

**MEASURE A – STRONG SCHOOLS BOND OF
PALO ALTO UNIFIED SCHOOL DISTRICT**

**FINANCIAL AND PERFORMANCE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2018**

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**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Introduction and Citizens’ Oversight Committee Member Listing
June 30, 2018**

The Palo Alto Unified School District (the “District”) was founded on March 20, 1893 under the laws of the State of California. This 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, two high schools, an adult education program, a Young Fives program and two children’s centers.

In June 2008, the voters of the Palo Alto Unified School District approved by more than the required 55% favorable vote the Measure A – Strong Schools Bond (“Measure A”), authorizing the issuance and sale of general obligation bonds, not to exceed \$378,000,000. The Measure A – Strong Schools Bond is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed in the full text of the Measure A – Strong Schools Bond ballot measure as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for bond-designated facilities projects.

Measure A bonds were issued by the District, through the County of Santa Clara. On August 27, 2008, Series 2008 of the Measure A bond authorization was issued, 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. On July 13, 2010, Series 2010 of the Measure A bond authorization was issued and was designated as qualified school construction bonds under Section 54F of the Internal Revenue Code of 1986. These bonds provide a federal subsidy to the District which significantly decreases overall interest cost. The bonds were issued with initial par amount of \$25,000,000, with stated interest rates of 4.662% to 5.862% and maturing through July 1, 2027. The net interest rate of the issuance is 0.40% after accounting for the federal subsidy. On March 5, 2013, Series 2013 of the Measure A bond authorization was issued, 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. Series 2014 of the Measure A bond authorization were issued on May 14, 2014, which included 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. Series 2016 of the Measure A bond authorization were issued on May 10, 2016, which included current interest bonds with an initial par amount of \$45,000,000, with stated interest rates of 2.125% to 4.00% and maturing through August 1, 2035. Series 2018 of the Measure A bond authorization were issued on May 22, 2018, which included current interest bonds with an initial par amount of \$40,000,000, with stated interest rates of 2.50% to 5.00% and maturing through August 1, 2038.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Introduction and Citizens’ Oversight Committee Member Listing, continued
June 30, 2018**

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure A including formation, composition and purpose of the Citizens’ Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens’ Oversight Committee was comprised of the following members as of June 30, 2018:

Name	Title	Representation
Bruce Whitson	Chair	Senior Citizen Organization & Business Organization Member
Prerana Vaidya	Vice Chair	Parent, Business Organization Member, & PTA
Jim Cowie	Member	Business Organization Member, Parent, & PTA
Kim Gupta	Member	Parent, Business Organization Member, & PTA
Dana Kismetova	Member	Parent & Business Organization Member
Sukhi Nagesh	Member	Parent & Business Organization member
Daniel Teo	Member	Parent, PTA, Site Council, & Taxpayer Organization

INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure A Citizens' Oversight Committee
Palo Alto Unified School District
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure A – Strong Schools Bond of Palo Alto Unified School District (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Measure A - Strong Schools Bond'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.

Auditors' Responsibility

Our responsibility is to express an opinion 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*. 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.

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Auditors' Responsibility (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure A – Strong Schools Bond of Palo Alto Unified School District, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1A, the financial statements present only the Measure A – Strong Schools Bond and do not purport to, and do not present fairly the financial position of the Palo Alto Unified School District, as of June 30, 2018, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, 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 specific to the Measure A – Strong Schools Bond. 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 Measure A – Strong Schools Bond'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.

Report of Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have issued our performance audit dated November 30, 2018, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure A – Strong Schools Bond. That report is an integral part of our audit of the Measure A – Strong Schools Bond of Palo Alto Unified School District, as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.



San Diego, California
November 30, 2018

FINANCIAL SECTION

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2018**

ASSETS	
Cash in county treasury	\$ 71,362,042
Accounts receivable	196,959
Due from other funds	<u>25,000</u>
Total Assets	\$ <u>71,584,001</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 3,033,963
Due to other funds	<u>80</u>
Total Liabilities	<u>3,034,043</u>
Fund Balance	
Restricted for capital projects	<u>68,549,958</u>
Total Liabilities and Fund Balance	\$ <u>71,584,001</u>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2018**

REVENUES	
State revenue	\$ 1,467
Interest income	630,907
Other local income	34,939
	<hr/>
Total Revenues	667,313
	<hr/>
EXPENDITURES	
Facilities acquisition and construction	27,267,800
	<hr/>
Total Expenditures	27,267,800
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Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,600,487)
	<hr/>
OTHER FINANCING SOURCES	
Interfund transfer-in	7,009,780
Proceeds from long-term debt issuance	40,000,000
	<hr/>
Total Other Financing Sources	47,009,780
	<hr/>
Net Change in Fund Balance	20,409,293
	<hr/>
Fund Balance, July 1, 2017	48,140,665
	<hr/>
Fund Balance, June 30, 2018	\$ 68,549,958
	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Palo Alto Unified School District (the “District”) was founded on March 20, 1893 under the laws of the state of California. This 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, two high schools, an adult education program, a Young Fives program and two children’s centers.

On June 3, 2008 the District voters authorized \$378 million in general obligation bonds (“Measure A”) to provide safe and modern schools; accommodate enrollment growth; upgrade aging classrooms, libraries, computer and science labs; repair or replace roofs, plumbing, heating, ventilation and electrical systems; improve fire alarms and school security; meet current earthquake standards; provide current technology; and replace old portables with permanent classrooms.

An advisory committee to the District’s Governing Board and Superintendent, the Measure A Citizens’ Oversight Committee (“COC”) was established pursuant to the requirements of state law and the provisions of Measure A. The purpose of the COC is to inform the public concerning the use of bond proceeds. The COC is required by state law to actively review and report on the proper expenditure of taxpayers’ money for school construction. The COC provides oversight and advises the public as to whether the District is spending the Measure A – Strong Schools Bond funds for school capital improvements within the scope of projects outlined in the Measure A – Strong Schools Bond Project List. In fulfilling its duties, the COC reviews, among other things, the District’s annual performance and financial audits of Measure A activity.

The statements presented are for the individual Measure A – Strong Schools Bond of the District, consisting of the net construction proceeds of Measure A Series 2008, Series 2010, Series 2013, Series 2014, Series 2016 and Series 2018 general obligation bonds as issued by the District, through the County of Santa Clara, and are not intended to be a complete presentation of the District’s financial position or results of operations.

B. Accounting Policies

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

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Cash and Investments

In accordance with Education Code Sections 15357 and 41001, the Measure A bond building fund maintains its cash in the Santa Clara County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

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

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in Measure A – Strong Schools Bond fund is considered restricted.

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

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2018 consist of the following:

Cash in county treasury	\$	71,362,042
Total cash and investments	\$	<u>71,362,042</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash 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.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Santa Clara County Investment Pool with a fair value of approximately \$70,790,051 and an amortized book value of \$71,362,042. The weighted average maturity for this pool as of June 30, 2018 is 479 days.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

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. Per County investment policy, the investments within the Santa Clara County Investment Pool are rated A or higher by Moody's Investors Service.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

Uncategorized - Investments in the Santa Clara 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.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value, continued

The District's fair value measurements at June 30, 2018 were as follows:

	Uncategorized
Investment in county treasury	\$ 70,790,051
Total fair market value of investments	\$ 70,790,051

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consisted of the following:

Interest earned on investments	\$ 196,959
Total	<u>\$ 196,959</u>

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

- Due from the Measure A – Strong Schools Bond (Fund 21.2) to the General Fund for postage charges totaling \$80.
- Due from the General Fund to the Measure A – Strong Schools Bond (Fund 21.2) for the Palo Alto High School gym floor replacement totaling \$25,000.

B. Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

- Transfer from the Building Fund (Fund 21.5) to the Measure A – Strong Schools Bond (Fund 21.2) for a contribution totaling \$1,424.
- Transfer from the County School Facilities Fund to the Measure A – Strong Schools Bond (Fund 21.5) for the transfer of state bond funding totaling \$7,008,356.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities of \$3,033,963 at June 30, 2018 consisted of construction related liabilities.

NOTE 6 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS

As of June 30, 2018, the principal balance outstanding on the District’s Measure A – Strong Schools Bond (“Measure A”) general obligation bonds, including accreted interest to date, was \$291,324,035. The following is a list of the issuances associated with the Measure A General Obligation Bonds:

- On August 27, 2008, Series 2008 bonds of the Measure A bond authorization were issued, 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.
- On July 13, 2010, Series 2010 of the Measure A bond authorization was issued and was designated as qualified school construction bonds under Section 54F of the Internal Revenue Code of 1986. The bonds were issued with initial par amount of \$25,000,000, with stated interest rates of 4.662% to 5.862% and maturing through July 1, 2027.
- On March 5, 2013, Series 2013 of the Measure A bond authorization was issued, 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.
- On May 14, 2014, Series 2014 of the Measure A bond authorization was issued, 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.
- On May 10, 2016, Series 2016 of the Measure A bond authorization were issued, which included current interest bonds with an initial par amount of \$45,000,000, with stated interest rates of 2.125% to 4.00% and maturing through August 1, 2035.
- On May 22, 2017, Series 2018 of the Measure A bond authorization were issued, which included current interest bonds with an initial par amount of \$40,000,000, with stated interest rates of 2.50% to 5.00% and maturing through August 1, 2038.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 6 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS (continued)

Series 2008 General Obligation Bond

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2008 general obligation bonds, including accreted interest to date, was \$133,584,035. The annual requirements to amortize Measure A Series 2008 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended	Principal		Accreted Interest		Total
June 30,	(including accreted				
	interest to date)				
2019	\$	4,311,877	\$	1,073,123	\$ 5,385,000
2020		4,858,643		1,516,358	6,375,001
2021		4,628,114		1,791,886	6,420,000
2022		5,205,841		2,389,159	7,595,000
2023		11,164,649		5,965,351	17,130,000
2024 - 2028		51,604,445		41,470,555	93,075,000
2029 - 2033		44,234,135		63,265,865	107,500,000
2034		7,576,331		14,248,670	21,825,001
Total	\$	133,584,035	\$	131,720,967	\$ 265,305,002

Series 2010 Qualified School Construction Bonds

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2010 qualified school construction bond was \$25,000,000. These bonds provide a federal subsidy to the District which significantly decreases overall interest cost. The annual requirements to amortize Measure A Series 2010 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended			Interest Payment		Total	
June 30,	Principal	Interest	Federal Subsidy	(Less Federal	(Principal and Interest	
				Subsidy)	Payment)	
2019	\$	-	\$	(1,332,718)	\$	86,037
2020		-		(1,332,718)		86,037
2021		870,000		(1,332,718)		956,037
2022		1,045,000		(1,292,159)		1,131,037
2023		1,315,000		(1,240,828)		1,401,037
2024 - 2028		21,770,000		(4,276,510)		22,118,767
Total	\$	25,000,000	\$	(10,807,651)	\$	25,778,952

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 6 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS (continued)

Series 2013 General Obligation Bond

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2013 general obligation bonds was \$49,540,000. The annual requirements to amortize Measure A Series 2013 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended						
June 30,	Principal		Interest		Total	
2019	\$ 1,830,000		\$ 1,635,488		\$ 3,465,488	
2020	1,885,000		1,561,188		3,446,188	
2021	1,980,000		1,483,888		3,463,888	
2022	2,000,000		1,404,288		3,404,288	
2023	-		1,364,288		1,364,288	
2024 - 2028	-		6,821,438		6,821,438	
2029 - 2033	9,150,000		6,201,188		15,351,188	
2034 - 2037	32,695,000		2,620,694		35,315,694	
Total	\$ 49,540,000		\$ 23,092,460		\$ 72,632,460	

Series 2014 General Obligation Bond

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2014 general obligation bonds was \$16,450,000. The annual requirements to amortize Measure A Series 2014 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended						
June 30,	Principal		Interest		Total	
2019	\$ 1,620,000		\$ 424,400		\$ 2,044,400	
2020	1,640,000		391,800		2,031,800	
2021	1,675,000		354,462		2,029,462	
2022	1,670,000		316,825		1,986,825	
2023	-		300,125		300,125	
2024 - 2028	-		1,500,625		1,500,625	
2029 - 2033	7,935,000		950,200		8,885,200	
2034	1,910,000		31,038		1,941,038	
Total	\$ 16,450,000		\$ 4,269,475		\$ 20,719,475	

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 6 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS (continued)

Series 2016 General Obligation Bond

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2016 general obligation bonds was \$26,750,000. The annual requirements to amortize Measure A Series 2016 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended				
June 30,	Principal	Interest	Total	
2019	\$ 6,250,000	\$ 713,625	\$ 6,963,625	
2020	1,000,000	568,625	1,568,625	
2021	1,000,000	528,625	1,528,625	
2022	1,000,000	488,625	1,488,625	
2023	-	468,625	468,625	
2024 - 2028	-	2,343,125	2,343,125	
2029 - 2033	7,100,000	2,104,563	9,204,563	
2034 - 2036	10,400,000	504,000	10,904,000	
Total	\$ 26,750,000	\$ 7,719,813	\$ 34,469,813	

Series 2018 General Obligation Bond

As of June 30, 2018, the principal balance outstanding on the Measure A Series 2018 general obligation bonds was \$40,000,000. The annual requirements to amortize Measure A Series 2018 general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended				
June 30,	Principal	Interest	Total	
2019	\$ 7,300,000	\$ 947,688	\$ 8,247,688	
2020	8,000,000	1,173,750	9,173,750	
2021	4,200,000	868,750	5,068,750	
2022	3,500,000	676,250	4,176,250	
2023	500,000	576,250	1,076,250	
2024 - 2028	2,500,000	2,533,750	5,033,750	
2029 - 2033	2,500,000	2,101,250	4,601,250	
2034 - 2038	7,500,000	1,538,125	9,038,125	
2039	4,000,000	67,500	4,067,500	
Total	\$ 40,000,000	\$ 10,483,313	\$ 50,483,313	

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 7 – MEASURE A – STRONG SCHOOLS BOND EXPENDITURES BY SITE

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2018:

<u>Project</u>	<u>Amount</u>
Gunn High School	\$ 12,025,551
Palo Alto High School	9,565,219
Elementary Muti-Use Building	11,945
Hoover Elementary	561,609
All Other Elementary	1,660
Technology	1,337,288
Program Management	867,748
Planned Maintenance Cost	2,702,280
Other - Bond Issuance Costs	194,500
Total	<u>\$ 27,267,800</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Construction Commitments

The Measure A - Strong Schools Bond had construction commitments of \$8,976,488 as of June 30, 2018 and related to the Gunn High School Central Building and Palo Alto High School Library projects.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board Members and
Measure A Citizens' Oversight Committee
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 Measure A - Strong Schools Bond of Palo Alto Unified School District (the "District"), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Palo Alto Unified School District's basic financial statements of Measure A – Strong Schools Bond, and have issued our report thereon dated November 30, 2018.

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 opinions on the financial statements of the Measure A – Strong Schools Bond, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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Internal Control over Financial Reporting (continued)

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 of the Measure A – Strong Schools Bond are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.



San Diego, California
November 30, 2018

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Measure A Citizens' Oversight Committee
Palo Alto Unified School District
Palo Alto, California

Report on Performance

We have audited Palo Alto Unified School District's compliance with the performance audit procedures described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on Measure A – Strong Schools Bond of Palo Alto Unified School District for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to local school construction bonds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of Measure A – Strong Schools Bond of Palo Alto Unified School District based on our performance audit of the types of compliance requirements referred to above. We conducted our performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about Palo Alto Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the evidence obtained in our performance audit provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our audit does not provide a legal determination of Palo Alto Unified School District's compliance with those requirements.

Opinion on Performance

In our opinion, Palo Alto Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Measure A – Strong Schools Bond noted below for the year ended June 30, 2018.

Procedures Performed

In connection with the performance audit referred to above, we selected and tested transactions and records to determine Palo Alto Unified School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Measure A – Strong Schools Bond. Additional agreed upon procedures relating the Measure A – Strong Schools Bond may also be included.

The results of the procedures performed and the related results are further described in the accompanying performance audit results following this Report on Performance.

Christy White Associates

San Diego, California
November 30, 2018

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – FINANCIAL AUDIT PROCEDURES AND RESULTS

Financial Statements

As mentioned in the Report on Financial Statements, we have issued an unmodified opinion over the financial statements of the Measure A - Strong Schools Bond as of and for the fiscal year ended June 30, 2018.

Internal Control Evaluation

We tested internal controls over financial reporting and compliance with laws, regulations, or provisions of contracts or agreements and have determined through our inquiry of management and our evaluation of District processes that no significant deficiencies were noted.

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS

Facility Project Expenditures

We selected a representative sample of expenditures charged to the Measure A - Strong Schools Bond and reviewed supporting documentation to ensure funds were properly expended on specific projects listed in the text of the Measure A - Strong Schools Bond ballot.

We tested approximately \$17.2 million of non-personnel expenditures or 65% of total 2017-18 Measure A - Strong Schools Bond expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure A - Strong Schools Bond ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

We reviewed salaries and benefits charged to the Measure A - Strong Schools Bond to verify that the personnel expenditures were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General, which concluded that “a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure.”

We reviewed a listing of all employees charged to the Measure A - Strong Schools Bond and found that all employees held positions applicable to the local school construction bond. Further, we selected a sample of four employees charged to the Measure A - Strong Schools Bond to review personnel files and personnel action reports for proper allocation of salaries and benefits. We tested 64% of salary and benefit expenditures. Based on our testing, salary transactions were not used for general administration operations. Personnel costs charged to the Measure A - Strong Schools Bond appeared allowable.

The previous Report on Performance is an integral part of the above performance audit results.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Facilities Site Walks

We verified that funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects by review of supporting documentation as previously noted under Facility Project Expenditures but also through performance of two facilities site walks.

Facilities site walks were performed for projects at Gunn High School and Palo Alto High School. We toured the school site of Gunn High School and physically observed the work in progress for the Gunn Central Building as well as the Spangenberg Theater modernization project. Additionally, we toured the work in progress for the Palo Alto High School Library project. Based on our site walks, the projects for the school sites tested appear to be successfully advanced into 2018-19 construction phases and funds appear to be expended for authorized bond projects.

Contract and Bid Procedures

We reviewed a listing of contracts awarded during the fiscal year ended June 30, 2018 and selected a sample to ensure that contracts for public projects followed appropriate bidding procedures per applicable Public Contract Code. Additionally, we reviewed overall expenditures by vendor in order to determine if multiple projects under the applicable bidding threshold were identified to suggest any possible bid-splitting.

From a sample of three contracts awarded during the year, we noted that applicable bidding procedures were followed and that contracts were appropriately awarded to the lowest responsible bidder for the PALY Clock Bell Speaker Replacement Project, Gunn Fire Alarm Replacement Project and JLS Pool Renovation Project.

Based on our review of overall expenditures and projects by vendor, no instances or possible indications of bid-splitting were identified. The District appears to be properly reviewing projects and applying appropriate procedures over contract and bidding procedures.

The previous Report on Performance is an integral part of the above performance audit results.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Contracts and Change Orders

We reviewed a listing of contracts and change orders during the fiscal year ended June 30, 2018 and selected a sample of three change orders to ensure that change orders were properly approved and in accordance with District policies. Additionally, cumulative change orders for any given contract were reviewed to ensure that total change orders did not exceed ten percent of the total original contract.

Citizens' Bond Oversight Committee (CBOC)

In accordance with Assembly Bill (AB) 1908 and Education Code (Ed Code) Section 15278, the District is required to establish a bond citizen's oversight committee for Proposition 39 bonds to include one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers' association, parent/guardian of a child enrolled in the District and a parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. Additionally, no employee or official of the District shall be appointed to the citizens' oversight committee.

We found that the District compiled a citizens' bond oversight committee with an active member from each of the required representations. No members of the citizens' bond oversight committee are also employees, official, vendor or consultant of the District. Refer to the Introduction and Citizens' Bond Oversight Committee Member listing for a listing of current members as of June 30, 2018.

The previous Report on Performance is an integral part of the above performance audit results.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

PART I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS	<u>Unmodified</u>
Type of auditors’ report issued	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to the financial statements?	<u>No</u>
 PERFORMANCE AUDIT	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditor’s report issued on performance for local school construction bonds:	<u>Unmodified</u>

PART II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements in 2017-18.

PART III – PERFORMANCE AUDIT FINDINGS

There were no findings or recommendations related to local school construction bonds in 2017-18.

PART IV – PRIOR AUDIT FINDINGS

There were no findings and recommendations during the year ended June 30, 2017.