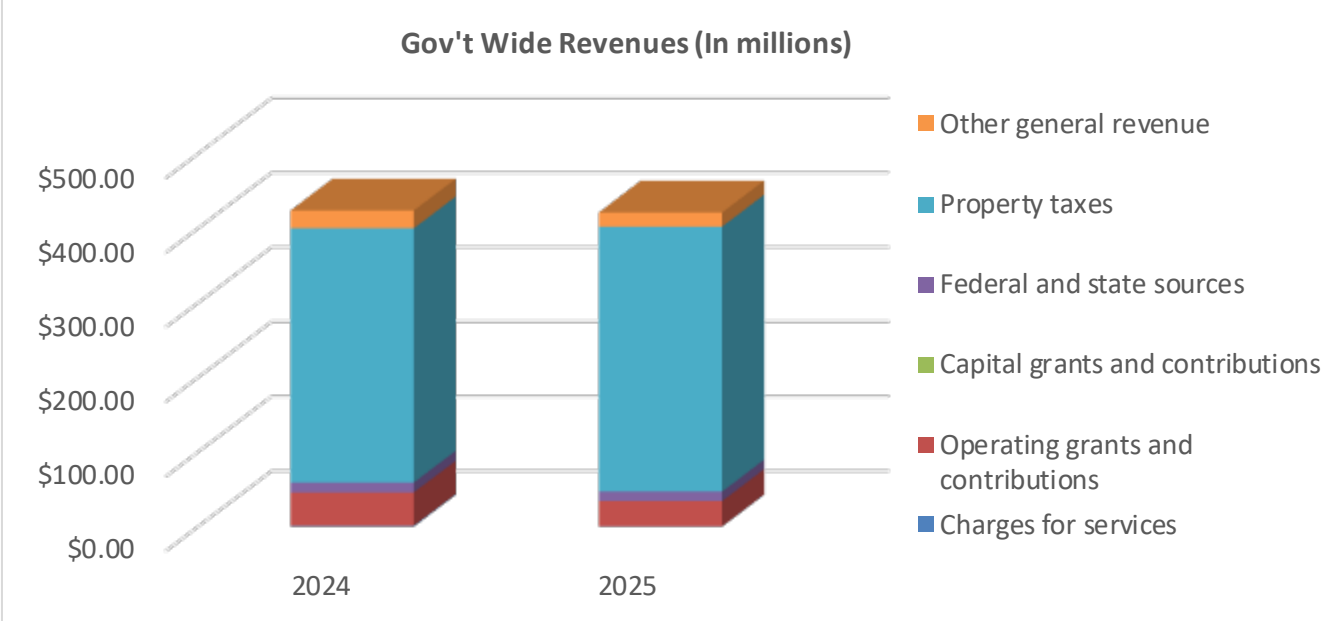
* For comparative purposes, the 2024 amounts have not been restated to reflect the effects of implementing GASB Statement No. 101. See Note 15 for further information.

The District’s expenses for instructional services was 67.43% of total expenses in the fiscal year ended June 30, 2025 as compared to 68.79% in the fiscal year ended June 30, 2024. The purely administrative activities of the District accounted for 6.44% of total costs in the fiscal year ended June 30, 2025 as compared to 6.31% in the fiscal year ended June 30, 2024. Interest on long-term debt represented 5.09% of total expenses in the fiscal year ended June 30, 2025 as compared to 5.42% in the fiscal year ended June 30, 2024. Total expenses were 86.89% of revenue in the fiscal year ended June 30, 2025 versus 87.48% in the fiscal year ended June 30, 2024. Program revenues were 8.13% of total revenues in the fiscal year ended June 30, 2025 and 10.82% of total revenues in the fiscal year ended June 30, 2024. Programs revenues decreased by \$11.61 million from the prior fiscal year.

The following is a summary of government-wide revenues for the fiscal year ended June 30, 2025:



The following is a summary of expenses by function for the fiscal year ended June 30, 2025:



* The expense for the year ended June 30, 2024 were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services					
(Amounts in millions)	2025	2024	Change	Percentage Change	
Instruction	\$ 191.11	\$ 188.11	\$ 3.00	1.59%	
Instruction-related services	30.53	30.52	0.01	0.03%	
Pupil services	30.16	26.57	3.59	13.51%	
General administration	23.17	22.88	0.29	1.27%	
Plant services	34.97	33.62	1.35	4.02%	
Ancillary services	2.59	2.53	0.06	2.37%	
Community services	0.48	0.52	(0.04)	-7.69%	
Interest on long-term debt	18.12	20.08	(1.96)	-9.76%	
Total Net Cost	\$ 331.13	\$ 324.83	\$ 6.30	1.94%	

* The expense for the year ended June 30, 2024 were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

The following summarizes the District’s most significant functions:

- *Instruction* expenditures include activities directly dealing with the teaching of pupils.
- *Instruction-related services* include the activities involved with assisting staff with the content and process of educating students.
- *Pupil services* include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- *General administration* reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.
- *Plant services* involve keeping the school grounds and equipment in effective working conditions.

The District's Funds

As the District completed this year, governmental funds had a reported combined fund balance of \$299.25 million, which is a decrease of \$68.44 million from last year.

Table 4 provides an analysis of the District’s fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
(Amount in millions)	2025	2024	Change	Percentage Change
General Fund	\$ 155.15	\$ 144.96	\$ 10.19	7.03%
Building Fund	70.67	152.95	(82.28)	-53.79%
Bond Interest and Redemption Fund	51.78	49.70	2.08	4.18%
Student Activity Fund	0.52	0.50	0.02	3.64%
Adult Education Fund	1.10	1.22	(0.12)	-10.07%
Child Development Fund	0.18	0.17	0.01	4.23%
Cafeteria Fund	2.02	3.37	(1.35)	-40.04%
Deferred Maintenance Fund	9.52	7.45	2.07	27.84%
Capital Facilities Fund	3.73	3.01	0.72	23.91%
County School Facilities Fund	4.60	4.37	0.23	5.22%
Total Fund Balance	\$ 299.25	\$ 367.69	\$ (68.44)	-18.61%

The following summarize significant changes in total fund balances during the year:

For the fiscal year ended June 30, 2025, the District’s total governmental fund balance decreased by \$68.44 million, from \$367.69 million at June 30, 2024, to \$299.25 million at June 30, 2025. This represents an 18.6% decrease year-over-year. The change in fund balance reflects several key factors and trends, as detailed below:

Major Capital Outlay and Building Fund Utilization:

The most significant driver of the decrease was the planned use of Building Fund resources for capital projects. The Building Fund balance declined by \$82.28 million (from \$152.95 million to \$70.67 million), as the District continued to invest in facility improvements and construction funded by proceeds from prior bond issuances. This outflow is consistent with the District’s long-term capital plan and the completion or advancement of several major projects during the year.

General Fund Growth:

In contrast to the overall decrease, the General Fund balance increased by \$10.19 million (from \$144.96 million to \$155.15 million), or 7.0%. This growth was primarily due to higher property tax revenues, prudent expenditure management, and continued fiscal discipline. The General Fund increase helped partially offset declines in other funds and supports the District’s commitment to maintaining strong reserves for economic uncertainties and program stability.

Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund increased by \$2.08 million (from \$49.70 million to \$51.78 million), reflecting adjustments following the issuance of the 2023 series of General Obligation Bonds and the timing of debt service payments.

Other Governmental Funds:

Balances in other governmental funds, including the Student Activity, Adult Education, Child Development, Cafeteria, Deferred Maintenance, Capital Facilities, and County School Facilities Funds, experienced a net increase of \$1.57 million in aggregate. Notable changes included an increase in the Deferred Maintenance Fund (due to a General Fund transfer and ongoing maintenance needs) and a decrease in the Cafeteria Fund (reflecting higher program costs).

Expenditure Trends:

Total governmental fund expenditures increased to \$495.38 million in 2025 (from \$475.42 million in 2024), driven by capital outlay and ongoing program costs. Revenues, while strong at \$426.95 million, were not sufficient to offset the planned use of reserves for capital projects, resulting in the overall decrease in fund balance.

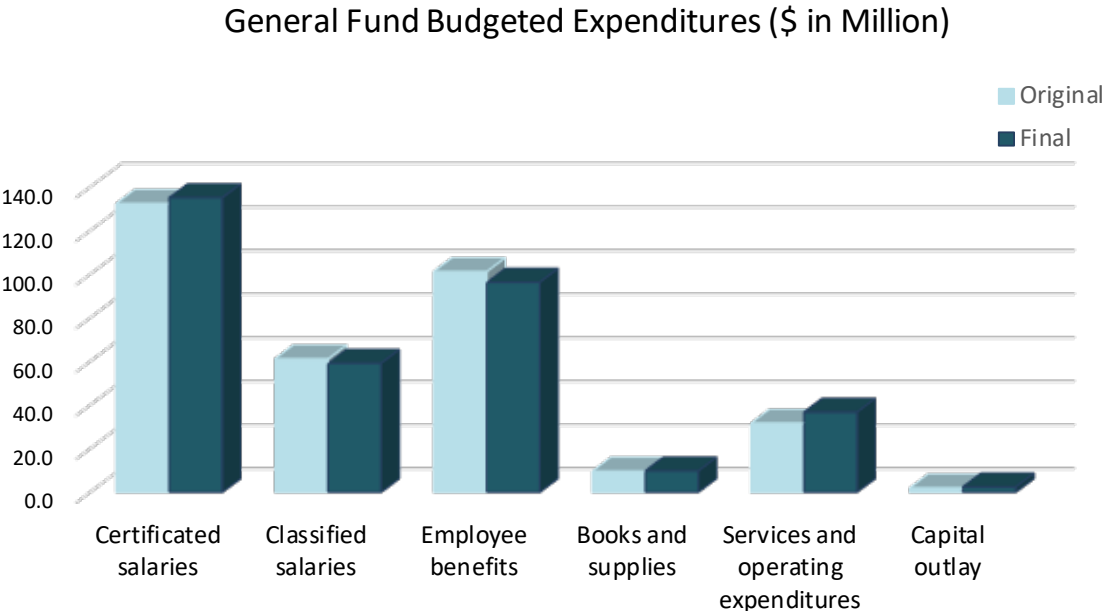
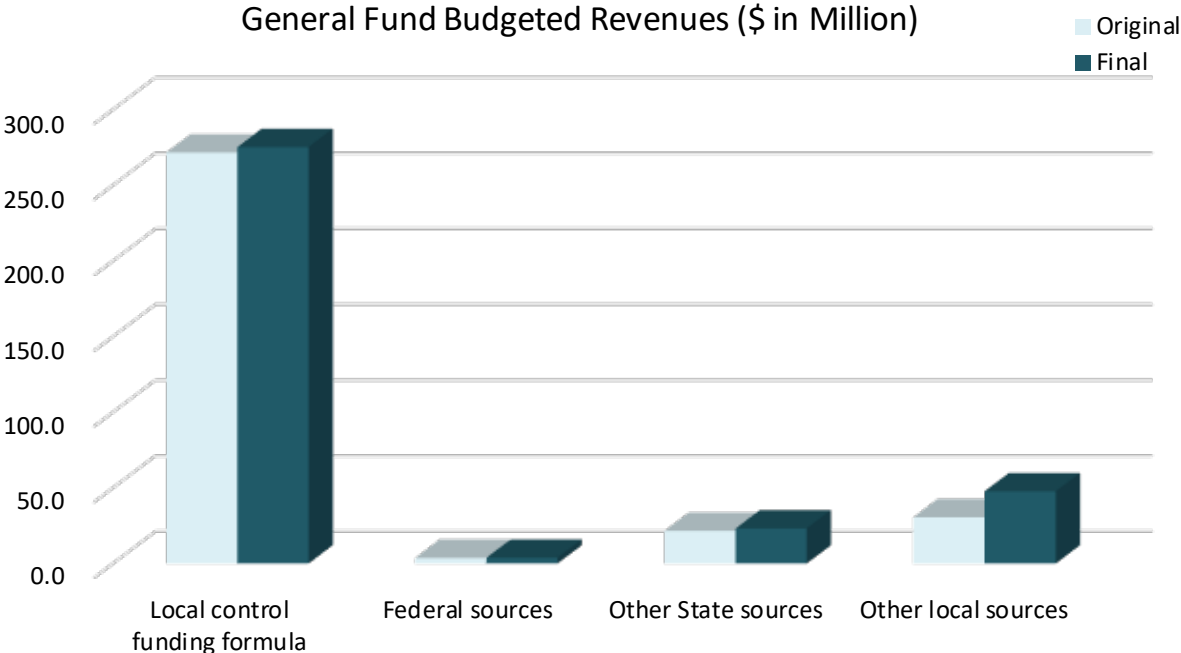
Strategic Use of Reserves:

The decrease in total fund balance was anticipated and aligns with the District's multi-year financial and facilities plans. The District continues to maintain reserves well above state minimum requirements, with a combined General Fund reserve for economic uncertainties and basic aid of 10% of expenditures.

In summary, the significant decrease in total fund balance for 2025 primarily reflects the District's strategic investment in capital assets and facilities, funded by the planned drawdown of Building Fund reserves. The General Fund's positive performance demonstrates ongoing operational strength, while the District's overall financial position remains sound and aligned with long-term goals.

Financial Analysis of the General Fund and Budgeting Highlights

The District’s budget is prepared accordingly to California law and in the modified accrual basis of accounting. During the course of the 2024-25 fiscal year, the District revised its General Fund budget twice, at 1st interim and 2nd interim. The following charts summarize the changes from the District’s original and final budgets.



Capital Asset and Long-Term Liabilities

Capital Assets

As of June 30, 2025, the District had \$578.75 million in a broad range of capital assets, including land, buildings, furniture, and equipment. The \$67.09 million increase in capital assets is due to \$54.96 million additions of buildings and improvement funded from proceed of general obligation bonds. Additionally, the District recognized \$21.3 million of depreciation. Additional information regarding the District's capital assets can be found in Note 5 to the basic financial statements.

Table 5 - Summary of Capital Assets Net of Depreciation					
(Amounts in millions)	2025	2024	Change	Percentage Change	
Land	\$ 10.47	\$ 10.47	\$ -	0.00%	
Construction in progress	155.80	146.03	9.77	6.69%	
Land improvements	27.69	27.60	0.09	0.34%	
Buildings and improvement	379.58	324.62	54.96	16.93%	
Furniture and equipment	5.20	2.94	2.26	76.94%	
Total Capital Assets	\$ 578.75	\$ 511.66	\$ 67.09	13.11%	

Long-Term Liabilities

At the end of this year, the District had \$484.12 million in general obligation bonds debt outstanding versus \$518.22 million last year, a decrease of 6.58%, which mainly due to scheduled debt service payments partly offset by accreted interest.

Table 6 - Summary of Long-term Liabilities					
(Amounts in millions)	2025	2024*	Change	Percentage Change	
General obligation bonds	\$ 484.12	\$ 518.22	\$ (34.10)	-6.58%	
Net pension liabilities	215.37	246.14	(30.77)	-12.50%	
Net OPEB liability	12.10	15.60	(3.50)	-22.41%	
Compensated absences and claims	3.70	3.48	0.22	6.35%	
Total Long-term Liabilities	\$ 715.29	\$ 783.44	\$ (68.15)	-8.70%	

* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

At year-end, the District has a net pension liability of \$215.37 million versus \$246.14 million last year, a decrease of \$30.77 million (or 12.50%).

Other long-term liabilities include compensated absences payable, other postemployment benefits (OPEB) liability (not including health benefits). We present more detailed information regarding our long-term liabilities in Note 11 of the financial statements.

Significant Accomplishments of Fiscal Year 2024-2025 Are Noted Below:

The District's budget is prepared according to California law and is based on the modified accrual basis of accounting. During the 2024-2025 fiscal year, the District revised its General Fund budget twice: once in December based on October 31, 2024, data, and a second time in March based on January 31, 2025, data. The District settled with both bargaining unit associations for the fiscal year 2023-2024 and fiscal year 2024-2025.

The District reached agreements with the California School Employees Association (CSEA) Chapter 301 and the Palo Alto Educators Association (PAEA) for salary increases, schedule restructuring, and one-time payments. Both classified and certificated staff received a 4% ongoing salary increase retroactive to July 1, 2023. For the 2024-25 school year, classified employees were granted another 4% increase effective July 1, 2024, along with a one-time \$2,000 payment for those in paid status as of November 15, 2024, and a restructured salary schedule adding a new Step 6 (F). Similarly, certificated staff under PAEA received an additional 4% increase over the 2023-24 Teachers' Salary Schedule and Appendix H - Special Salaries and Stipends, effective July 1, 2024, along with the implementation of a revised salary schedule.

The overall tax revenues showed a growth of 4.9%.

The District contributed an additional \$5.0 million during the current fiscal year to reduce the outstanding OPEB liability, bringing it down to \$12.1 million.

Finally, it is important to note that the District maintains a 3% reserve for economic uncertainties and a 10% in the Basic Aid Reserve Fund, for a total of 13%.

Economic Factors and Next Year's Budgets and Rates

In considering the District Budget for the 2025-2026 year, the governing board and management used the following criteria:

1. Community Funded District: Property tax revenues will increase by 3%.
2. The District's activities and budget continue to be guided by the Board approved priority goals:
 - a. Serve and Celebrate Others
 - b. Mental Health and Wellness
 - c. High Quality Teaching and Learning
 - d. Equity, Inclusion, and Belonging
 - e. Innovation and Social Responsibility
3. The Palo Alto Partners in Education (PiE) Foundation's annual donation for 2025-26 is \$4.9 million. Funds are allocated per pupil and based on current enrollment data.

4. Voters passed the Measure O parcel tax renewal measure at the November 3, 2020, election. The revenue from this parcel tax is estimated at \$16.3 million per year. The term is six years and is effective July 1, 2021 (following the current Measure A parcel tax expiration on June 30, 2021) through the end of the 2026-2027 fiscal year.
5. Interest income is projected to be at 3%.
6. Developer fee collections are based on approximate new housing units to be constructed. The fees are used for the construction and reconstruction of school facilities necessary as a result of new development. As of July 9, 2022, the fees are \$4.79 per square foot for residential construction and \$0.78 per square foot for commercial construction.
7. Federal and State revenue is not expected to increase, except for one-time funding.
8. Changes to other funds are anticipated to be minimal.

The District's primary funding source is property taxes, relying on increases in assessed property values within its boundaries. While property tax revenues have been strong in recent years, the District remains cautious, as an economic downturn could negatively impact school funding.

Pension contributions continue to be a significant factor. Both CalPERS and CalSTRS have adjusted their expected rates of return, resulting in increased employer contribution rates. CalSTRS will maintain a stable rate of 19.10% through 2027-28, while CalPERS rates are projected to rise from 27.05% in 2024-25 to 26.10% by 2028-29.

Additionally, health and welfare costs are projected to rise, further adding to the District's financial obligations.

Given these rising costs and future uncertainties, careful and strategic planning is crucial to ensure that the District can meet student needs and manage inflationary pressures in the coming years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Chief Business Officer, Business Services, at Palo Alto Unified School District, 25 Churchill Avenue, Palo Alto, California, 94306.

Palo Alto Unified School District
Statement of Net Position
June 30, 2025

	Governmental Activities
Assets	
Deposits and investments	\$ 320,492,390
Receivables	11,177,357
Prepaid expense	624,613
Stores inventories	272,213
Lease receivables	77,781,554
Capital assets not depreciated	166,271,538
Capital assets, net of accumulated depreciation	412,480,543
Total assets	989,100,208
Deferred Outflows of Resources	
Related to OPEB	10,542,418
Related to pensions	68,912,442
Total deferred outflows of resources	79,454,860
Liabilities	
Accounts payable	24,663,548
Interest payable	4,688,913
Unearned revenue	7,662,017
Long-term liabilities	
Long-term liabilities other than OPEB and pensions	
Due within one year	44,118,755
Due in more than one year	443,703,886
Net other postemployment benefits(OPEB) liability	12,103,518
Aggregate net pension liabilities	215,368,736
Total liabilities	752,309,373
Deferred Inflows of Resources	
Related to OPEB	9,412,406
Related to pension	34,416,617
Related to leases	69,867,216
Total deferred inflows of resources	113,696,239
Net Position	
Net investment in capital assets	253,484,466
Restricted for	
Self insurance	8,515,834
Capital projects	8,076,328
Educational programs	18,010,688
Food programs	1,972,558
Unrestricted (deficit)	(87,510,418)
Total net position	\$ 202,549,456

Palo Alto Unified School District
Statement of Activities
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 213,089,064	\$ 88,638	\$ 21,890,762	\$ (191,109,664)
Instruction-related activities				
Supervision of instruction	9,353,983	5,989	1,039,309	(8,308,685)
Instructional library, media, and technology	3,267,810	5,087	149,144	(3,113,579)
School site administration	21,033,975	4,996	1,916,331	(19,112,648)
Pupil services				
Home-to-school transportation	3,595,410	-	-	(3,595,410)
Food services	6,624,558	28,381	5,016,462	(1,579,715)
All other pupil services	26,984,390	11,100	1,991,347	(24,981,943)
Administration				
Data processing	10,032,741	-	-	(10,032,741)
All other administration	13,517,690	-	375,950	(13,141,740)
Plant services	35,027,393	-	61,511	(34,965,882)
Ancillary services	4,259,422	41	1,666,116	(2,593,265)
Community services	479,279	-	1,652	(477,627)
Interest on long-term liabilities	18,120,090	-	-	(18,120,090)
Total governmental activities	<u>\$ 365,398,805</u>	<u>\$ 144,232</u>	<u>\$ 34,108,584</u>	<u>(331,145,989)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				286,937,316
Property taxes, levied for debt service				52,213,122
Taxes levied for other specific purposes				16,070,442
Federal and State aid not restricted to specific purposes				12,736,763
Interest and investment earnings				17,887,838
Miscellaneous				<u>1,041,353</u>
Subtotal, general revenues and subventions				<u>386,886,834</u>
Change in Net Position				55,740,845
Net Position - Beginning, as previously reported				148,656,809
Adjustments (Note 15)				(1,848,198)
Net Position - Beginning, as restated				<u>146,808,611</u>
Net Position - Ending				<u>\$ 202,549,456</u>

Palo Alto Unified School District
Balance Sheet – Governmental Funds
June 30, 2025

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	\$ 153,997,414	\$ 84,264,532	\$ 51,051,238	\$ 22,350,365	\$ 311,663,549
Accounts Receivables	8,946,111	885,874	724,914	548,325	11,105,224
Due from other funds	41,007	1,364	-	-	42,371
Prepaid expenditures	611,218	-	-	13,395	624,613
Stores inventories	231,594	-	-	40,619	272,213
Lease receivables	77,781,554	-	-	-	77,781,554
Total assets	\$ 241,608,898	\$ 85,151,770	\$ 51,776,152	\$ 22,952,704	\$ 401,489,524
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 8,972,130	\$ 14,475,363	\$ -	\$ 1,216,055	\$ 24,663,548
Due to other funds	1,364	3,409	-	37,598	42,371
Unearned revenue	7,620,862	-	-	41,155	7,662,017
Total liabilities	16,594,356	14,478,772	-	1,294,808	32,367,936
Deferred Inflows of Resources					
Leases	69,867,216	-	-	-	69,867,216
Total Deferred Inflow of Resources	69,867,216	-	-	-	69,867,216
Fund Balances					
Nonspendable	8,787,150	-	-	54,014	8,841,164
Restricted	17,335,668	70,672,998	51,776,152	10,723,906	150,508,724
Committed	17,481,864	-	-	-	17,481,864
Assigned	18,914,552	-	-	10,879,976	29,794,528
Unassigned	92,628,092	-	-	-	92,628,092
Total fund balances	155,147,326	70,672,998	51,776,152	21,657,896	299,254,372
Total liabilities, deferred inflows of resources, and fund balances	\$ 241,608,898	\$ 85,151,770	\$ 51,776,152	\$ 22,952,704	\$ 401,489,524

Palo Alto Unified School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2025

Total Fund Balance - Governmental Funds		\$ 299,254,372
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,026,917,536	
Accumulated depreciation is	<u>(448,165,455)</u>	
Net capital assets		578,752,081
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		
		(4,688,913)
An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the statement of net position.		
		8,515,834
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Other postemployment benefits (OPEB)	10,542,418	
Net pension liability	<u>68,912,442</u>	
Total deferred outflows of resources		79,454,860
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits (OPEB)	(9,412,406)	
Net pension liability	<u>(34,416,617)</u>	
Total deferred inflows of resources		(43,829,023)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(215,368,736)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(12,103,518)

Palo Alto Unified School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 (continued)
 June 30, 2025

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of

General obligation bonds, including premiums	(395,940,613)
Compensated absences	(3,316,373)

In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is

(88,180,515)

Total long-term liabilities	(487,437,501)
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Total net position - governmental activities	\$ 202,549,456
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Palo Alto Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2025

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local control funding formula (LCFF)	\$ 275,204,138	\$ -	\$ -	\$ -	\$ 275,204,138
Federal sources	3,783,680	-	962,657	1,651,126	6,397,463
Other State sources	23,119,662	-	70,032	7,137,731	30,327,425
Other local sources	49,714,672	7,034,661	53,662,245	4,608,553	115,020,131
Total revenues	351,822,152	7,034,661	54,694,934	13,397,410	426,949,157
Expenditures					
Current					
Instruction	215,550,088	-	-	3,084,560	218,634,648
Instruction-related activities					
Supervision of instruction	10,069,625	-	-	-	10,069,625
Instructional library, media, and technology	3,365,875	-	-	4,293	3,370,168
School site administration	20,201,044	-	-	1,332,165	21,533,209
Pupil services					
Home-to-school transportation	4,820,103	-	-	-	4,820,103
Food services	1,133	-	-	6,516,350	6,517,483
All other pupil services	26,531,899	-	-	168,440	26,700,339
Administration					
Data processing	9,918,874	-	-	-	9,918,874
All other administration	13,355,260	-	-	124,488	13,479,748
Plant services	31,759,872	-	-	118,615	31,878,487
Ancillary services	2,587,182	-	-	1,596,015	4,183,197
Community services	482,095	-	-	-	482,095
Capital outlay	1,013,403	89,308,241	-	843,001	91,164,645
Debt service					
Principal	-	-	40,875,000	-	40,875,000
Interest and other	-	-	11,739,566	-	11,739,566
Total expenditures	339,669,453	89,308,241	52,614,566	13,787,927	495,380,187
Excess (Deficiency) of Revenues Over Expenditures	12,152,699	(82,273,580)	2,080,368	(390,517)	(68,431,030)
Other Financing Sources (Uses)					
Transfers in	32,435	-	-	2,000,000	2,032,435
Transfers out	(2,000,000)	-	-	(32,435)	(2,032,435)
Net Financing Sources (Uses)	(1,967,565)	-	-	1,967,565	-
Net Change in Fund Balances	10,185,134	(82,273,580)	2,080,368	1,577,048	(68,431,030)
Fund Balance - Beginning	144,962,192	152,946,578	49,695,784	20,080,848	367,685,402
Fund Balance - Ending	\$ 155,147,326	\$ 70,672,998	\$ 51,776,152	\$ 21,657,896	\$ 299,254,372

Palo Alto Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2025

Total Net Change in Fund Balances - Governmental Funds \$ (68,431,030)

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation and amortization expense in the Statement of Activities.

This is the amount by which depreciation expense exceeds capital outlay in the period.

Depreciation	\$ (21,339,281)
Capital outlay	<u>88,448,176</u>

Net expense adjustment	67,108,895
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Revenues that did not meet the criteria for recognition were recorded as unavailable revenues in the governmental funds. In the Government-Wide Financial Statements, these amounts were recorded as revenues. This amount represents the change in unavailable revenue from the prior year. (1,315,344)

The District issued capital appreciation general obligations bonds. The accretion of interest on the general obligation bonds during the current fiscal year was: (7,801,206)

A loss gain on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (21,641)

In the Statement of Activities, certain operating expenses, such as compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between compensated absences earned and used. (320,170)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows/inflows of resources and net pension liability during the year. 17,517,521

Palo Alto Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (continued)
 Year Ended June 30, 2025

In the governmental funds, OPEB costs are based on benefit payments made for OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows/inflows of resources and net OPEB liability during the year.	6,113,316
Governmental funds report the effect of premiums, discounts, and the deferred charge on a refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Premium amortization	1,025,347
Payments of principal on long-term liabilities is an expenditure in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. General obligation bonds	40,875,000
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	395,335
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	594,822
Change in net position of governmental activities	\$ 55,740,845

Palo Alto Unified School District
Statement of Net Position – Proprietary Fund
June 30, 2025

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Current assets	
Deposits and investments	\$ 8,828,841
Receivables	<u>72,133</u>
Total current assets	<u>8,900,974</u>
Liabilities	
Current liabilities	
Current portion of claims liabilities	<u>49,843</u>
Total current liabilities	<u>49,843</u>
Noncurrent liabilities	
Claims	<u>335,297</u>
Total liabilities	<u>385,140</u>
Net Position	
Restricted for workers' compensation	<u><u>\$ 8,515,834</u></u>

Palo Alto Unified School District
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
Year Ended June 30, 2025

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for services	\$ 2,008,555
Total operating revenues	<u>2,008,555</u>
Operating Expenses	
Payroll costs	33,754
Supplies and materials	3,937
Claims and excess insurance	1,792,618
Total operating expenses	<u>1,830,309</u>
Operating Income	178,246
Nonoperating Revenues	
Fair market value adjustments	134,911
Interest income	281,665
Total nonoperating revenues	<u>416,576</u>
Change in Net Position	594,822
Total Net Position - Beginning	<u>7,921,012</u>
Total Net Position - Ending	<u><u>\$ 8,515,834</u></u>

Palo Alto Unified School District
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2025

	<u>Governmental Activities - Internal Service Fund</u>
Operating Activities	
Cash receipts from customers	\$ 2,008,555
Cash payments to other suppliers of goods or services	(4,837)
Cash payments to employees for services	(33,754)
Cash payments for insurance claims	<u>(1,933,527)</u>
Net Cash Provided from Operating Activities	36,437
Investing Activities	
Interest on investments	<u>416,576</u>
Net Change in Cash and Cash Equivalents	453,013
Cash and Cash Equivalents, Beginning	<u>8,375,828</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 8,828,841</u></u>
Reconciliation of Operating Income to Net Cash Provided from Operating Activities	
Operating income	\$ 178,246
Changes in assets and liabilities	
Receivables	(900)
Accrued liabilities	<u>(140,909)</u>
Net Cash Provided from Operating Activities	<u><u>\$ 36,437</u></u>

Palo Alto Unified School District
Statement of Fiduciary Net Position
June 30, 2025

	<u>Private-Purpose Trust</u>
Assets	
Deposits and investments	\$ 741,713
Receivables	<u>6,780</u>
Total assets	<u>\$ 748,493</u>
Net Position	
Restricted for scholarships	<u>748,493</u>
Total net position	<u>\$ 748,493</u>

Palo Alto Unified School District
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

	<u>Private-Purpose Trust</u>
Additions	
Contributions	
Private donations	\$ 82,470
Total contributions	<u>82,470</u>
Investment earnings	
Interest	25,733
Net decrease in the fair value of investments	<u>11,173</u>
Total investment earnings	<u>36,906</u>
Total additions	119,376
Deductions	
Professional/Consulting Services	<u>62,550</u>
Total deductions	<u>62,550</u>
Net Increase in Fiduciary Net Position	56,826
Net Position - Beginning	<u>691,667</u>
Net Position - Ending	<u><u>\$ 748,493</u></u>

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Palo Alto Unified School District was founded on March 20, 1893 under the laws of the State of California. The District operates under a locally elected five-member board form of government and provides educational services to grades K - 12 as mandated by the state and federal agencies. The District operates twelve elementary, three middle, three high schools, an adult education program and a Young Fives program.

A reporting entity is comprised of the primary government 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, boards, and agencies that are not legally separate from the District. For Palo Alto Unified School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and nonmajor governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for or reported in another fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

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

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a local educational agency (*Education Code* Sections 15125-15262).

Nonmajor Governmental Funds

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

- **Student Activity Fund** The Student Activity Fund is used to account separately for the operating activities of the associated student body accounts that are not fiduciary in nature, including student clubs, general operations, athletics, and other student body activities.
- **Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except, for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.
- **Child Development Fund** The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.
- **Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is 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).
- **Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted, committed or assigned for deferred maintenance purposes (*Education Code* Section 17582).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

- **Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

- **County School Facilities Fund** The County School Facilities 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), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) 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 17070.10 et seq.).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service.

- **Internal Service Fund** Internal Service Funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District operates a workers' compensation, dental, vision, and property and liability programs that are accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of the parties outside the District and are not available to support the District's own programs. The three types of trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. Trust funds are used to account for resources held by the District under a trust agreement for individuals, private organizations, or other governments. The District's private-purpose trust fund accounts for contribution and payments related to scholarships.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation and amortization of capital assets. 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 the 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. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, and/or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Net position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor governmental funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

- **Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.
- **Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.
- **Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the financial statements and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide financial statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be 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 are determined by the program sponsor.

The District's investment in the county treasury is measured at fair value on a recurring basis, which is determined by the fair value per share of the underlying portfolio determined by the program sponsor. Positions in this investment pool are not required to be categorized within the fair value hierarchy.

Prepaid Expenditures (Expenses)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Stores Inventories

Store inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when consumed rather than when purchased.

Capital Assets

Tangible Capital Assets

Capital assets include land, buildings, building improvements, equipment, and other tangible assets with an initial cost of \$50,000 or more and an estimated useful life greater than one year. Capital assets are recorded at historical cost or, if donated, at acquisition value as of the date of donation. Normal maintenance and repairs that do not materially extend the asset's useful life or add value are expensed as incurred.

Depreciation

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

- Buildings: 25 to 50 years
- Building improvements: 20 years
- Equipment: 5 to 20 years

Leases

The District recognizes right-to-use lease assets and corresponding lease liabilities for leases with terms greater than 12 months. At lease commencement, the lease asset is measured at the present value of expected lease payments, plus certain initial direct costs. The asset is amortized over the shorter of the lease term or the useful life of the underlying asset. Lease liabilities are reduced as payments are made. The District evaluates lease assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Subscription-Based Information Technology Arrangements

For subscription-based IT arrangements (SBITAs) with terms greater than 12 months, the District recognizes a right-to-use subscription asset and a corresponding subscription liability at the commencement of the subscription period. The subscription asset is measured at the present value of expected subscription payments, including certain implementation costs. The asset is amortized over the subscription term. Short-term SBITAs (maximum term of 12 months) are expensed as incurred. The District assesses subscription assets for impairment in accordance with GASB 96.

Impairment of Capital Assets and Intangible Assets

The District reviews both tangible capital assets and intangible right-to-use assets (leases and SBITAs) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are recognized to reduce the carrying value to the asset's net realizable value.

Capitalization Threshold

The District's capitalization threshold for all capital assets, including right-to-use lease and subscription assets, is \$50,000.

Leases, as Lessee

When the District is a lessee in a lease agreement for nonfinancial assets with a term greater than 12 months, it recognizes a lease liability and a corresponding right-to-use lease asset at the commencement of the lease. The lease liability is measured at the present value of payments expected to be made during the lease term, discounted using the interest rate implicit in the lease or, if not readily determinable, the District's estimated incremental borrowing rate. The right-to-use lease asset is initially measured as the amount of the lease liability, plus any payments made to the lessor at or before the commencement date and certain initial direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset. Lease liabilities are reduced as payments are made. The District monitors changes in circumstances that may require remeasurement of the lease liability and asset, such as modifications to lease terms or payment schedules. Lease assets are evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Leases, as Lessor

As a lessor, the District recognizes lease receivables and related deferred inflows of resources for leases in which the District conveys the right to use capital assets to other entities for periods greater than 12 months. At the commencement of the lease, the lease receivable is measured at the present value of expected lease payments to be received during the lease term, discounted using the interest rate implicit in the lease or, if not readily determinable, the District's estimated incremental borrowing rate. The deferred inflow of resources is initially measured as the value of the lease receivable, adjusted for lease payments received at or before the commencement date. Lease receivables are subsequently reduced by the principal portion of lease payments received. The deferred inflow of resources is recognized as revenue over the lease term in a systematic and rational manner. The District monitors changes in circumstances that may require remeasurement of the lease receivable and deferred inflow of resources, such as modifications to lease terms or payment schedules. Lease receivables are evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated within the governmental funds and governmental activities.

Compensated Absences

The District provides various forms of paid leave to employees, including vacation and sick leave, in accordance with provisions of the California Education Code and Collective Bargaining Agreements. In accordance with GASB Statement No. 101, *Compensated Absences*, the District recognizes a liability for:

1. Leave that has not been used when that leave:
 - (a) is attributable to services already rendered,
 - (b) accumulates for use or payment in a future period, and
 - (c) is more-likely-than-not to be used for time off or otherwise paid or settled; and
2. Leave that has been used but not yet paid or settled as of the financial statement date.

Vacation and compensatory time balances are accrued and reported as a liability when benefits are both earned and attributable to services already rendered. Accrued liabilities for compensated absences include salary-related payments (such as employer payroll taxes and other amounts that are direct and incremental to payments for leave), are measured at current pay rates, and are reported as current and noncurrent liabilities in the financial statements.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, only the portion of accumulated sick leave that is more-likely-than-not to be used by the employee for paid leave is recognized as a liability in the District's financial statements. The portion of sick leave that is more-likely-than-not to be settled through conversion to service credit for employee retirement plans (CalSTRS or CalPERS) is excluded from the District's liability for compensated absences, per GASB 101 guidance.

At retirement, unused sick leave may be converted to service credit for retirement purposes in accordance with Education Code Sections 22717 and 44978. For classified school members retiring after January 1, 1999, each member receives 0.004 year of service credit for each day of unused sick leave. For certificated employees, credit for unused sick leave is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

The District applies the Last-In-First-Out (LIFO) flow assumption in calculating compensated absence liabilities. Under LIFO, current year sick leave usage is attributed first to recently earned leave, with accumulated balances preserved for future conversion to retirement service credit. Balances expected to be converted to pension service credit are excluded from compensated absence liabilities.

For financial statements prepared using the current financial resources measurement focus, expenditures for compensated absences are recognized to the extent normally expected to be liquidated with expendable available financial resources; the full liability is recognized in the government-wide statements. Certain types of leave (e.g., parental, military, or jury duty leave) are not recognized as a liability until the leave commences.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide and proprietary fund 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 governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

Debt premiums, discounts, and debt issuance costs related to prepaid insurance are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In governmental fund financial statements, bond premiums, discounts, and debt issuance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the period the bonds are issued.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The District reports deferred outflows of resources for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items, and for OPEB related items.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan's fiduciary net position have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Leases Liabilities

Lease liabilities represent the District's obligation to make lease payments arising from the lease. The District recognizes a lease liability in the government-wide financial statements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments is discounted based on a borrowing rate determined by the District.

Subscriptions Liabilities

Subscription liabilities represent the District's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of the subscription payments is discounted based on a borrowing rate determined by the District.

Fund Balances - Governmental Funds

As of June 30, 2025, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purpose.

Unassigned – all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in compliance with GASB 54 to establish fund balance policies in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a reserve for economic uncertainties equal to no less than 10% of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position related to net of investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses – Proprietary Funds

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

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 and after non-operating revenues/expenses in proprietary 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 column of the statement of activities.

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.

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 of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Adoption of New Accounting Standard

As of July 1, 2024, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 15.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

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

Governmental funds	\$ 311,663,549
Proprietary funds	8,828,841
Fiduciary funds	<u>741,713</u>
Total deposits and investments	<u><u>\$ 321,234,103</u></u>

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

Cash on hand and in banks	\$ 6,977,912
Cash with fiscal agent	90,000
Cash in revolving	30,000
Investments	<u>314,136,191</u>
Total deposits and investments	<u><u>\$ 321,234,103</u></u>

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; and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their county treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term 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

Interest Rate Risk

Interest rate risk refers to the possibility that changes in market interest rates may affect the fair value of an investment. Typically, investments with longer maturities are more sensitive to interest rate fluctuations. The District evaluates interest rate risk in its portfolio by calculating the average maturity. To manage this risk, the District invests in the County Treasury and maintains cash in the County of Santa Clara Investment Pool. As of June 30, 2025, the fair value of deposits with the County Treasurer was approximately \$314.1 million, with a weighted average maturity of 415 days for the pool.

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 District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2025.

Custodial Credit Risk - Deposits

Custodial credit risk refers to the possibility that the District's deposits may not be returned in the event of a bank failure. While the District does not have its own specific policy addressing custodial credit risk, it is governed by the California Government Code. Under this code, financial institutions are required to secure deposits from state or local governmental units by pledging securities in a collateral pool held by a depository regulated under state law. The fair value of pledged securities must equal at least 110% of the total deposited amount. As of June 30, 2025, \$5.4 million of the District's bank balances was subject to custodial credit risk because it was uninsured but collateralized with securities held by the trust department or agent of the pledging financial institution, rather than in the District's name.

Note 3 - Fair Value Measurements

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

- Level 1 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

As of June 30, 2025, the District's investments in the Santa Clara County Treasury Investment Pool are uncategorized.

Note 4 - Receivables

On June 30, 2025, accounts receivable consisted of intergovernmental grants, entitlements, interest and other local sources as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund	Fiduciary Funds
Federal Government							
Categorical aid	\$ 2,635,877	\$ -	\$ -	\$ 188,166	\$ 2,824,043	\$ -	\$ -
State Government							
LCFF apportionment	230,541	-	-	-	230,541	-	-
Categorical aid	1,510,176	-	-	166,319	1,676,495	-	-
Lottery	759,673	-	-	-	759,673	-	-
Local Government							
Interest	1,928,363	885,874	724,914	193,840	3,732,991	72,133	6,780
Other local sources	1,881,481	-	-	-	1,881,481	-	-
Total	<u>\$ 8,946,111</u>	<u>\$ 885,874</u>	<u>\$ 724,914</u>	<u>\$ 548,325</u>	<u>\$ 11,105,224</u>	<u>\$ 72,133</u>	<u>\$ 6,780</u>

All receivables are considered collectible in full.

Note 5 - Capital Assets

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

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 10,470,525	\$ -	\$ -	\$ 10,470,525
Construction in progress	146,028,951	73,119,105	(63,347,043)	155,801,013
Total capital assets not being depreciated	156,499,476	73,119,105	(63,347,043)	166,271,538
Capital assets being depreciated				
Land improvements	59,152,619	1,394,771	(40,992)	60,506,398
Buildings and improvements	710,929,967	74,330,748	-	785,260,715
Furniture and equipment	12,181,981	2,950,595	(253,692)	14,878,884
Total capital assets being depreciated	782,264,567	78,676,114	(294,684)	860,645,997
Total capital assets	938,764,043	151,795,219	(63,641,727)	1,026,917,535
Accumulated depreciation				
Land improvements	(31,549,773)	(1,291,491)	28,467	(32,812,797)
Buildings and improvements	(386,306,186)	(19,369,732)	-	(405,675,918)
Furniture and equipment	(9,243,257)	(678,058)	244,576	(9,676,739)
Total accumulated depreciation	(427,099,216)	(21,339,281)	273,043	(448,165,454)
Governmental activities capital assets, net	<u>\$ 511,664,827</u>	<u>\$ 130,455,938</u>	<u>\$ (63,368,684)</u>	<u>\$ 578,752,081</u>

Depreciation expenses were charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 13,274,547
Supervision of Instruction	611,384
Instructional Library Media and Technology	204,622
School Administration	1,307,403
Pupil Transportation	292,656
Food Services	388,097
Other Pupil Services	1,621,129
Ancillary Services	253,986
Community Services	29,271
Other General Administration	818,432
Data Processing Services	602,231
Plant Maintenance and Operations	<u>1,935,523</u>
Total depreciation expenses governmental activities	<u><u>\$ 21,339,281</u></u>

Note 6 - Lease Receivables and Deferred Inflows of Resources (Lessor)

As of June 30, 2025, the District is the lessor in five noncancellable building leases with third parties. Lease terms extend through fiscal year 2063. Fixed annual payments under these agreements total \$5.7 million.

For the year ended June 30, 2025, the District recognized \$4.9 million of lease revenue (amortization of the deferred inflow of resources) and \$2.7 million of interest revenue on the lease receivable in accordance with GASB Statement No. 87.

At June 30, 2025, the District reported a lease receivable of \$77.8 million, representing the present value of remaining lease payments expected to be received over the lease terms. The lease receivable was measured using discount rates ranging from 2.05% to 5.83%, based on the provisions of the respective agreements.

The District also reported a deferred inflow of resources related to these leases of \$69.9 million at June 30, 2025. The deferred inflow is initially measured at the amount of the lease receivable (adjusted for any payments received at or before commencement that relate to future periods) and is recognized as lease revenue systematically over the lease terms.

Note 7 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivables and payable balances at June 30, 2025, between major and nonmajor governmental funds are as follows:

Due To	Due From		
	General Fund	Building Fund	Total
General Fund	\$ -	\$ 1,364	\$ 1,364
Building Fund	3,409	-	3,409
Nonmajor funds	37,598	-	37,598
Total	\$ 41,007	\$ 1,364	\$ 42,371

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2025, consisted of 1) \$2 million from the general fund to the deferred maintenance fund per the District’s deferred maintenance plan and 2) the capital facilities fund reimbursed three percent indirect costs related to developed fees to the general fund.

Note 8 - Long-Term Liabilities

Summary

The changes in the District's long-term liabilities (other than OPEB and pensions) during the year consisted of the following:

	Balance July 1, 2024 as Restated	Additions	Deductions	Balance June 30, 2025	Due in One Year
General obligation bonds	\$ 506,094,792	\$ 7,801,206	\$ (40,875,000)	\$ 473,020,998	\$ 41,722,381
Unamortized premiums	12,125,477	-	(1,025,347)	11,100,130	1,025,347
Compensated absences*	2,996,203	320,170	-	3,316,373	1,321,184
Claims liability	484,441	-	(99,301)	385,140	49,843
Total	\$ 521,700,913	\$ 8,121,376	\$ (41,999,648)	\$ 487,822,641	\$ 44,118,755

*Compensated absences is presented as a net change.

Payments on the general obligation bonds (GOB) are made by the Bond Interest and Redemption Fund with local property tax revenues. The claims liability is to be paid by the Internal Service Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2024	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2025
Current Interest Bonds							
2011	2028	4.7-5.8%	\$ 25,000,000	\$ 20,145,000	\$ -	\$ (2,585,000)	\$ 17,560,000
2013	2037	2.0-3.5%	70,000,000	41,845,000	-	-	41,845,000
2013	2025	0.44-2.89%	52,845,000	1,000,000	-	(1,000,000)	-
2014	2034	2.0-3.25%	40,000,000	9,845,000	-	-	9,845,000
2016	2036	2.0-4.0%	45,000,000	17,500,000	-	-	17,500,000
2018	2039	2.5-5.0%	40,000,000	16,000,000	-	(500,000)	15,500,000
2019	2040	3.0-6.0%	30,000,000	10,600,000	-	-	10,600,000
2022	2043	0.05-5.0%	38,000,000	30,625,000	-	(5,925,000)	24,700,000
2022	2043	3.0-5.0%	240,000,000	198,620,000	-	(12,530,000)	186,090,000
			Subtotal	346,180,000	-	(22,540,000)	323,640,000
Capital Appreciation Bonds							
2009	2034	5.0-5.5%	119,999,249	159,914,792	7,801,206	(18,335,000)	149,380,998
			Total	<u>\$ 506,094,792</u>	<u>\$ 7,801,206</u>	<u>\$ (40,875,000)</u>	<u>\$ 473,020,998</u>

Debt Service Requirements to Maturity

The capital appreciation bonds mature as follows:

Bonds Maturing Fiscal Year	Initial Bond Value	Accreted Interest	Accreted Obligation	Unaccreted Interest	Maturity Value
2026	\$ 7,820,108	\$ 10,712,273	\$ 18,532,381	\$ 77,619	\$ 18,610,000
2027	7,474,962	10,385,423	17,860,385	1,029,615	18,890,000
2028	7,138,661	10,058,150	17,196,811	1,978,189	19,175,000
2029	7,173,155	10,248,821	17,421,976	3,078,024	20,500,000
2030	6,735,275	9,757,915	16,493,190	4,006,810	20,500,000
2031-2035	24,858,322	37,017,933	61,876,255	26,448,745	88,325,000
Total	<u>\$ 61,200,483</u>	<u>\$ 88,180,515</u>	<u>\$ 149,380,998</u>	<u>\$ 36,619,002</u>	<u>\$ 186,000,000</u>

The current interest bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2026	\$ 23,190,000	\$ 10,678,519	\$ 33,868,519
2027	10,260,000	9,822,038	20,082,038
2028	11,640,000	9,221,654	20,861,654
2029	12,015,000	8,679,701	20,694,701
2030	7,395,000	8,327,976	15,722,976
2031-2035	85,065,000	35,392,536	120,457,536
2036-2040	113,115,000	17,604,583	130,719,583
2041-2044	60,960,000	3,041,620	64,001,620
Total	<u>\$ 323,640,000</u>	<u>\$ 102,768,627</u>	<u>\$ 426,408,627</u>

Note 9 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000
Stores inventories	231,594	-	-	40,619	272,213
Prepaid expenditures	611,218	-	-	13,395	624,613
Leases, as lessor	7,914,338	-	-	-	7,914,338
Total nonspendable	<u>8,787,150</u>	<u>-</u>	<u>-</u>	<u>54,014</u>	<u>8,841,164</u>
Restricted					
Education programs	17,335,668	-	-	675,020	18,010,688
Food service	-	-	-	1,972,558	1,972,558
Capital projects	-	70,672,998	-	8,076,328	78,749,326
Debt services	-	-	51,776,152	-	51,776,152
Total restricted	<u>17,335,668</u>	<u>70,672,998</u>	<u>51,776,152</u>	<u>10,723,906</u>	<u>150,508,724</u>
Committed					
Education programs	17,481,864	-	-	-	17,481,864
Total committed	<u>17,481,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,481,864</u>
Assigned					
Program carryover	2,882,155	-	-	-	2,882,155
Education programs	-	-	-	10,633,776	10,633,776
OPEB	16,032,397	-	-	-	16,032,397
Facilities	-	-	-	246,200	246,200
Total assigned	<u>18,914,552</u>	<u>-</u>	<u>-</u>	<u>10,879,976</u>	<u>29,794,528</u>
Unassigned					
Reserve for economic uncertainties	35,717,680	-	-	-	35,717,680
Remaining unassigned	56,910,412	-	-	-	56,910,412
Total unassigned	<u>92,628,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,628,092</u>
Total	<u><u>\$ 155,147,326</u></u>	<u><u>\$ 70,672,998</u></u>	<u><u>\$ 51,776,152</u></u>	<u><u>\$ 21,657,896</u></u>	<u><u>\$ 299,254,372</u></u>

Note 10 - Risk Management

Property and Liability

The District faces potential risks including torts, theft, damage or destruction of assets, errors and omissions, employee injuries, and natural disasters. For the fiscal year ending June 30, 2025, the District obtained property and liability insurance through Northern California Relief to cover liabilities above \$50,000, with a maximum limit of \$1,000,000 per occurrence. In the past three years, settled claims have remained within the coverage provided, and there has been no notable decrease in coverage compared to the previous year.

Employee Medical Benefits

The District has purchased health insurance for its employees with rates that are set through an annual calculation process by the health plan providers. The District pays the health plan provider a monthly premium.

Workers' Compensation

The District is a participant in the Schools Alliance for Workers' Compensation Excess Self-Funded insurance purchasing pool (the Insurance Pool). The intent of the Insurance Pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Insurance Pool. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Insurance Pool. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participating school district. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the Insurance Pool. Participation in the Insurance Pool is limited to districts that can meet the Insurance Pool's selection criteria.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims including future claim adjustment expenses and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The Self-Insurance Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The following represents the changes in approximate aggregate liabilities for the District from July 1, 2024 to June 30, 2025:

	Workers' Compensation
Liability Balance, July 1, 2023	\$ 660,213
Claims and changes in estimates	(83,777)
Claims payments	(91,995)
Liability Balance, June 30, 2024	484,441
Claims and changes in estimates	(16,527)
Claims payments	(82,774)
Liability Balance, June 30, 2025	\$ 385,140

Note 11 - Employee Retirement Systems

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

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Expense
CalSTRS	\$ 121,332,278	\$ 40,145,706	\$ 31,283,020	\$ 8,153,795
CalPERS	94,036,458	28,766,736	3,133,597	15,073,203
Total	\$ 215,368,736	\$ 68,912,442	\$ 34,416,617	\$ 23,226,998

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

<https://www.calstrs.com/forms-publications>.

Benefits Provided

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2025, are presented above and the District's total contributions were \$25.6 million.

Pension Liabilities, Pension Expense, 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:

Total net pension liability, including State share

Proportionate share of net pension liability	\$ 121,332,278
State’s proportionate share of the net pension liability	<u>55,667,667</u>
Total	<u><u>\$ 176,999,945</u></u>

The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating member districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively was 0.1807% and 0.1953%, resulting in a net decrease in the proportionate share of 0.0146%.

For the year ended June 30, 2025, the District recognized pension expense of \$8.2 million. In addition, the District recognized pension expense and revenue of \$5.1 million for support provided by the State. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 25,597,332	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	293,010	17,201,083
Differences between projected and actual earnings on pension plan investments	-	489,571
Differences between expected and actual experience in the measurement of the total pension liability	13,724,243	5,305,792
Changes of assumptions	<u>531,121</u>	<u>8,286,574</u>
Total	<u><u>\$ 40,145,706</u></u>	<u><u>\$ 31,283,020</u></u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/ (inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (8,133,771)
2027	9,796,084
2028	(799,242)
2029	(1,352,642)
Total	\$ (489,571)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (3,932,391)
2027	(3,750,284)
2028	(3,716,188)
2029	(1,881,185)
2030	(1,009,801)
Thereafter	(1,955,226)
Total	\$ (16,245,075)

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 2007 through June 30, 2022
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

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 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. The assumed asset allocation and best estimates of the expected rates of return for each major asset class for the year ended June 30, 2024, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assumed that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 215,810,421
Current discount rate (7.10%)	121,332,278
1% increase (8.10%)	42,439,109

California Public Employees' Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023 annual actuarial valuation reports, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 55	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	55	62
Retirement age	1.1% - 2.5%	1.0% - 2.5%
Monthly benefits as a percentage of eligible compensation	7.00%	8.00%
Required employee contribution rate	27.050%	27.050%
Required employer contribution rate		

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2025, are presented above and the total District contributions were \$15,139,817.

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

As of June 30, 2025, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$94,036,458. The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively, was 0.2631% and 0.2691%, resulting in a net decrease in the proportionate share of 0.0060%.

For the year ended June 30, 2025, the District recognized pension expense of \$15.1 million. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 15,139,817	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	12,041	2,460,581
Differences between projected and actual earnings on pension plan investments	3,652,773	-
Differences between expected and actual experience in the measurement of the total pension liability	7,883,582	673,016
Changes of assumptions	2,078,523	-
Total	\$ 28,766,736	\$ 3,133,597

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (31,489)
2027	5,679,232
2028	(839,176)
2029	(1,155,794)
Total	\$ 3,652,773

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District’s proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 3,384,079
2027	2,108,296
2028	1,348,174
Total	\$ 6,840,549

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity - cap-weighted	30%	4.54%
Global equity non-cap-weighted	12%	3.84%
Private equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	15%	3.21%
Leverage	-5%	-0.59%

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the SEP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on the School Employer Pool investments was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (5.90%)	\$ 139,691,943
Current discount rate (6.90%)	94,036,458
1% increase (7.90%)	56,321,393

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the APPLE Retirement Program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3% of an employee's gross earnings. An employee is required to contribute 6.2% of his or her gross earnings to the pension plan. Total expense related to the plan for the year ended June 30, 2025, was \$6.7 million.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$11,987,184 (10.828% of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves and of the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Note 12 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2025, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense as follows:

Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB (Credit)
\$ 12,103,518	\$ 10,542,418	\$ 9,412,406	\$ (45,235)

The details of the Plan are as follows:

Plan Administration

The District’s retiree healthcare plan (Plan) is provided through California Employers’ Retirement Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare program administered by CalPERS. The Plan is a defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. The District participates in the California Employers’ Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to prefund other postemployment benefits through CalPERS. CalPERS and CERBT issue publicly available financial reports that can be found on the CalPERS website.

Management of the Plan is vested in District management. Management of the trustee assets is vested with CalPERS.

Benefits Provided.

The District contributes toward post-retirement benefits for employees who retire after meeting certain age and service requirements. Certificated and management employees are eligible upon retiring after age 55 with at least 20 years of service. Classified, confidential and supervisory employees are eligible upon retiring after age 55 with at least 10 years of service. For eligibility purposes, a “year” means 1784 hours. Employees hired after May 31, 2009 are not eligible. The program is closed to new entrants. Benefits are pro-rated for part-time employees. The medical plans offered are Kaiser and Sutter Health Plus. The District pays 100% of the monthly medical premium for retired employees who choose employee-only coverage. Retirees who choose two-party or family coverage must pay the same dollar amount of the premium as active employees do. The District also pays 100% of the monthly premium for dental, vision and life insurance coverage. All premium amounts change each January 1st.

The District pays benefits for a maximum of 5 years, or until the retiree reaches age 65, whichever comes first. No benefits are paid to surviving spouses or other dependents after the retiree’s death. After the benefit period expires, retirees are permitted to continue coverage, but the retiree must pay 100% of all premiums.

Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the *plan*. The District's Governing Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Plan Membership

As of the measurement date at June 30, 2024, Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	358
Active employees	34
Total	392

Contributions

The District makes contributions on an actuarial basis, funding the full Actuarially Determined Contributions (ADC). The contribution requirements of the Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. Voluntary contributions based on projected pay-as-you-go financing requirements, and any additional amounts to prefund benefits with the District, TEA, CSEA, and the unrepresented groups are based on availability of funds. For the fiscal year ending June 30, 2025, the District contributed \$6.1 million to the Plan.

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a) - (b)</u>
Balance, June 30, 2024 fiscal year	\$ 20,626,089	\$ 5,021,711	\$ 15,604,378
Service cost	528,225	-	528,225
Interest	1,207,210	-	1,207,210
Difference between expected and actual experience	1,766,928	-	1,766,928
Employer contributions	-	6,011,849	(6,011,849)
Employee contributions	-	-	-
Net investment income	-	993,924	(993,924)
Administrative expense	-	(2,550)	2,550
Benefit payments	(1,011,849)	(1,011,849)	-
Net change	<u>2,490,514</u>	<u>5,991,374</u>	<u>(3,500,860)</u>
Balance at June 30, 2025 fiscal year	<u>\$ 23,116,603</u>	<u>\$ 11,013,085</u>	<u>\$ 12,103,518</u>

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

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the District recognized OPEB credit of \$45 thousand. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions after measurement date	\$ 6,068,081	\$ -
Differences between expected and actual experience	1,537,457	3,664,181
Changes of assumptions	2,936,880	5,181,019
Net difference between projected and actual earnings on OPEB plan investments	-	567,206
Total	<u>\$ 10,542,418</u>	<u>\$ 9,412,406</u>

The deferred outflows of resources for OPEB contributions subsequent to measurement date will be recognized as reduction of the net OPEB liability in the subsequent fiscal year.

GASB 75 requires that the annual change in the net OPEB liability be recognized as OPEB expense, except for certain specific changes which are first recorded as either deferred outflows of resources or deferred inflows of resources and to be recognized over different periods of time. The deferral related to the contributions subsequent to measurement date will be fully recognized in the following fiscal year. Changes in actuarial assumptions, and experience gains and losses, are to be recognized over the average of the expected remaining service lives of all employees. As of June 30, 2024, this average is 7.7 years. Differences between actual and expected investment earnings, if any, are to be recognized over 5 years. The following table shows the amortization schedule of the deferrals in future years:

Year Ended June 30,	Deferred Outflows of Resources
2026	\$ (1,093,729)
2027	(1,093,729)
2028	(1,093,729)
2029	(1,043,005)
2030	(632,389)
Thereafter	18,512
	<hr/>
Total	\$ (4,938,069)

Actuarial Methods and Assumptions

Actuarial Assumptions

The District’s net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2024, based on the following actuarial methods and assumptions:

Inflation	2.75%
Salary increases	3.25%
Discount rate	6.00%
Long-term expected rate of return on investments	6.00%
Healthcare cost trend rates	4.50%

Mortality rates were based on the 2020 CalSTRS Mortality Table for certificated employees and the 2021 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00% same as for the fiscal year June 30, 2024. The projection of cash flows used to determine the discount rate assumed that District contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability or asset.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	49.00%	5.00%
Fixed Income	23.00%	5.00%
Treasury Securities	5.00%	3.00%
Real Estate Investment Trusts	20.00%	5.00%
Commodities	3.00%	3.00%
Total	<u>100.00%</u>	

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.00%) or 1 percentage point higher (7.00%) than the current discount rate:

Discount Rate	Net OPEB Liability
1% decrease (5.00%)	\$ 13,751,052
Current discount rate (6.00%)	12,103,518
1% increase (7.00%)	10,586,869

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (3.5%) or 1 percentage point higher (5.5%) than the current healthcare cost trend rates:

Health Care Cost Trend Rates	Net OPEB Liability
1% decrease (3.50%)	\$ 10,415,619
Current trend rate (4.5%)	12,103,518
1% increase (5.5%)	13,971,717

Note 13 - Tax Abatement

As of June 30, 2025, the District is subject to tax abatements granted by the County of Santa Clara (County) through two programs—the Williamson Act, and the Mills Act which affect the District’s share of the 1% ad valorem tax (property tax). The Williamson Act enables the County to enter into contracts with private landowners for restricting specific parcels of land to agricultural or related open space use. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value. The Mills Act, enables the County to enter into contracts with owners of qualified historic properties who actively participate in the restoration and maintenance of their history properties in exchange for receiving property tax relief.

Under agreements entered into by the County, District property tax revenues were reduced by \$268 thousand.

Note 14 - Commitments and Contingencies

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.

Litigation

The District is involved in various litigations 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.

Construction Commitments

As of June 30, 2025, the District has \$102 million of commitments with respect to unfinished capital projects.

Note 15 - Restatement

Change in Accounting Principle

Effective July 1, 2024, the District adopted GASB Statement No. 101, *Compensated Absences*. GASB 101 replaces GASB 16 and establishes a unified recognition and measurement model for compensated absences, including recognition based on a more-likely-than-not assessment and inclusion of certain salary-related amounts in the measurement. The District applied the standard retroactively by restating beginning net position. As a result, the opening government-wide net position as of July 1, 2024 was decreased by \$1.8 million, reflecting the increase in the compensated absences liability under the new guidance.

The effect of this change in accounting principle is described in the table below.

	Governmental Activities
Beginning, as previously reported on July 1, 2024	\$ 148,656,809
Change in accounting principle	(1,848,198)
Beginning, as restated on July 1, 2024	\$ 146,808,611

Required Supplementary Information
June 30, 2025

Palo Alto Unified School District

Palo Alto Unified School District
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Local control funding formula	\$ 271,562,895	\$ 275,204,138	\$ 275,204,138	\$ -
Federal sources	3,704,440	3,783,680	3,783,680	-
Other State sources	21,527,539	23,119,662	23,119,662	-
Other local sources	30,553,830	47,631,281	47,631,281	-
Total revenues	<u>327,348,704</u>	<u>349,738,761</u>	<u>349,738,761</u>	<u>-</u>
Expenditures				
Current				
Certificated salaries	132,477,014	135,147,050	135,147,050	-
Classified salaries	61,153,212	59,196,950	59,196,950	-
Employee benefits	101,191,941	96,357,170	96,357,170	-
Books and supplies	9,627,261	9,790,934	9,790,934	-
Services and operating expenditures	31,624,404	36,743,497	36,743,497	-
Capital outlay	1,921,000	2,433,852	2,433,852	-
Total expenditures	<u>337,994,832</u>	<u>339,669,453</u>	<u>339,669,453</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(10,646,128)</u>	<u>10,069,308</u>	<u>10,069,308</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers in	30,000	32,435	32,435	-
Transfers out	(2,125,406)	(13,500,000)	(13,500,000)	-
Net financing sources (uses)	<u>(2,095,406)</u>	<u>(13,467,565)</u>	<u>(13,467,565)</u>	<u>-</u>
Net Change in Fund Balances	(12,741,534)	(3,398,257)	(3,398,257)	-
Fund balance, budgetary basis - Beginning	<u>106,795,506</u>	<u>106,795,506</u>	<u>106,795,506</u>	<u>-</u>
Fund balance, budgetary basis - Ending	<u>\$ 94,053,972</u>	<u>\$ 103,397,249</u>	<u>103,397,249</u>	<u>\$ -</u>
Special Reserve Fund for Other than Capital Outlay Projects			35,717,680	
Special Reserve Fund for Postemployment Benefits			<u>16,032,397</u>	
Fund balance, GAAP basis - Ending			<u>\$ 155,147,326</u>	

Palo Alto Unified School District
Schedule of Changes in the District's Net OPEB Liability and Related Ratios
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Changes in the total OPEB liability								
Service cost	\$ 528,225	\$ 511,598	\$ 1,317,728	\$ 1,162,890	\$ 1,091,318	\$ 970,158	\$ 1,164,509	\$ 1,255,915
Interest on total OPEB liability	1,207,210	1,168,951	545,584	642,008	739,091	770,157	806,303	651,254
Change in benefit terms		-	-	-	-	-	(536,174)	-
Differences between expected and actual experience	1,766,928	-	(2,365,099)	-	(2,504,422)	-	(2,396,988)	-
Changes of assumptions	-	-	(7,357,530)	1,142,546	3,616,466	906,171	(107,462)	(1,240,093)
Benefit payments	(1,011,849)	(1,073,995)	(1,073,995)	(398,016)	(304,327)	(312,478)	(295,749)	(346,882)
Net changes in total OPEB liability	2,490,514	606,554	(8,933,312)	2,549,428	2,638,126	2,334,008	(1,365,561)	320,194
Total OPEB Liability - Beginning	20,626,089	20,019,535	28,952,847	26,403,419	23,765,293	21,431,285	22,796,846	22,476,652
Total OPEB Liability - Ending (a)	\$ 23,116,603	\$ 20,626,089	\$ 20,019,535	\$ 28,952,847	\$ 26,403,419	\$ 23,765,293	\$ 21,431,285	\$ 22,796,846
Changes in plan fiduciary net position								
Employer contributions	\$ 6,011,849	\$ 6,073,995	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net investment income	993,924	21,746	-	-	-	-	-	-
Benefit payments	(1,011,849)	(1,073,995)	-	-	-	-	-	-
Administrative expense	(2,550)	(35)	-	-	-	-	-	-
Net changes in plan fiduciary net position	5,991,374	5,021,711	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning	5,021,711	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	\$ 11,013,085	\$ 5,021,711	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net OPEB Liability - Ending (a) - (b)	\$ 12,103,518	\$ 15,604,378	\$ 20,019,535	\$ 28,952,847	\$ 26,403,419	\$ 23,765,293	\$ 21,431,285	\$ 22,796,846
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.64%	24.35%	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee Payroll	\$ 67,703,895	\$ 66,660,699	\$ 65,633,577	\$ 60,026,547	\$ 57,276,444	\$ 60,895,653	\$ 53,878,720	\$ 53,878,720
District's Net OPEB Liability as a Percentage of Covered - Employee Payroll	17.88%	30.94%	30.50%	48.23%	46.10%	39.03%	39.78%	42.31%
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

Palo Alto Unified School District
Schedule of the District's Contributions for OPEB
Year Ended June 30, 2025

	2025	2024
Actuarially determined contribution	\$ 6,068,081	\$ 6,011,849
Contribution in relation to the actuarially determined contribution	6,068,081	6,011,849
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 69,735,012	\$ 67,703,895
Contributions as a percentage of covered payroll	9%	9%

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

Palo Alto Unified School District
Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS										
Proportion of the net pension liability	0.1807%	0.1953%	0.2038%	0.2038%	0.2090%	0.2083%	0.2061%	0.2024%	0.1940%	19.1180%
Proportionate share of the net pension liability	\$ 121,332,278	\$ 148,721,939	\$ 141,600,905	\$ 92,758,911	\$ 202,569,684	\$ 188,147,244	\$ 189,404,184	\$ 186,807,580	\$ 156,907,653	\$ 128,709,093
State's proportionate share of the net pension liability	55,667,667	71,256,863	70,913,180	46,672,686	104,424,696	102,646,883	108,442,753	110,723,741	95,567,184	68,072,922
Total	\$ 176,999,945	\$ 219,978,802	\$ 212,514,085	\$ 139,431,597	\$ 306,994,380	\$ 290,794,127	\$ 297,846,937	\$ 297,531,321	\$ 252,474,837	\$ 196,782,015
Covered payroll	\$ 125,034,995	\$ 119,433,581	\$ 115,444,143	\$ 115,902,316	\$ 113,976,854	\$ 115,210,457	\$ 111,416,445	\$ 108,126,208	\$ 100,750,130	\$ 83,779,040
Proportionate share of the net pension liability as a percentage of its covered payroll	97%	125%	123%	80%	178%	163%	170%	171%	156%	159%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	87%	72%	73%	71%	69%	70%	74%
Measurement Date	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	June 30, 2015
CalPERS										
Proportion of the net pension liability	0.2631%	0.2691%	0.2751%	0.2797%	0.2780%	0.2787%	0.2890%	0.2781%	0.2711%	0.2693%
Proportionate share of the net pension liability	\$ 94,036,458	\$ 97,418,750	\$ 94,645,483	\$ 56,866,401	\$ 85,312,323	\$ 81,210,986	\$ 77,047,760	\$ 66,389,810	\$ 53,549,525	\$ 39,691,967
Covered payroll	\$ 51,948,756	\$ 46,284,367	\$ 42,214,950	\$ 40,294,217	\$ 40,259,875	\$ 38,668,263	\$ 38,146,262	\$ 35,467,771	\$ 33,213,551	\$ 29,823,192
Proportionate share of the net pension liability as a percentage of its covered payroll	181%	210%	224%	141%	210%	202%	187%	161%	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	81%	70%	70%	71%	72%	74%	79%
Measurement Date	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	June 30, 2015

Palo Alto Unified School District
Schedule of the District's Contributions
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS										
Contractually required contribution	\$ 25,597,332	\$23,881,684	\$22,811,814	\$19,533,149	\$18,718,224	\$19,490,042	\$18,439,878	\$16,077,393	\$13,602,277	\$10,810,489
Less contributions in relation to the contractually required contribution	25,597,332	23,881,684	22,811,814	19,533,149	18,718,224	19,490,042	18,439,878	16,077,393	13,602,277	10,810,489
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 134,017,445	\$ 125,034,995	\$ 119,433,581	\$ 115,444,143	\$ 115,902,316	\$ 113,976,854	\$ 115,210,457	\$ 111,416,445	\$ 108,126,208	\$ 100,750,130
Contributions as a percentage of covered payroll	19.10%	19.10%	19.10%	16.92%	16.15%	17.10%	16.01%	14.43%	12.58%	10.73%
CalPERS										
Contractually required contribution	\$ 15,139,817	\$13,859,928	\$11,742,344	\$9,671,445	\$8,340,903	\$7,939,650	\$7,025,901	\$5,924,496	\$4,925,764	\$3,934,909
Less contributions in relation to the contractually required contribution	15,139,817	13,859,928	11,742,344	9,671,445	8,340,903	7,939,650	7,025,901	5,924,496	4,925,764	3,934,909
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 55,969,749	\$ 51,948,756	\$ 46,284,367	\$ 42,214,950	\$ 40,294,217	\$ 40,259,875	\$ 38,668,263	\$ 38,146,262	\$ 35,467,771	\$ 33,213,551
Contributions as a percentage of covered payroll	27.050%	26.680%	25.370%	22.910%	20.70%	19.7200%	18.1697%	15.5310%	13.8880%	11.8500%

Note 1 - Purpose of Schedules

Budgetary Comparison Schedule

The District controls its budget by object codes and individual accounts. Budgets use the modified accrual method per U.S. GAAP, Governmental Accounting Standards Board, and California Education Code requirements. The board must hold a public hearing and adopt an operating budget by July 1 each year, with amendments allowed during the year for unforeseen revenues and expenses, as long as expenditures do not exceed appropriations by major account.

Original budget amounts in the statements show the adopted appropriations, while final amounts include all later amendments.

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuation.
- *Changes of Assumptions* – There were no changes in assumptions since the previous valuation.

Schedule of the District's Contributions for OPEB

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

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

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms for the CalSTRS or CalPERS plans since the previous valuations.
- *Changes of Assumptions* – There were no changes in economic assumptions for the CalSTRS or CalPERS plans since the previous valuations.

Schedule of the District's Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Supplementary Information
For the Year Ended
June 30, 2025

Palo Alto Unified School District

Palo Alto Unified School District
Schedule of Average Daily Attendance
Year Ended June 30, 2025

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,536.70	2,546.71
Fourth through sixth	1,979.52	1,962.23
Seventh and eighth	1,418.59	1,421.59
Ninth through twelfth	3,268.34	3,229.79
Total Regular ADA	<u>9,203.15</u>	<u>9,160.32</u>
Extended Year Special Education		
Transitional kindergarten through third	5.71	5.71
Fourth through sixth	3.15	3.15
Seventh and eighth	1.70	1.70
Ninth through twelfth	1.29	1.29
Total Extended Year Special Education	<u>11.85</u>	<u>11.85</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.92	2.39
Fourth through sixth	4.36	4.43
Seventh and eighth	5.21	5.95
Ninth through twelfth	6.63	6.68
Total Special Education, Nonpublic, Nonsectarian Schools	<u>18.12</u>	<u>19.45</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.21	0.21
Seventh and eighth	0.17	0.17
Ninth through twelfth	0.13	0.13
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.51</u>	<u>0.51</u>
Total ADA	<u>9,233.63</u>	<u>9,192.13</u>
Court-Ordered Voluntary Pupil Transfer		
Regular ADA		
Transitional kindergarten through third	158.54	158.42
Fourth through sixth	128.27	127.86
Seventh and eighth	87.24	86.96
Ninth through twelfth	109.35	107.79
Total Court-Ordered Voluntary Pupil Transfer ADA	<u>483.40</u>	<u>481.03</u>

Palo Alto Unified School District
 Schedule of Instructional Time
 Year Ended June 30, 2025

Grade Level	1986-1987 Minutes Requirement	2024-2025 Actual Minutes	Number of Actual Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	48,385	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	51,690	180	N/A	Complied
Grade 2	50,400	51,690	180	N/A	Complied
Grade 3	50,400	51,690	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	55,140	180	N/A	Complied
Grade 5	54,000	55,140	180	N/A	Complied
Grade 6	54,000	56,475	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	56,475	180	N/A	Complied
Grade 8	54,000	56,475	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	65,130	180	N/A	Complied
Grade 10	64,800	65,130	180	N/A	Complied
Grade 11	64,800	65,130	180	N/A	Complied
Grade 12	64,800	65,130	180	N/A	Complied

Palo Alto Unified School District
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2025

No changes were made to the unaudited financial report requiring reconciliation with the statements audited as of June 30, 2025.

Palo Alto Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 2025

	(Budget) 2026 ¹	2025	2024 ¹	2023 ¹
General Fund				
Revenues	\$ 341,045,840	\$ 351,822,152	\$339,378,627	\$321,588,288
Other sources	414,200	32,435	39,606	27,347
Total Revenues and Other Sources	<u>341,460,040</u>	<u>351,854,587</u>	<u>339,418,233</u>	<u>321,615,635</u>
Expenditures	352,284,924	339,669,453	317,067,797	291,365,464
Other uses and transfers out	2,380,000	2,000,000	2,015,929	2,959,040
Total Expenditures and Other Uses	<u>354,664,924</u>	<u>341,669,453</u>	<u>319,083,726</u>	<u>294,324,504</u>
Change in Fund Balance	<u>(13,204,884)</u>	<u>10,185,134</u>	<u>20,334,507</u>	<u>27,291,131</u>
Ending Fund Balance	<u>\$ 141,942,442</u>	<u>\$ 155,147,326</u>	<u>\$ 144,962,192</u>	<u>\$124,627,685</u>
Available Reserves ²	<u>\$ 90,317,605</u>	<u>\$ 92,628,092</u>	<u>\$76,785,325</u>	<u>\$61,592,538</u>
Available Reserves as a Percentage of Total Outgo	<u>25.47%</u>	<u>27.11%</u>	<u>24.06%</u>	<u>20.93%</u>
Long-Term Liabilities	<u>\$ 671,176,140</u>	<u>\$ 715,294,895</u>	<u>\$781,639,390</u>	<u>\$772,624,134</u>
K-12 Average Daily Attendance at P-2	<u>9,649</u>	<u>9,705</u>	<u>9,764</u>	<u>9,836</u>

The General Fund balance has increased by \$30.5 million over the past two years. The fiscal year 2025-26 budget projects a decrease of \$13 million (8.51%). For a district this size, the State recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years and anticipates incurring an operating deficit during the 2025-26 fiscal year. Total long-term liabilities have decreased by over \$59.4 million in the past two years.

Average daily attendance has decreased by over 131 in the past two years. Continuously, a decline of ADA is anticipated during fiscal year 2025-2026.

¹ Financial information for 2026, 2024, and 2023 are included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of unassigned fund balance of the General Fund.

The District did not operate or authorize any charter schools during the year.

Palo Alto Unified School District
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2025

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds
Assets								
Deposits and investments	\$ 515,709	\$ 1,143,816	\$ 466,791	\$ 2,360,599	\$ 9,579,347	\$ 3,728,267	\$ 4,555,836	\$ 22,350,365
Receivables	-	79,420	299,570	8,726	87,397	32,419	40,793	548,325
Prepaid expenditures	-	-	-	13,395	-	-	-	13,395
Stores inventories	-	6,082	-	34,537	-	-	-	40,619
Total assets	\$ 515,709	\$ 1,229,318	\$ 766,361	\$ 2,417,257	\$ 9,666,744	\$ 3,760,686	\$ 4,596,629	\$ 22,952,704
Liabilities								
Accounts payable	\$ -	\$ 83,688	\$ 589,175	\$ 396,767	\$ 144,073	\$ 2,352	\$ -	\$ 1,216,055
Due to other funds	-	5,163	-	-	-	32,435	-	37,598
Unearned revenue	-	41,155	-	-	-	-	-	41,155
Total liabilities	-	130,006	589,175	396,767	144,073	34,787	-	1,294,808
Fund Balances								
Nonspendable	-	6,082	-	47,932	-	-	-	54,014
Restricted	515,709	159,311	-	1,972,558	-	3,725,899	4,350,429	10,723,906
Assigned	-	933,919	177,186	-	9,522,671	-	246,200	10,879,976
Total fund balances	515,709	1,099,312	177,186	2,020,490	9,522,671	3,725,899	4,596,629	21,657,896
Total liabilities and fund balances	\$ 515,709	\$ 1,229,318	\$ 766,361	\$ 2,417,257	\$ 9,666,744	\$ 3,760,686	\$ 4,596,629	\$ 22,952,704

Palo Alto Unified School District

Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2025

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds
Revenues								
Federal sources	\$ -	\$ 212,857	\$ 255,797	\$ 1,182,472	\$ -	\$ -	\$ -	\$ 1,651,126
Other State sources	-	1,957,883	1,341,726	3,838,122	-	-	-	7,137,731
Other local sources	1,614,131	905,142	43,155	149,698	420,796	1,247,523	228,108	4,608,553
Total revenues	1,614,131	3,075,882	1,640,678	5,170,292	420,796	1,247,523	228,108	13,397,410
Expenditures								
Current								
Instruction	-	1,450,930	1,633,630	-	-	-	-	3,084,560
Instruction-related activities								
Instructional library, media, and technology	-	4,293	-	-	-	-	-	4,293
School site administration	-	1,332,165	-	-	-	-	-	1,332,165
Pupil services								
Food services	-	-	-	6,516,350	-	-	-	6,516,350
All other pupil services	-	168,440	-	-	-	-	-	168,440
Administration								
All other administration	-	124,488	-	-	-	-	-	124,488
Plant services	-	118,615	-	-	-	-	-	118,615
Ancillary services	1,596,015	-	-	-	-	-	-	1,596,015
Capital outlay	-	-	-	-	346,866	496,135	-	843,001
Debt service								
Total expenditures	1,596,015	3,198,931	1,633,630	6,516,350	346,866	496,135	-	13,787,927
Excess (Deficiency) of Revenues Over Expenditures	18,116	(123,049)	7,048	(1,346,058)	73,930	751,388	228,108	(390,517)
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	2,000,000	-	-	2,000,000
Transfers out	-	-	-	-	-	(32,435)	-	(32,435)
Net Financing Sources (Uses)	-	-	-	-	2,000,000	(32,435)	-	1,967,565
Net Change in Fund Balances	18,116	(123,049)	7,048	(1,346,058)	2,073,930	718,953	228,108	1,577,048
Fund Balance - Beginning	497,593	1,222,361	170,138	3,366,548	7,448,741	3,006,946	4,368,521	20,080,848
Fund Balance - Ending	\$ 515,709	\$ 1,099,312	\$ 177,186	\$ 2,020,490	\$ 9,522,671	\$ 3,725,899	\$ 4,596,629	\$ 21,657,896

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

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46207.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of 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.

Nonmajor Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

These schedules are included to provide information regarding the individual funds that have been included in the Nonmajor Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Other Information
June 30, 2025

Palo Alto Unified School District

ORGANIZATION

The Palo Alto Unified School District was established in 1925 under the laws of the State of California and consists of an area comprising approximately 42 square miles. The District operates twelve elementary, three middle and three high schools, one adult education program and a Young Fives program. There were no boundary changes during the year.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Shana Segal	President	2026
Shounak Dharap	Vice President	2026
Rowena Chiu	Member	2028
Alison Kamhi	Member	2028
Josh Salcman	Member	2028

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Don Austin	Superintendent
Charen Yu	Chief Business Officer
Trent Bahadursingh	Deputy Superintendent, Chief of Staff
Guillermo Lopez	Associate Superintendent of Educational Services
Yolanda Conaway	Assistant Superintendent, Ed Services, Equity, and Student Affairs
Jeong Choe	Assistant Superintendent of Innovation

Independent Auditor's Reports
June 30, 2025

Palo Alto Unified School District



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board
Palo Alto Unified School District
Palo Alto, California

We have audited, 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 (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Alto Unified School District (District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 21, 2025.

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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*.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
November 21, 2025



Independent Auditor's Report on State Compliance

To the Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on Compliance

Opinion on State Compliance

We have audited Palo Alto Unified School District's (District) 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 the District's state program requirements identified below for the year ended June 30, 2025.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2025.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls over compliance. Accordingly, no such opinion is expressed.
- Select and test transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

2024-2025 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios 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	Yes
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
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)	Not Applicable
Career Technical Education Incentive Grant	Yes
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	Yes
Charter Schools	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Menlo Park, California
November 21, 2025

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

State Compliance

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for all programs	Unmodified

None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.