



Annual Financial Statements
June 30, 2019

Palo Alto Unified
School District

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PALO ALTO UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Pension Contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

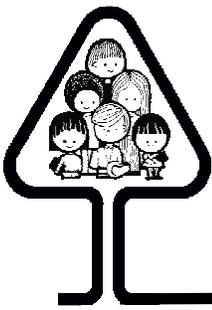
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Palo Alto, California
December 15, 2019



Palo Alto Unified School District

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BUSINESS SERVICES

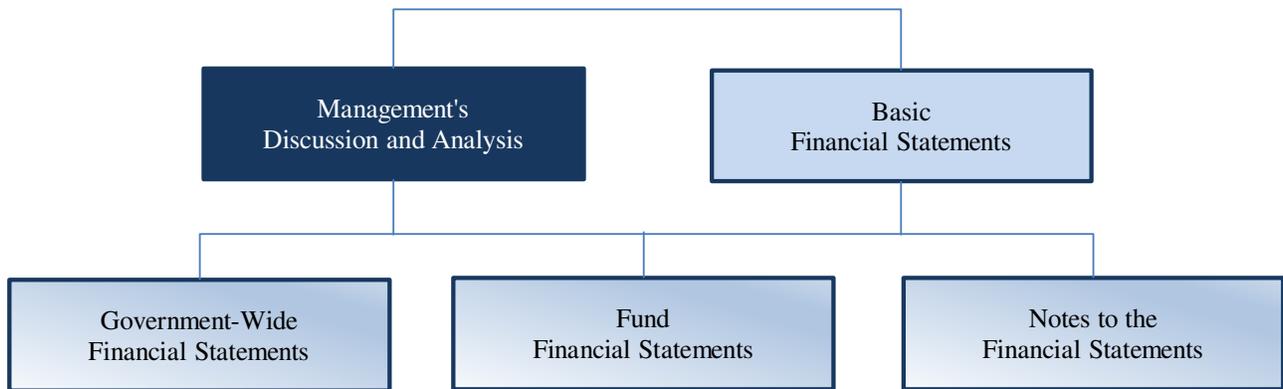
**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019. 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

Key financial highlights for the fiscal year ended June 30, 2019 were as follows:

- Total net position decreased by \$9.52 million (66.03%) from June 30, 2018 to June 30, 2019, which was mainly due to a decrease in unrestricted net position related to pension activities for \$13.59 million offset by other components of net position.
- The District recorded deferred outflows of resources of \$88.77 million, a decrease of 1.91%, and deferred inflows of resources of \$19.79 million, an increase of 6.97%, as required by governmental accounting standards for pensions and other postemployment benefits. Deferred outflows of resources are not assets but increase the Statement of Net Position similarly to an asset and deferred inflows of resources are not liabilities but decrease the Statement of Net Position similarly to liabilities.

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

- The District had \$319.53 million in government-wide expenses which is 103.07% of total government-wide revenues versus 91.46% in the prior year. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$33.28 million, or 10.74% of the total revenues of \$310.01 million.
- General revenue of \$276.73 million which includes property taxes, unrestricted federal and state grants and LCFF sources, was 89.26% of total revenues in 2019 versus 83.86% in 2018.
- The fund balances of all governmental funds decreased by \$22.05 million, which is an 11.66% decrease from 2018.
- Total governmental fund revenues and expenditures totaled \$314.44 million and \$336.48 million, respectively for the fiscal year ended 2019.

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-non-major 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 full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financial statements, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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 2018-2019?” The Statement of Net Position and the Statement of Net Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. 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’s 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. 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, 2019 as compared to June 30, 2018.

(Amounts in millions)	2019	2018	Change	Percentage Change
Assets				
Current assets	\$ 189.46	\$ 213.68	\$ (24.22)	-11.33%
Capital assets	377.16	369.04	8.12	2.20%
Total Assets	566.62	582.72	(16.10)	-2.76%
Total Deferred Outflows of Resources	88.77	90.50	(1.73)	-1.91%
Liabilities				
Current liabilities	22.63	24.76	(2.13)	-8.60%
Long-term liabilities	636.91	644.38	(7.47)	-1.16%
Total Liabilities	659.54	669.14	(9.60)	-1.43%
Total Deferred Inflows of Resources	19.79	18.50	1.29	6.97%
Net Position				
Net investment in capital assets	101.01	178.27	(77.26)	-43.34%
Restricted	47.81	11.58	36.23	312.87%
Unrestricted: excluding pension activities	24.28	(20.82)	45.10	216.63%
Unrestricted: related to pension activities	(197.04)	(183.45)	(13.59)	-7.41%
Total Net Position	\$ (23.94)	\$ (14.42)	\$ (9.52)	-66.03%

The District's net position was a deficit of \$23.94 million for the fiscal year ended June 30, 2019. Of this amount, \$172.76 million deficit was unrestricted. The \$24.28 million and negative \$197.04 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use the net position for day-to-day operations.

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Table 2 shows the changes in net position for fiscal year 2019 as compared to 2018:

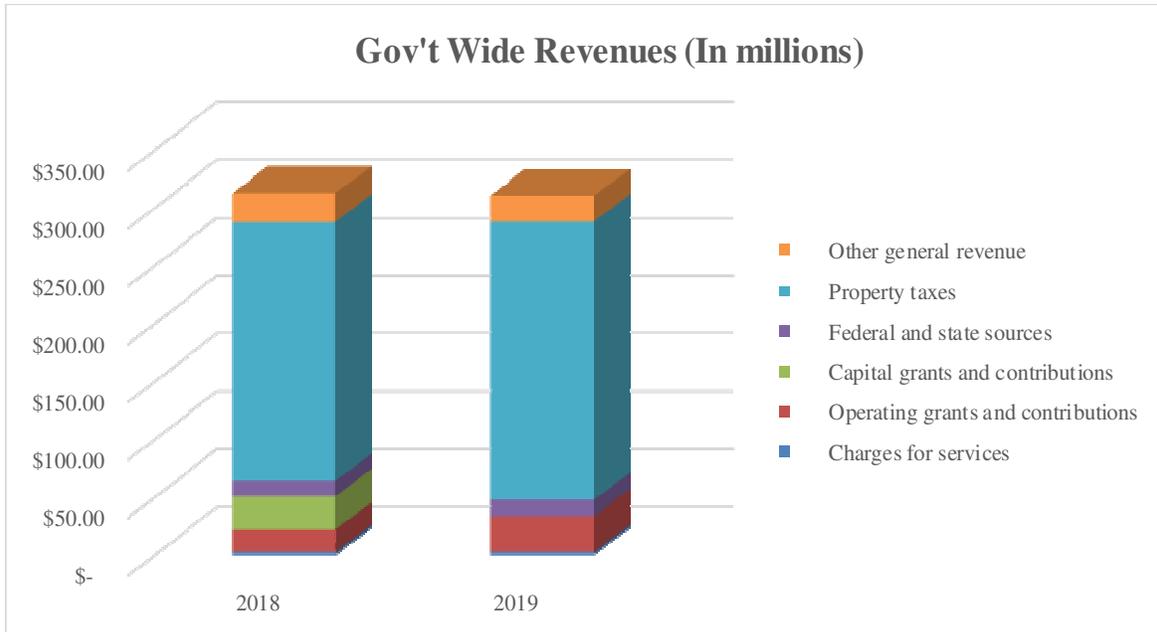
Table 2 - Summary of Changes in Statement of Activities				
(Amounts in millions)	2019	2018	Change	Percentage Change
Revenues				
Program revenues	\$ 33.28	\$ 50.38	\$ (17.10)	-51.38%
General revenues:				
Federal and state sources	14.27	13.34	0.93	6.52%
Property taxes	240.41	223.86	16.55	6.88%
Other general revenue	22.05	24.48	(2.43)	-11.02%
Total Revenues	<u>310.01</u>	<u>312.06</u>	<u>15.05</u>	4.85%
Program Expenses				
Instruction	198.67	177.31	21.36	10.75%
Instruction-related services	30.60	30.05	0.55	1.80%
Pupil services	25.08	22.25	2.83	11.28%
General administration	13.28	16.23	(2.95)	-22.21%
Plant services	28.51	24.17	4.34	15.22%
Ancillary services	2.12	1.88	0.24	11.32%
Community services	0.30	0.32	(0.02)	-6.67%
Enterprise services	0.18	-	0.18	100.00%
Interest on long-term debt	20.78	13.21	7.57	36.43%
Other outgo	0.01	-	0.01	100.00%
Total Expenditures	<u>319.53</u>	<u>285.42</u>	<u>34.11</u>	10.68%
Change in Net Position	(9.52)	26.64	(19.06)	-200.20%
Net Position - Beginning	(14.42)	(41.06)	26.64	184.74%
Net Position - Ending	\$ (23.94)	\$ (14.42)	\$ (7.58)	-15.45%

The District's expenses for instructional services was 71.75% of total expenses in the fiscal year ended June 30, 2019 as compared to 72.65% in the fiscal year ended June 30, 2018. The purely administrative activities of the District accounted for 4.16% of total costs in the fiscal year ended June 30, 2019 as compared to 5.69% in the fiscal year ended June 30, 2018. Interest on long-term debt represented 6.50% of total expenses in the fiscal year ended June 30, 2019 as compared to 4.63% in the fiscal year ended June 30, 2018. Total expenses were 103.07% of revenue in the fiscal year ended June 30, 2019 versus 91.46% in the fiscal year ended June 30, 2018. Program revenues were 10.74% of total revenues in the fiscal year ended June 30, 2019 and 16.14% of total revenues in the fiscal year ended June 30, 2018. Programs revenues decreased by \$17.10 million mostly due a local one time contribution of \$21.68 million for the Addison project.

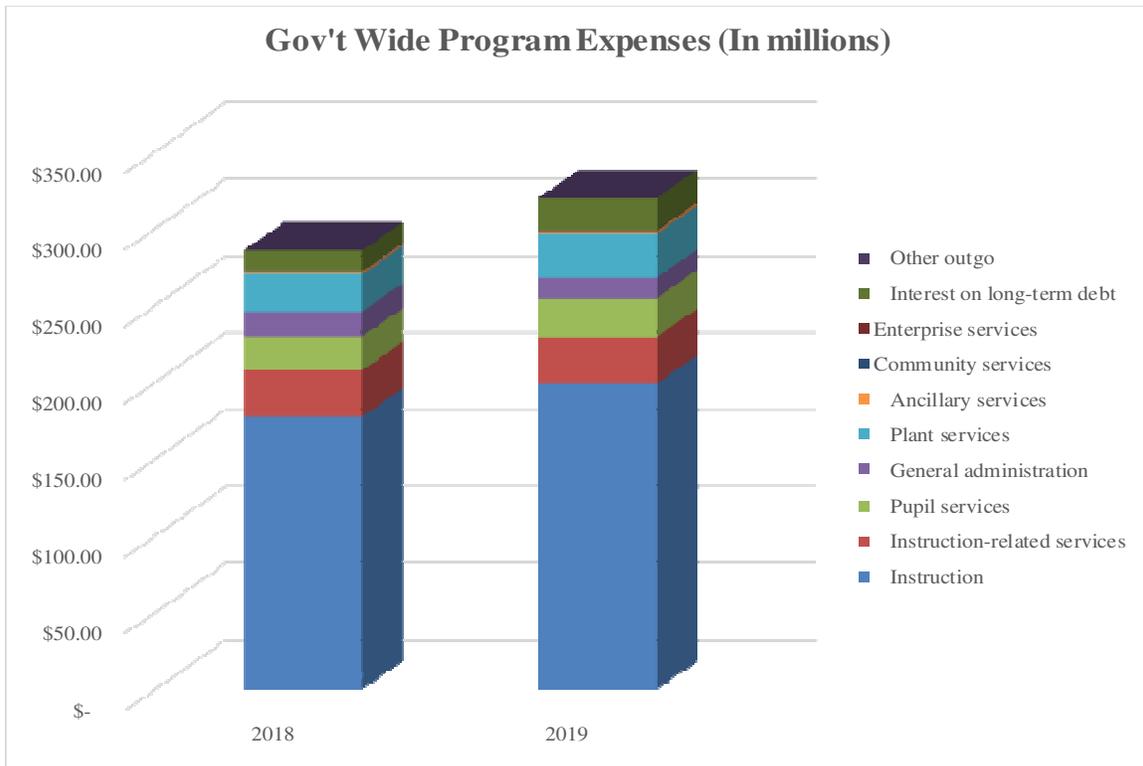
PALO ALTO UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The following is a summary of government-wide revenues for the fiscal year ended June 30, 2019:



The following is a summary of expenses by function for the fiscal year ended June 30, 2019:



PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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).

(Amounts in millions)	2019	2018	Change	Percentage Change
Instruction	\$ 175.05	\$ 134.24	\$ 40.81	30.40%
Instruction-related services	26.93	27.65	(0.72)	-2.60%
Pupil services	20.43	18.35	2.08	11.34%
General administration	12.66	15.99	(3.33)	-20.83%
Plant services	27.89	23.51	4.38	18.63%
Ancillary services	2.02	1.78	0.24	13.48%
Community services	0.30	0.32	(0.02)	-6.25%
Enterprise services	0.18	-	0.18	100.00%
Interest on long-term debt	20.78	13.21	7.57	57.31%
Other outgo	0.01	(0.01)	0.02	200.00%
Total Net Cost	\$ 286.25	\$ 235.04	\$ 51.21	21.79%

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.

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

THE DISTRICT'S FUNDS

As the District completed this year, governmental funds had a reported combined fund balance of \$167.01 million, which is a decrease of \$22.04 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)	2019	2018	Change	Percentage Change
General Fund	\$ 49.90	\$ 49.34	\$ 0.56	1.13%
Building Fund	69.56	94.08	(24.52)	-26.06%
Bond Interest and Redemption Fund	38.73	38.33	0.40	1.04%
Adult Education Fund	2.01	2.08	(0.07)	-3.37%
Cafeteria Fund	0.32	0.22	0.10	45.45%
Deferred Maintenance Fund	0.98	0.73	0.25	34.25%
Capital Facilities Fund	5.48	4.25	1.23	28.94%
County School Facilities Fund	0.03	0.03	-	0.00%
Total Fund Balance	\$ 167.01	\$ 189.06	\$ (22.05)	-11.66%

Significant decrease in the total fund balances was the result of a \$24.52 million decrease in the Building fund. The Building Fund spent approximately \$26 million on the District's modernization projects.

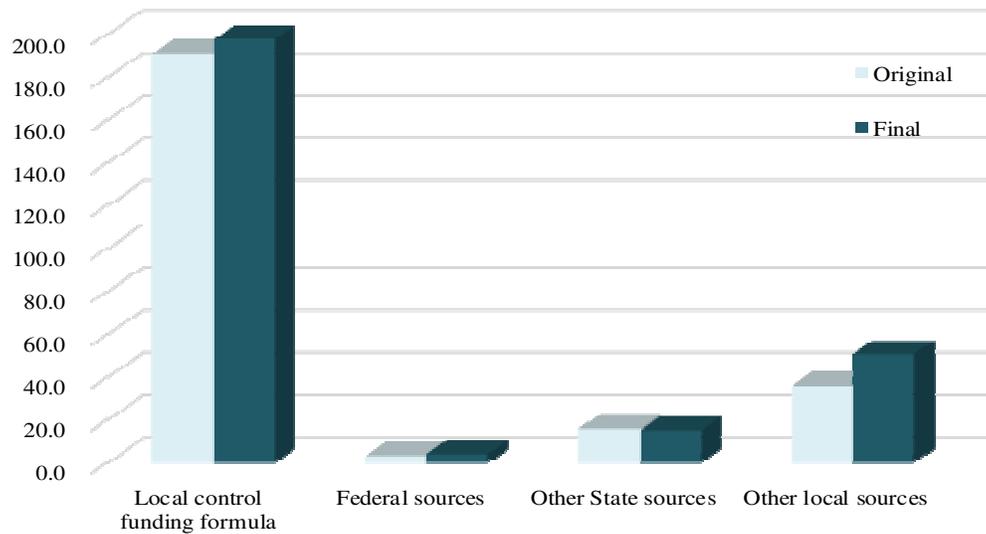
PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

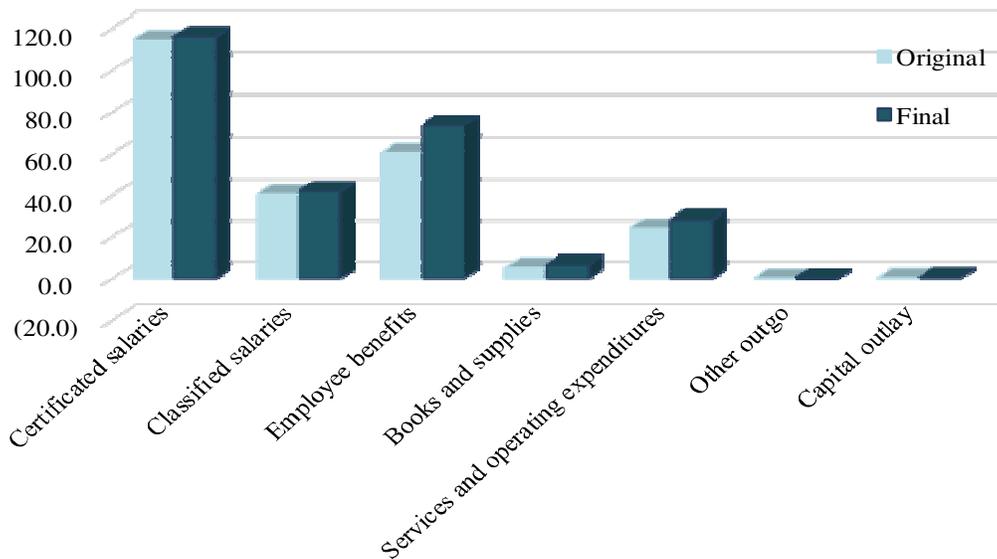
FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared accordingly to California law and in the modified accrual basis of accounting. During the course of the 2018-19 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.

General Fund Budgeted Revenues (\$ in Million)



General Fund Budgeted Expenditures (\$ in Million)



PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$377.16 million in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, depreciation and disposal) of \$8.12 million from last year.

Table 5 - Summary of Capital Assets Net of Depreciation				
(Amounts in millions)	2019	2018	Change	Percentage Change
Land	\$ 10.47	\$ 10.47	\$ -	0.00%
Construction in progress	39.98	31.51	8.47	26.88%
Land improvements	28.86	30.59	(1.73)	-5.66%
Buildings and improvement	295.23	293.8	1.43	0.49%
Furniture and equipment	2.62	2.67	(0.05)	-1.87%
Total Capital Assets	\$ 377.16	\$ 369.04	\$ 8.12	2.20%

Long-Term Obligations

At the end of this year, the District had \$636.91 million in long-term debt outstanding versus \$644.38 million last year, a decrease of 1.16%.

Table 6 - Summary of Long-term Liabilities				
(Amounts in millions)	2019	2018	Change	Percentage Change
General obligation bonds	\$ 348.29	\$ 367.61	\$ (19.32)	-5.26%
Net pension liabilities	266.45	253.20	13.25	5.23%
Net OPEB liability	21.43	22.80	(1.37)	-5.99%
Compensated absences	0.74	0.77	(0.03)	-3.68%
Total Long-term Liabilities	\$ 636.91	\$ 644.38	\$ (7.46)	-1.16%

PALO ALTO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's primary funding source is from property taxes. As such, the District relies on the increase in assessed value of our geographical areas. Although the District has experienced healthy property taxes growth in the past years, we need to be cautious that a downturn is inevitable and would negatively affect school funding.

The pension systems, CalPERS and CalSTRS, have lowered the rate of return on its investment portfolios. By lowering the rate of return, higher employer contributions rates are required of the District.

The employer CalSTRS rate increased by 1.85% in 2018-19, and 0.82% in 2019-2020, and 1.3% in 2020-21, while decreasing 0.3% in 2021-22 and no change in 2022-23.

The employer CalPERS rate for 2018-19 is 18.062% and is projected to rise steadily. Projected rates are as follows: 19.72% in 2019-20, 22.70% in 2020-21, 24.60% in 2021-22, and 25.40% in 2022-23.

The future predictions and uncertainties required management to plan carefully and prudently to provide the necessary resources to meet student's needs and continue to keep pace with inflation increasing over the next several 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, 2019

	Governmental Activities
ASSETS	
Deposits and investments	\$ 181,089,705
Receivables	8,074,356
Prepaid expenses	82,240
Stores inventories	205,427
Capital assets not depreciated	50,451,098
Capital assets, net of accumulated depreciation	326,712,599
Total Assets	<u>566,615,425</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,569,945
Deferred outflows of resources related to pensions	85,892,389
Deferred outflows of resources related to OPEB	312,478
Total Deferred Outflows of Resources	<u>88,774,812</u>
LIABILITIES	
Accounts payable	8,424,496
Interest payable	4,745,722
Unearned revenue	7,153,461
Long-term obligations:	
Current portion of long-term obligations other than pensions	26,481,692
Claims liability	2,308,000
Noncurrent portion of long-term obligations other than pensions	322,547,073
Total other postemployment benefit (OPEB) liability	21,431,285
Aggregate net pension liability	266,451,944
Total Liabilities	<u>659,543,673</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	16,485,187
Deferred inflows of resources related to OPEB	3,305,968
Total Deferred Inflows of Resources	<u>19,791,155</u>
NET POSITION	
Net investment in capital assets	101,006,437
Restricted for:	
Debt service	33,987,594
Capital projects	5,506,044
Educational programs	3,443,993
Self insurance	4,552,596
Food programs	320,984
Unrestricted	(172,762,239)
Total Net Position	<u>\$ (23,944,591)</u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 198,666,592	\$ -	\$ 23,621,034	\$ (175,045,558)
Instruction-related activities:				
Supervision of instruction	8,869,260	-	754,122	(8,115,138)
Instructional library, media, and technology	2,574,669	-	171,236	(2,403,433)
School site administration	19,158,960	-	2,750,399	(16,408,561)
Pupil services:				
Home-to-school transportation	3,573,030	-	112,937	(3,460,093)
Food services	3,731,015	2,371,970	677,433	(681,612)
All other pupil services	17,773,881	-	1,483,415	(16,290,466)
Administration:				
Data processing	5,326,494	-	170,557	(5,155,937)
All other administration	7,949,877	-	440,817	(7,509,060)
Plant services	28,508,926	-	617,555	(27,891,371)
Ancillary services	2,115,230	-	94,012	(2,021,218)
Community services	303,959	-	8,009	(295,950)
Enterprise services	179,481	-	-	(179,481)
Interest on long-term obligations	20,782,740	-	-	(20,782,740)
Other outgo	11,385	-	3,043	(8,342)
Total Governmental Activities	\$ 319,525,499	\$ 2,371,970	\$ 30,904,569	(286,248,960)
General Revenues:				
				189,112,418
Property taxes, levied for general purposes				36,084,858
Property taxes, levied for debt service				15,209,597
Taxes levied for other specific purposes				14,270,731
Federal and State aid not restricted to specific purposes				3,068,232
Interest and investment earnings				4,132
Interagency revenues				18,977,746
Miscellaneous				
				276,727,714
				(9,521,246)
Change in Net Position				(14,423,345)
Net Position - Beginning				\$ (23,944,591)
Net Position - Ending				

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 55,501,849	\$ 71,407,532	\$ 38,591,694
Receivables	7,081,389	411,629	141,622
Due from other funds	165,850	-	-
Prepaid expenditures	69,870	-	-
Stores inventories	148,222	-	-
Total Assets	<u>\$ 62,967,180</u>	<u>\$ 71,819,161</u>	<u>\$ 38,733,316</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,569,512	\$ 2,255,977	\$ -
Due to other funds	775,702	-	-
Unearned revenue	6,719,276	2,352	-
Total Liabilities	<u>13,064,490</u>	<u>2,258,329</u>	<u>-</u>
Fund Balances:			
Nonspendable	248,092	-	-
Restricted	3,410,892	69,560,832	38,733,316
Committed	-	-	-
Assigned	36,111,069	-	-
Unassigned	10,132,637	-	-
Total Fund Balances	<u>49,902,690</u>	<u>69,560,832</u>	<u>38,733,316</u>
Total Liabilities and Fund Balances	<u>\$ 62,967,180</u>	<u>\$ 71,819,161</u>	<u>\$ 38,733,316</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 8,935,274	\$ 174,436,349
407,485	8,042,125
600,000	765,850
12,370	82,240
57,205	205,427
<u>\$ 10,012,334</u>	<u>\$ 183,531,991</u>

\$ 598,314	\$ 8,423,803
165,850	941,552
431,833	7,153,461
<u>1,195,997</u>	<u>16,518,816</u>

69,575	317,667
5,790,554	117,495,594
2,956,208	2,956,208
-	36,111,069
-	10,132,637
<u>8,816,337</u>	<u>167,013,175</u>

<u>\$ 10,012,334</u>	<u>\$ 183,531,991</u>
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PALO ALTO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds		\$ 167,013,175
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:	\$ 726,333,166	
Accumulated depreciation is:	(349,169,469)	
Net Capital Assets	<u>377,163,697</u>	
Deferred charges on refunding related to the loss on refunding of debt which is classified as a deferred outflow of resources and expensed over the life of the debt on the government-wide financial statements, but was recorded as an expenditure in the governmental fund statements when the debt was issued.		
		2,569,945
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		
		(4,745,722)
An internal service fund is used by the District's 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.		
		4,552,596
Deferred outflows (inflows) of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds.		
		(2,993,490)
Deferred outflows (inflows) of resources related to pensions represent a consumption (credit) of net position in a future period and is not reported in the District's funds.		
		69,407,202
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Bonds payable	(342,965,187)	
Bonds premium	(5,322,850)	
Compensated absences (vacations)	(740,728)	
Net OPEB liability	(21,431,285)	
Net pension liability	(266,451,944)	
Total Long-Term Liabilities	<u>(636,911,994)</u>	
Total Net Position - Governmental Activities		<u>\$ (23,944,591)</u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	\$ 197,354,463	\$ -	\$ -
Federal sources	3,949,697	-	1,250,090
Other State sources	27,435,886	30,307	74,383
Other local sources	38,300,233	1,795,417	36,342,022
Total Revenues	<u>267,040,279</u>	<u>1,825,724</u>	<u>37,666,495</u>
EXPENDITURES			
Current			
Instruction	179,715,614	-	-
Instruction-related activities:			
Supervision of instruction	8,086,650	-	-
Instructional library, media and technology	2,355,684	-	-
School site administration	16,282,742	-	-
Pupil services:			
Home-to-school transportation	3,269,131	-	-
Food services	480,790	-	-
All other pupil services	16,262,149	-	-
Administration:			
Data processing	4,873,457	-	-
All other administration	9,160,394	-	-
Plant services	23,177,286	-	-
Ancillary services	1,935,322	-	-
Community services	278,106	-	-
Other outgo	11,385	-	-
Capital outlays	27,439	26,340,993	-
Debt service	-		
Principal	-	-	29,259,344
Interest and other	-	-	8,003,367
Total Expenditures	<u>265,916,149</u>	<u>26,340,993</u>	<u>37,262,711</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,124,130</u>	<u>(24,515,269)</u>	<u>403,784</u>
Other Financing Sources (Uses)			
Transfers in	42,735	-	-
Transfers out	(600,000)	-	-
Net Financing Sources (Uses)	<u>(557,265)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>566,865</u>	<u>(24,515,269)</u>	<u>403,784</u>
Fund Balance - Beginning	49,335,825	94,076,101	38,329,532
Fund Balance - Ending	<u>\$ 49,902,690</u>	<u>\$ 69,560,832</u>	<u>\$ 38,733,316</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 197,354,463
714,547	5,914,334
2,493,489	30,034,065
4,699,247	81,136,919
<u>7,907,283</u>	<u>314,439,781</u>
2,053,674	181,769,288
28,247	8,114,897
-	2,355,684
1,246,680	17,529,422
-	3,269,131
2,932,889	3,413,679
-	16,262,149
-	4,873,457
123,589	9,283,983
115,909	23,293,195
-	1,935,322
-	278,106
-	11,385
462,116	26,830,548
-	29,259,344
-	8,003,367
<u>6,963,104</u>	<u>336,482,957</u>
<u>944,179</u>	<u>(22,043,176)</u>
600,000	642,735
<u>(42,735)</u>	<u>(642,735)</u>
557,265	-
<u>1,501,444</u>	<u>(22,043,176)</u>
7,314,893	189,056,351
<u>\$ 8,816,337</u>	<u>\$ 167,013,175</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds **\$ (22,043,176)**

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 expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 23,780,158	
Depreciation expense	<u>(15,659,328)</u>	
Net Expense Adjustment		8,120,830

Deferred refunding finance charge is an expense on the statement of activities but is not recorded on the governmental funds. (513,989)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) 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). Vacation earned was more than the amounts used. 28,320

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, deferred inflows and net pension liability during the year. (13,602,895)

In the governmental funds, OPEB costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. (786,926)

Amortization of bond premiums reduce long-term obligations in the statement of net position and is recorded in the statement of activities as revenue, but does not affect the governmental funds. 20,447,409

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

PALO ALTO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2019

Accreted interest is not an expenditure in the governmental funds, but it increases the long-term liabilities in the statement of net position and is relected as additional interest expense in the statement of activities.	(342,432)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net position and does not affect the statement of activities.	169,338,533
Proceeds and premium received from a general obligation bond are revenues in the governmental funds. But increase long-term obligations in the statement of net position and does not affect the statement of activities.	(170,119,828)
Interest on long-term obligations 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 accrues, regardless of when it is due.	(2,329,722)
An internal service fund is used by the District's management to charge the costs of the self-insurance program to the individual funds. The net income of the Internal Service fund is reported with governmental activities.	2,282,630
Change in Net Position of Governmental Activities	<u>\$ (9,521,246)</u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 6,653,356
Receivables	32,231
Due from other funds	175,702
Total Current Assets	<u>6,861,289</u>
LIABILITIES	
Current Liabilities	
Accounts payable	693
Noncurrent Liabilities	
Claims liability	<u>2,308,000</u>
Total Liabilities	<u>2,308,693</u>
NET POSITION	
Restricted for insurance programs	4,552,596
Total Net Position	<u>\$ 4,552,596</u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District premium	\$ 4,097,465
OPERATING EXPENSES	
Payroll costs	46,957
Professional and contract services	1,831,210
Supplies and materials	18,541
Other operating expenses	34,020
Total Operating Expenses	<u>1,930,728</u>
Operating Income	2,166,737
NONOPERATING REVENUES	
Interest income	<u>115,895</u>
Change in Net Position	2,282,632
Total Net Position - Beginning	<u>2,269,964</u>
Total Net Position - Ending	<u><u>\$ 4,552,596</u></u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 4,097,415
Cash payments to employees for services	(46,957)
Cash payments for insurance claims	(3,872,771)
Cash payments to suppliers for goods and services	(8,285)
Net Cash Provided By Operating Activities	<u> 169,402</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	108,944
 Net increase in cash and cash equivalents	<u> 278,346</u>
Cash and cash equivalents - Beginning	6,375,010
Cash and cash equivalents - Ending	<u><u> \$ 6,653,356</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ 2,166,737
Changes in assets and liabilities:	
Due from other fund	(50)
Accrued liabilities	(1,997,285)
Net Cash Provided By Operating Activities	<u><u> \$ 169,402</u></u>

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

PALO ALTO UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 1,408,044
LIABILITIES	
Due to student groups	\$ 1,408,044

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

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 and two high schools, an adult education program, a Young Fives program and two children's centers.

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 on 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 non-major 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).

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Non-Major 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.

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 or committed 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 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's trust fund accounts for contribution and payments related to retiree benefit activities and agency fund accounts for student body activities (ASB).

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. 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, 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 net asset 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. Non-major 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary 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. To achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, 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 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 held at June 30, 2019, 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.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the benefiting period.

Stores Inventories

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 used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and building improvements, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations 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, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations 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.

In governmental fund financial statements, debt premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is recorded 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

In addition to liabilities, the statement of financial 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.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total 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's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Fund Balances – Governmental Funds

As of June 30, 2019, 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Unassigned – all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2018-2019, 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 consisting of committed and unassigned amounts equal to no less than 10 percent of General Fund expenditures and other financing uses. At June 30, 2019, \$10,132,637 of the fund balance for the General Fund was reported as amounts unassigned and of that amount \$8,013,485 was held for economic uncertainties.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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

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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

New Accounting Pronouncements Effective This Fiscal Year

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

New Accounting Pronouncements Effective in Future Fiscal Years

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The District has not determined the effect of the statement.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Early implementation is encouraged. The District has not determined the effect of the statement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 174,436,349
Proprietary fund	6,653,356
Fiduciary funds	1,408,044
Total Deposits and Investments	<u>\$ 182,497,749</u>

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 6,740,746
Cash in revolving	30,000
Investments	175,727,003
Total Deposits and Investments	<u>\$ 182,497,749</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. The pool is not registered with Security Exchange Commission.

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

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District monitors the interest rate risk inherent in its portfolio by measuring the average maturity of its portfolio. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of Santa Clara Investment Pool. The pool's fair value is approximately cost. The weighted average maturity for this pool as of June 30, 2019 is 436 days and holds no derivative products

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.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2019, approximately \$541,851 of the District's bank balances of \$1,064,297 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in money market accounts of \$398,146 the District has a custodial credit risk exposure of \$398,146 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP) provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets.

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets.

Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized - Investments in the County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. All assets have been valued using a market approach, with quoted market prices.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 4 – RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government						
Categorical aid	\$ 4,915,618	\$ -	\$ -	\$ 209,611	\$ 5,125,229	\$ -
State Government						
Apportionment	61,493	-	-	-	61,493	-
Categorical aid	307,608	-	-	144,260	451,868	-
Lottery	589,539	-	-	-	589,539	-
Other State	893,323	-	-	6,100	899,423	-
Local Government						
Interest	313,808	411,629	141,622	47,514	914,573	32,231
Total	<u>\$ 7,081,389</u>	<u>\$ 411,629</u>	<u>\$ 141,622</u>	<u>\$ 407,485</u>	<u>\$ 8,042,125</u>	<u>\$ 32,231</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions/ Adjustments	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 10,470,525	\$ -	\$ -	\$ 10,470,525
Construction in progress	31,514,414	21,835,782	13,369,623	39,980,573
Total Capital Assets Not Being Depreciated	<u>41,984,939</u>	<u>21,835,782</u>	<u>13,369,623</u>	<u>50,451,098</u>
Capital Assets Being Depreciated:				
Land improvements	47,925,405	668,145	-	48,593,550
Buildings and improvements	602,205,241	14,074,305	-	616,279,546
Furniture and equipment	10,144,017	571,549	-	10,715,566
Library collections	293,406	-	-	293,406
Total Capital Assets Being Depreciated	<u>660,568,069</u>	<u>15,313,999</u>	<u>-</u>	<u>675,882,068</u>
Total Capital Assets	<u>702,553,008</u>	<u>37,149,781</u>	<u>13,369,623</u>	<u>726,333,166</u>
Less Accumulated Depreciation:				
Land improvements	17,338,445	2,390,396	-	19,728,841
Buildings and improvements	308,406,756	12,649,805	-	321,056,561
Furniture and equipment	7,471,534	619,127	-	8,090,661
Library collections	293,406	-	-	293,406
Total Accumulated Depreciation	<u>333,216,735</u>	<u>15,659,328</u>	<u>-</u>	<u>349,169,469</u>
Governmental Activities Capital Assets, Net	<u>\$ 369,336,273</u>	<u>\$ 21,490,453</u>	<u>\$ 13,369,623</u>	<u>\$ 377,163,697</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 10,450,115
Supervision of instruction	466,534
Instructional library, media, and technology	135,431
School site administration	1,007,786
Home-to-school transportation	187,946
Food services	196,256
All other pupil services	934,929
Ancillary service	111,264
Community services	15,989
All other general administration	533,746
Data processing	280,180
Plant services	1,339,152
Total Depreciation Expenses Governmental Activities	<u>\$ 15,659,328</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - 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, 2019, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 600,000	\$ 175,702	\$ 775,702
Non-Major Governmental Funds	165,850	-	-	165,850
Total	\$ 165,850	\$ 600,000	\$ 175,702	\$ 941,552

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, 2019, consisted of the following:

Transfer Out	Transfer In		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 600,000	\$ 600,000
Non-Major Governmental funds	42,735	-	42,735
Total	\$ 42,735	\$ 600,000	\$ 642,735

The General Fund transferred to the Child Development Fund for support.	\$ 150,000
The General Fund transferred to the Deferred Maintenance Fund for support.	450,000
Capital Facilities Fund reimbursed the three percent indirect costs related to developer fees to the General Fund.	42,735
Total	\$ 642,735

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 7 - DEFERRED CHARGE ON REFUNDING

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of \$101,006,437 includes the effect of deferring the recognition of loss from advance refunding. The \$2,569,945 balance of the deferred outflows of resources at June 30, 2019, will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred charge on refunding at June 30, 2019, consisted of the following:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Deferred charges on refunding	\$ 3,083,934	\$ -	\$ 513,989	\$ 2,569,945

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Vendor payables	\$ 2,794,519	\$ 2,255,977	\$ 597,250	\$ 5,647,746	\$ 693
Salaries and benefits	2,774,993	-	1,064	2,776,057	-
Total	<u>\$ 5,569,512</u>	<u>\$ 2,255,977</u>	<u>\$ 598,314</u>	<u>\$ 8,423,803</u>	<u>\$ 693</u>

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
State categorical aid	\$ 31,674	\$ -	\$ -	\$ 31,674
Other local	6,687,602	2,352	431,833	7,121,787
Total	<u>\$ 6,719,276</u>	<u>\$ 2,352</u>	<u>\$ 431,833</u>	<u>\$ 7,153,461</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 10 - LONG-TERM OBLIGATIONS OTHER THAN OTHER POSTEMPLOYMENT BENEFITS (OPEB) AND PENSION LIABILITIES

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
GOB	\$ 361,961,288	\$ 10,263,243	\$ 29,259,344	\$ 342,965,187	\$ 25,413,383
GOB Premium	5,650,431	-	327,581	5,322,850	327,581
Compensated Absences	769,048	-	28,320	740,728	740,728
Total	<u>\$ 368,380,767</u>	<u>\$ 10,263,243</u>	<u>\$ 29,615,245</u>	<u>\$ 349,028,765</u>	<u>\$ 26,481,692</u>

Payments on the general obligation bonds (GOB) are made by the Bond Interest and Redemption Fund with local revenues. The compensated absences will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2018	Issued/ Accretion	Redeemed/ Refunded	Bonds Outstanding June 30, 2019
2009	2034	5.0-5.5%	\$ 109,414,249	\$ 164,471,288	\$ 10,263,243	\$ 3,304,344	\$ 171,430,187
2011	2028	4.7-5.8%	25,000,000	25,000,000	-	-	25,000,000
2013	2037	2.0-3.5%	70,000,000	49,540,000	-	1,830,000	47,710,000
2013	2025	0.44-2.89%	52,845,000	39,750,000	-	8,955,000	30,795,000
2014	2024	2.0-3.25%	40,000,000	16,450,000	-	1,620,000	14,830,000
2016	2035	2.0-4.0%	45,000,000	26,750,000	-	6,250,000	20,500,000
2018	2039	2.5-5.0%	40,000,000	40,000,000	-	7,300,000	32,700,000
				<u>\$ 361,961,288</u>	<u>\$ 10,263,243</u>	<u>\$ 29,259,344</u>	<u>\$ 342,965,187</u>

On August 27, 2008, the District issued 2008 General Obligation Bonds, Series 2008 which consisted of current interest and capital appreciation bonds with an initial par amount of \$119,999,249 with stated interest rates of 2.50% to 5.50% and maturing through August 1, 2033. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

On July 13, 2010, the District issued 2008 General Obligation Bonds, Series 2010 which were designated as qualified school construction bonds under Section 54F of the Internal Revenue Code of 1986. The District receives a federal subsidy which nearly subsidizes all the interest. The bonds were issued with an initial par amount of \$25,000,000, with stated interest rates of 4.66% to 5.86% and maturing through July 1, 2027. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity.

On July 17, 2012, the District issued 2012 General Obligation Refunding Bonds which consisted of current interest bonds with an initial par amount of \$52,845,000 with stated interest rates of 0.44% to 2.92% and maturing through August 1, 2024. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

On March 5, 2013, the District issued 2008 General Obligation Bonds, Series 2013 which consisted of current interest bonds with an initial par amount of \$70,000,000 with stated interest rates of 2.00% to 3.50% and maturing through July 1, 2036. Interest is payable on July 1 and January 1 and principal is payable on July 1 each year through maturity.

On May 14, 2014, the District issued 2008 General Obligation Bonds, Series 2014 which consisted of current interest bonds with an initial par amount of \$40,000,000 with stated interest rates of 2.00% to 3.25% and maturing through August 1, 2033. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

On May 10, 2016, the District issued 2008 General Obligation Bonds, Series 2016 which consisted of current interest bonds with an initial par amount of \$45,000,000, with stated interest rates of 2.00% to 4.00% and maturing through August 1, 2035. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

On March 22, 2018, the District issued 2008 General Obligation Bonds, Series 2018 which consisted of current interest bonds with an initial par amount of \$40,000,000 with stated interest rates of 2.50% to 5% and maturing through August 1, 2038. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

The annual debt service requirements of the District's general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2020	\$ 25,413,383	\$ 8,376,259	\$ 33,789,642
2021	22,622,790	7,942,346	30,565,136
2022	22,528,463	8,059,602	30,588,065
2023	11,266,041	12,688,985	23,955,026
2024	11,634,809	13,472,169	25,106,978
2025-2029	62,825,262	73,579,627	136,404,889
2030-2034	62,198,597	87,773,633	149,972,230
2035-2039	50,685,000	3,035,919	53,720,919
Total	<u>269,174,345</u>	<u>\$ 214,928,540</u>	<u>\$ 484,102,885</u>
Accreted interest	<u>73,790,842</u>		
	<u>\$ 342,965,187</u>		

Compensated Absences

Compensated absences (unpaid employee vacations) for the District at June 30, 2019, amounted to \$740,728.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 11 - FUND BALANCES

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000
Stores inventories	148,222	-	-	57,205	205,427
Prepaid expenditures	69,870	-	-	12,370	82,240
Total Nonspendable	<u>248,092</u>	<u>-</u>	<u>-</u>	<u>69,575</u>	<u>317,667</u>
Restricted					
Educational programs	3,410,892	-	-	-	3,410,892
Capital projects	-	69,560,832	-	5,506,044	75,066,876
Debt services	-	-	38,733,316	-	38,733,316
Food programs	-	-	-	284,510	284,510
Total Restricted	<u>3,410,892</u>	<u>69,560,832</u>	<u>38,733,316</u>	<u>5,790,554</u>	<u>117,495,594</u>
Committed					
Maintenance program	-	-	-	982,055	982,055
Adult education program	-	-	-	1,974,153	1,974,153
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,956,208</u>	<u>2,956,208</u>
Assigned					
Program carryover	16,597,568	-	-	-	16,597,568
OPEB plan	2,142,755	-	-	-	2,142,755
Other assignment	17,370,746	-	-	-	17,370,746
Total Assigned	<u>36,111,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,111,069</u>
Unassigned					
Reserve for economic uncertainties	8,013,485	-	-	-	8,013,485
Remaining unassigned	2,119,152	-	-	-	2,119,152
Total Unassigned	<u>10,132,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,132,637</u>
Total	<u>\$ 49,902,690</u>	<u>\$ 69,560,832</u>	<u>\$ 38,733,316</u>	<u>\$ 8,816,337</u>	<u>\$ 167,013,175</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 - LEASE REVENUES

The District entered into a lease and covenant not to sell or develop, for non-school district purposes, with the City of Palo Alto (the City) for six school sites and eleven extended day care sites. The agreement expired on December 31, 2005 with options to renew the agreement for ten years plus additional two five-year periods. On December 15, 2003, the Palo Alto City Council voted to exercise its option to extend the lease and covenant not to develop between the City and the Palo Alto Unified School District for an additional ten years. The agreement may be partially or completely terminated under certain conditions. Future rental payments are adjusted by Consumer Price Index (CPI) increases; however, a current year's annual payment shall not be decreased if the CPI decreases. Such a decrease shall be applied against subsequent annual Index increases in making the annual payment adjustment. There is a provision for an escalation adjustment every five years. Increases in excess of ten percent shall accrue and the aggregate percentage without regard to any limitations shall be used to determine the annual payment in the 5th, 10th, and 15th years to arrive at the payment for the next subsequent year of the lease.

Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Revenues
2020	\$ 8,904,935
2021	2,715,861
2022	2,797,337
2023	1,697,062
2024	1,856,046
2025-2029	9,575,850
2030-2032	8,606,664
Total	<u>\$ 36,153,755</u>

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft, damage, destruction of asset's, errors and omissions, and injuries to employees and natural disasters. During the fiscal year ending June 30, 2018, the District contracted with Northern California Relief for property and liability insurance coverage for liabilities exceeding \$50,000 with a limit \$1,000,000 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 insures 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, 2017 to June 30, 2019:

	Workers' Compensation
Liability Balance, July 1, 2017	\$ 4,297,000
Claims and changes in estimates	236,684
Claims payments	(236,684)
Liability Balance, June 30, 2018	\$ 4,297,000
Claims and changes in estimates	(157,790)
Claims payments	(1,831,210)
Liability Balance, June 30, 2019	\$ 2,308,000
Assets available to pay claims at June 30, 2019	\$ 6,860,596

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 14 - 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, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 189,404,184	\$ 63,453,336	\$ 16,485,187	\$ 23,609,038
CalPERS	77,047,760	22,439,053	-	15,459,636
Total	<u>\$ 266,451,944</u>	<u>\$ 85,892,389</u>	<u>\$ 16,485,187</u>	<u>\$ 39,068,674</u>

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, 2017, 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: www.calstrs.com/member-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 percent 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$18,439,878.

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

At June 30, 2019, 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:

District's proportionate share of net pension liability	\$ 189,404,184
State's proportionate share of the net pension liability associated with the District	108,442,753
Total	<u>\$ 297,846,937</u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.2061 percent and 0.2024 percent, resulting in a net increase in the proportionate share of 0.0037 percent.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$23,609,038. In addition, the District recognized pension expense and revenue of \$12,739,578 for support provided by the State. At June 30, 2019, 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	\$ 18,439,878	\$ -
Net change in proportionate share of net pension liability	15,001,673	6,440,729
Difference between projected and actual earnings	-	7,293,257
Changes of assumptions	29,424,450	-
Differences between expected and actual experience in the measurement of the total pension liability	587,335	2,751,201
Total	<u>\$ 63,453,336</u>	<u>\$ 16,485,187</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 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 Inflows of Resources
2020	\$ 1,583,571
2021	(1,149,082)
2022	(6,118,759)
2023	(1,608,987)
Total	<u>\$ (7,293,257)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, 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 of Resources
2020	\$ 6,298,276
2021	6,298,276
2022	6,298,276
2023	7,610,477
2024	8,882,574
Thereafter	433,649
Total	<u>\$ 35,821,528</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
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 involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed 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 (7.10 percent) and assuming 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 277,454,965
Current discount rate (7.10%)	189,404,184
1% increase (8.10%)	116,401,542

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, 2017 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.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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 the 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, 2019, are presented above and the total District contributions were \$7,025,901.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$77,047,760. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, respectively, was percent 0.2890 and 0.2781 percent, resulting in a net increase in the proportionate share of 0.0109 percent.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$15,459,636. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 7,025,901
Net change in proportionate share of net pension liability	2,037,339
Difference between projected and actual earnings on pension plan investments	631,965
Differences between expected and actual experience in the measurement of the total pension liability	5,050,969
Changes of assumptions	7,692,879
Total	<u>\$ 22,439,053</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,298,594
2021	549,689
2022	(1,761,549)
2023	(454,769)
Total	<u>\$ 631,965</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, 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 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 6,721,690
2021	6,034,404
2022	2,025,093
Total	<u>\$ 14,781,187</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. 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. Based on these assumptions, the School Employer Pool 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 85,150,557
Current discount rate (7.15%)	77,047,760
1% increase (8.15%)	33,689,620

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 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

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 \$17,288,909, \$9,004,210, and \$9,545,382, for fiscal years ending June 30, 2019, 2018 and 2017 respectively (9.828 percent of annual payroll, 9.328 percent of 2017-2018, and 8.828 percent of 2016-2017 annual payrolls). 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*.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on-behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

For the fiscal year ended June 30, 2019, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense as follows:

Plan Name	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
The Plan	\$ 21,431,285	\$ 312,478	\$ 3,305,968	\$ 1,099,403

The details of the District plan are as follows:

Plan Administration

The Employee Benefit Trust administers the Postemployment Benefits Plan (the "Plan") - a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions for the District.

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. 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. The unfunded portion of annual required contributions (total OPEB obligation) is presented in the statement of net position as a portion of long-term obligations.

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, 2018, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	586
Active plan members	22
Total Plan Members	608

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Contributions. The District finances subsidy benefits on a pay-as-you-go basis. For fiscal year ended on June 30, 2019, the District contributed \$312,478 to the Plan, all of which was used for current premiums. Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Changes in the Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

	Total OPEB Liability
Balance at June 30, 2017	\$ 22,796,846
Changes recognized for the year:	
Service cost	1,164,509
Interest on total OPEB liability	806,303
Change of benefit terms	(536,174)
Changes of assumptions	(107,462)
Experience gains/losses	(2,396,988)
Benefit payments	(295,749)
Net change	(1,365,561)
Balance at June 30, 2018	\$ 21,431,285

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,099,403. At June 30, 2019, the District reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 312,478	\$ -
Differences between expected and actual experiences	-	2,175,045
Changes of assumptions	-	1,130,923
Total	\$ 312,478	\$ 3,305,968

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

GASB 75 requires that the annual change in the total 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 fiscal year 2020. 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, 2018, this average is 10.8 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/(Inflows) of Resources
2020	\$ (335,234)
2021	(335,234)
2022	(335,234)
2023	(335,234)
2024	(335,234)
Thereafter	(1,629,798)
	<u>\$ (3,305,968)</u>

Actuarial Methods and Assumptions

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.25%
Discount rate	3.62%
Healthcare cost trend rates	5.00%

Mortality rates were based on the 2016 CalSTRS Mortality Table and 2014 CalPERS Active Mortality Table for certificated and classified employees, respectively.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of applicable actuarial standards of practice, the District's actual historical experience, and actuarial experience and training.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.62 percent. Since the benefits are not funded, the discount rate is equal to the 20-Year Bond Rate.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62 percent) or 1 percentage point higher (4.62 percent) than the current discount rate:

	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
Total OPEB liability	\$ 23,303,586	\$ 21,431,285	\$ 19,725,540

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4 percent) or 1 percentage point higher (6 percent) than the current healthcare cost trend rates:

	1% Decrease 4.0%	Healthcare Cost Trend Rates 5.0%	1% Increase 6.0%
Total OPEB liability	\$ 19,362,260	\$ 21,431,285	\$ 23,799,549

NOTE 16 - 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, 2019.

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, 2019.

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Expected Date of Completion	Remaining Construction Commitment
Hoover Elementary School Modernization	08/01/22	\$ 478,740
Addison Elementary School Modernization	08/01/22	10,382,999
Total		<u>\$ 10,861,739</u>

REQUIRED SUPPLEMENTARY INFORMATION

PALO ALTO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Local control funding formula	\$ 190,938,839	\$ 197,384,312	\$ 197,354,463	\$ (29,849)
Federal sources	3,247,888	3,966,018	3,949,697	(16,321)
Other State sources	15,795,723	27,423,089	27,435,886	12,797
Other local sources	35,941,280	37,995,239	38,006,872	11,633
Total Revenues	245,923,730	266,768,658	266,746,918	(21,740)
EXPENDITURES				
Current				
Certificated salaries	114,075,703	115,905,637	115,905,634	3
Classified salaries	40,282,347	41,728,574	41,728,573	1
Employee benefits	60,172,674	73,164,905	73,164,903	2
Books and supplies	5,172,408	6,543,920	6,612,547	(68,627)
Services and operating expenditures	24,158,908	28,179,113	28,110,488	68,625
Other outgo	(116,604)	(112,204)	(112,204)	-
Capital outlay	220,000	506,208	506,208	-
Total Expenditures	243,965,436	265,916,153	265,916,149	4
Excess Revenues Over Expenditures	1,958,294	852,505	830,769	(21,736)
Other Financing Sources (Uses)				
Transfers in	101,000	101,000	122,735	21,735
Transfers out	(815,975)	(1,200,000)	(1,200,000)	-
Net Financing Sources (Uses)	(714,975)	(1,099,000)	(1,077,265)	21,735
NET CHANGE IN FUND BALANCES	1,243,319	(246,495)	(246,496)	(1)
Fund Balance - Beginning	30,635,685	30,635,685	30,635,685	-
Fund Balance - Ending	\$ 31,879,004	\$ 30,389,190	\$ 30,389,189	\$ (1)

See accompanying note to required supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

Measurement Date, June 30,	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service cost	\$ 1,164,509	\$ 1,255,915
Interest on total OPEB liability	806,303	651,254
Change in benefit terms	(536,174)	-
Differences between expected and actual experience	(2,396,988)	-
Changes of assumptions	(107,462)	(1,240,093)
Benefit payments	<u>(295,749)</u>	<u>(346,882)</u>
Net changes in total OPEB liability	(1,365,561)	320,194
Total OPEB Liability - beginning	<u>22,796,846</u>	<u>22,476,652</u>
Total OPEB Liability - ending	<u><u>21,431,285</u></u>	<u><u>22,796,846</u></u>
Covered employee payroll	<u>\$ 153,878,720</u>	<u>\$ 150,769,348</u>
District's total OPEB liability as a percentage of covered employee payroll	<u>13.93%</u>	<u>15.12%</u>

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

See accompanying note to required supplementary information.

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PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

MEASUREMENT DATE, JUNE 30,	2018	2017	2016
CalSTRS			
District's proportion of the net pension liability	0.20610%	0.20240%	0.19400%
District's proportionate share of the pension liability	\$ 189,404,184	\$ 186,807,580	\$ 156,907,653
State's proportionate share of the net pension liability associated with the District	108,442,753	110,723,741	95,567,184
Total	<u>\$ 297,846,937</u>	<u>\$ 173,437,824</u>	<u>\$ 252,474,837</u>
District's covered payroll	<u>\$ 111,416,445</u>	<u>\$ 108,126,208</u>	<u>\$ 100,750,130</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>170%</u>	<u>171%</u>	<u>156%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>
CalPERS			
District's proportion of the net pension liability	0.28897%	0.27810%	0.27114%
District's proportionate share of the pension liability	<u>\$ 77,047,760</u>	<u>\$ 66,389,810</u>	<u>\$ 53,549,525</u>
District's covered payroll	<u>\$ 38,146,262</u>	<u>\$ 35,467,771</u>	<u>\$ 33,213,551</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>202%</u>	<u>187%</u>	<u>161%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2015</u>	<u>2014</u>
<u>19.11800%</u>	<u>0.20007%</u>
\$ 128,709,093	\$ 116,913,315
<u>68,072,922</u>	<u>70,597,307</u>
<u>\$ 196,782,015</u>	<u>\$ 187,510,622</u>
<u>\$ 83,779,040</u>	<u>\$ 89,006,480</u>
<u>159%</u>	<u>131%</u>
<u>74%</u>	<u>77%</u>
<u>0.26928%</u>	<u>0.26824%</u>
<u>\$ 39,691,967</u>	<u>\$ 30,451,905</u>
<u>\$ 29,823,192</u>	<u>\$ 28,266,649</u>
<u>133%</u>	<u>108%</u>
<u>79%</u>	<u>83%</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

FISCAL YEAR END, JUNE 30,	<u>2019</u>	<u>2018</u>	<u>2017</u>
CalSTRS			
Contractually required contribution	\$ 18,439,878	\$ 16,077,393	\$ 13,602,277
Contributions in relation to the contractually required contribution	<u>18,439,878</u>	<u>16,077,393</u>	<u>13,602,277</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 115,210,457</u>	<u>\$ 111,416,445</u>	<u>\$ 108,126,208</u>
Contributions as a percentage of covered payroll	<u>16.01%</u>	<u>14.43%</u>	<u>12.58%</u>
CalPERS			
Contractually required contribution	\$ 7,025,901	\$ 5,924,496	\$ 4,925,764
Contributions in relation to the contractually required contribution	<u>7,025,901</u>	<u>5,924,496</u>	<u>4,925,764</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 38,668,263</u>	<u>\$ 38,146,262</u>	<u>\$ 35,467,771</u>
Contributions as a percentage of covered payroll	<u>18.17%</u>	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 10,810,489	\$ 8,218,669
<u>10,810,489</u>	<u>8,218,669</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 100,750,130</u>	<u>\$ 83,779,040</u>
<u>10.73%</u>	<u>9.81%</u>
\$ 3,934,909	\$ 3,412,370
<u>3,934,909</u>	<u>3,412,370</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 33,213,551</u>	<u>\$ 29,823,192</u>
<u>11.85%</u>	<u>11.44%</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total 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 – The plan rate of investment return assumption was changed from 3.56% to 3.62% since the previous valuation.

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 since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Pension 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

PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education and ESL	84.002A	14508	\$ 151,073
Adult Secondary Education	84.002	13978	3,300
Title I-Basic Grants Low Income and Neglected	84.010	13797	631,947
Title II, Part A, Teacher Quality	84.367	14341	172,762
Title III-Immigrant Education Program	84.365	14346	98,552
Title III-Limited English Proficiency (LEP)	84.365	14346	145,397
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	14,769
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement: Part B, Sec 611	84.027	13379	2,270,027
Grants to States Supporting Inclusive Practices	84.027	13693	15,000
Mental Health ADA Allocation Plan, Part B, Sec 611	84.027A	14468	136,703
Alternate Dispute Resolution, Part B, Sec 611	84.173	13007	2,496
Preschool Grants, Part B, Section 619	84.173	13430	57,500
Total Special Education Cluster			<u>2,481,726</u>
Carl D Perkins Act:			
Technology Secondary, Section 131	84.048	14894	46,924
Department of Rehabilitation: Workability II, Transitions Partnership	84.126	10006	357,620
Total U.S. Department of Education			<u>4,104,070</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13523	470,616
National School Breakfast	10.553	13525	41,120
Especially Needy Breakfast	10.553	13526	48,438
Commodity Supplemental Food Program ¹	10.555	13523	42,173
Total Child Nutrition Cluster			<u>602,347</u>
Total U.S. Department of Agriculture			<u>602,347</u>
Total Expenditures of Federal Awards			<u>\$ 4,706,417</u>

¹ Not recorded in the financial statements

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

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 five high schools, one community day school, one adult school and one independent study school. There were no boundary changes during the year.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jennifer DiBrienza	President	2020
Todd Collins	Vice President	2020
Melissa Baten Caswell	Member	2020
Ken Dauber	Member	2022
Shounak Dharap	Member	2022

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Don Austin	Superintendent
Jim Novak	Chief Business Officer
Robert Golton, Ph.D.	Bond Program Manager
Karen Hendricks	Deputy Superintendent, Human Resources
Anne Brown	Assistant Superintendent, Education Services - Elementary
Sharon Ofek	Assistant Superintendent, Education Services - Secondary
Yolanda Conaway	Assistant Superintendent Equity and Student Affairs

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,865.55	2,872.53
Fourth through sixth	2,390.67	2,393.31
Seventh and eighth	1,812.15	1,812.91
Ninth through twelfth	3,845.39	3,815.26
Total Regular ADA	<u>10,913.76</u>	<u>10,894.01</u>
Extended Year Special Education		
Transitional kindergarten through third	3.51	3.51
Fourth through sixth	2.37	2.37
Seventh and eighth	1.75	1.75
Ninth through twelfth	2.21	2.21
Total Extended Year Special Education	<u>9.84</u>	<u>9.84</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.72	2.04
Fourth through sixth	4.11	4.53
Seventh and eighth	1.88	1.84
Ninth through twelfth	29.15	27.27
Total Special Education, Nonpublic, Nonsectarian Schools	<u>36.86</u>	<u>35.68</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.12	0.12
Fourth through sixth	0.16	0.16
Seventh and eighth	0.10	0.16
Ninth through twelfth	2.47	2.47
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.85</u>	<u>2.91</u>
Total ADA	<u>10,960.46</u>	<u>10,939.53</u>
Court-Ordered Voluntary Pupil Transfer		
Regular ADA		
Transitional kindergarten through third	211.91	211.89
Fourth through sixth	143.98	143.68
Seventh and eighth	98.73	97.28
Ninth through twelfth	145.30	143.82
Total Regular ADA	<u>599.92</u>	<u>596.67</u>

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	1986-1987	2018-2019	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	45,390	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	51,540	180	N/A	Complied
Grade 2	50,400	51,540	180	N/A	Complied
Grade 3	50,400	51,540	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	55,015	180	N/A	Complied
Grade 5	54,000	55,015	180	N/A	Complied
Grade 6	54,000	62,285	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	62,285	180	N/A	Complied
Grade 8	54,000	62,285	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	65,729	180	N/A	Complied
Grade 10	64,800	65,729	180	N/A	Complied
Grade 11	64,800	65,729	180	N/A	Complied
Grade 12	64,800	65,729	180	N/A	Complied

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF UNAUDITED ANNUAL FINANCIAL AND BUDGET
REPREPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Unaudited Actual Financial Report which require reconciliation to the audited financial statement at June 30, 2019.

PALO ALTO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget) 2020 ¹	2019	2018	2017
GENERAL FUND				
Revenues	\$ 256,745,242	\$ 267,040,279	\$ 231,914,828	\$ 221,144,737
Other sources	710,000	42,735	32,374	45,800
Total Revenues and Other Sources	257,455,242	267,083,014	231,947,202	221,190,537
Expenditures	255,310,557	265,916,149	235,315,131	223,307,540
Other uses and transfers out	680,000	600,000	600,000	450,000
Total Expenditures and Other Uses	255,990,557	266,516,149	235,915,131	223,757,540
INCREASE (DECREASE)				
IN FUND BALANCE	\$ 1,464,685	\$ 566,865	\$ (3,967,929)	\$ (2,567,003)
ENDING FUND BALANCE	\$ 51,367,375	\$ 49,902,690	\$ 49,335,825	\$ 53,303,754
AVAILABLE RESERVES²	\$ 11,597,322	\$ 10,132,637	\$ 23,940,309	\$ 21,536,772
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.53%	3.80%	10.10%	9.60%
LONG-TERM DEBT	\$ 610,430,302	\$ 636,911,994	\$ 644,375,003	\$ 568,786,498
K-12 AVERAGE DAILY ATTENDANCE AT P-2	11,347	10,960	11,742	11,823

The General Fund balance has decreased by \$3,401,064 over the past two years. The fiscal year 2019-2020 budget projects an increase of \$1,464,685 (3 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in fiscal years 2017 and 2018 and a surplus in fiscal year 2019 but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have increased by \$68,125,496 over the past two years.

Average daily attendance has decreased by 863 over the past two years. However, a growth of 387 ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

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PALO ALTO UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 2,008,089	\$ 322,451	\$ 556,184
Receivables	294,558	1,261	79,382
Due from other funds	-	150,000	-
Prepaid expenses	-	-	12,370
Stores inventories	33,101	-	24,104
Total Assets	\$ 2,335,748	\$ 473,712	\$ 672,040
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 88,524	\$ 473,712	\$ 36,078
Due to other funds	123,115	-	-
Unearned revenue	116,855	-	314,978
Total Liabilities	328,494	473,712	351,056
Fund Balances:			
Nonspendable	33,101	-	36,474
Restricted	-	-	284,510
Committed	1,974,153	-	-
Total Fund Balances	2,007,254	-	320,984
Total Liabilities and Fund Balances	\$ 2,335,748	\$ 473,712	\$ 672,040

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ 529,116	\$ 5,487,095	\$ 32,339	\$ 8,935,274
2,939	29,165	180	407,485
450,000	-	-	600,000
-	-	-	12,370
-	-	-	57,205
<u>\$ 982,055</u>	<u>\$ 5,516,260</u>	<u>\$ 32,519</u>	<u>\$ 10,012,334</u>
\$ -	\$ -	\$ -	\$ 598,314
-	42,735	-	165,850
-	-	-	431,833
<u>-</u>	<u>42,735</u>	<u>-</u>	<u>1,195,997</u>
-	-	-	69,575
-	5,473,525	32,519	5,790,554
982,055	-	-	2,956,208
<u>982,055</u>	<u>5,473,525</u>	<u>32,519</u>	<u>8,816,337</u>
<u>\$ 982,055</u>	<u>\$ 5,516,260</u>	<u>\$ 32,519</u>	<u>\$ 10,012,334</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ 154,373	\$ -	\$ 560,174
Other State sources	1,719,185	683,684	90,620
Other local sources	790,701	-	2,386,123
Total Revenues	2,664,259	683,684	3,036,917
EXPENDITURES			
Current			
Instruction	1,219,990	833,684	-
Instruction-related activities:			
Supervision of instruction	28,247	-	-
School site administration	1,246,680	-	-
Pupil services:			
Food services	-	-	2,932,889
Administration:			
All other administration	123,589	-	-
Plant services	115,909	-	-
Capital outlay	-	-	-
Total Expenditures	2,734,415	833,684	2,932,889
Excess (Deficiency) of			
Revenues Over Expenditures	(70,156)	(150,000)	104,028
Other Financing Sources (Uses)			
Transfers in	-	150,000	-
Transfers out	-	-	-
Net Financing Sources (Uses)	-	150,000	-
NET CHANGE IN FUND BALANCES	(70,156)	-	104,028
Fund Balance - Beginning	2,077,410	-	216,956
Fund Balance - Ending	\$ 2,007,254	\$ -	\$ 320,984

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 714,547
-	-	-	2,493,489
11,701	1,510,072	650	4,699,247
<u>11,701</u>	<u>1,510,072</u>	<u>650</u>	<u>7,907,283</u>
-	-	-	2,053,674
-	-	-	28,247
-	-	-	1,246,680
-	-	-	2,932,889
-	-	-	123,589
-	-	-	115,909
215,000	247,116	-	462,116
<u>215,000</u>	<u>247,116</u>	<u>-</u>	<u>6,963,104</u>
<u>(203,299)</u>	<u>1,262,956</u>	<u>650</u>	<u>944,179</u>
450,000	-	-	600,000
-	(42,735)	-	(42,735)
<u>450,000</u>	<u>(42,735)</u>	<u>-</u>	<u>557,265</u>
246,701	1,220,221	650	1,501,444
735,354	4,253,304	31,869	7,314,893
<u>\$ 982,055</u>	<u>\$ 5,473,525</u>	<u>\$ 32,519</u>	<u>\$ 8,816,337</u>

PALO ALTO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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

	CFDA Number	Amount
Federal Revenues report in the Statement of Revenues, Expenditures and Changes in Fund Balances	N/A	\$ 5,914,334
Federal interest subsidy from Build America Bonds Act Commodities	N/A	(1,250,090)
	10.555	42,173
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,706,417</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

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 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements, as required by *Education Code* Section 46201.

PALO ALTO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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.

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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 *GOVERNMENT AUDITING STANDARDS***

Governing Board
Palo Alto Unified School District
Palo Alto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Alto Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Palo Alto, California
December 15, 2019



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

Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on Compliance for Each Major Federal Program

We have audited Palo Alto Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal program for the year ended June 30, 2019. The District's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Palo Alto Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Palo Alto, California
December 15, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on State Compliance

We have audited Palo Alto Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion

In our opinion, Palo Alto Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, See Below
Continuation Education	No, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, See Below
Comprehensive School Safety Plan	Yes
District of Choice	No, See Below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, See Below
After School	No, See Below
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent study – Course Based	No, See Below
CHARTER SCHOOLS	
Attendance	No, See Below
Mode of Instruction	No, See Below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below
Annual Instruction Minutes Classroom-Based	No, See Below

The District does not offer an Independent Study Program during the current year; therefore, we did not perform any related procedures.

The District does not have any Continuation Education program; therefore, we did not perform any procedures related to Continuation Education.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

The District does not offer an After School Education and Safety Program; therefore, we did not perform any procedures related to the After School Education and Safety Program.

The District does not offer a Course Based Independent Study program; therefore, we did not perform any related procedures.

The District does not have any dependent Charter Schools; therefore, we did not perform any related procedures.

Palo Alto, California
December 15, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALO ALTO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditor's report issued and whether the financial statements audited were in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
Identification of major federal programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A	Special Education Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for all State programs.	<u>Unmodified</u>
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PALO ALTO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

PALO ALTO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

PALO ALTO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

PALO ALTO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

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