

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

**AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

San Diego

Los Angeles

**San Francisco
Bay Area**

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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, 2017**

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**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Introduction and Citizens’ Oversight Committee Member Listing
June 30, 2017**

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.

For Measure A, the District has elected to conform to the requirements of low bid construction delivery.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Introduction and Citizens’ Oversight Committee Member Listing, continued
June 30, 2017**

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, 2017:

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

INDEPENDENT AUDITORS' REPORT

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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, 2017, 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.

Auditor's 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*, issued by the Comptroller General of the United States. 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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Auditor's Responsibility (continued)

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

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure A – Strong Schools Bond general obligation bonds as issued by the District, through the County of Santa Clara, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure A – Strong Schools Bond of Palo Alto Unified School District as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017 on our consideration of the Measure A – Strong Schools Bond'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 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 Measure A - Strong Schools Bond's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated November 9, 2017 on our consideration of the Measure A – Strong Schools Bond's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure A – Strong Schools Bond for the fiscal year ended June 30, 2017 and should be considered in assessing the results of our financial audit.



San Diego, California
November 9, 2017

FINANCIAL SECTION

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2017**

ASSETS	
Cash in county treasury	\$ 50,474,331
Accounts receivable	<u>171,596</u>
Total Assets	\$ <u>50,645,927</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 2,336,902
Due to other funds	<u>168,360</u>
Total Liabilities	<u>2,505,262</u>
Fund Balance	
Restricted for capital projects	<u>48,140,665</u>
Total Liabilities and Fund Balance	\$ <u>50,645,927</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, 2017**

REVENUES	
Other state revenue	\$ 232
Interest income	556,417
	<hr/>
Total Revenues	556,649
	<hr/>
EXPENDITURES	
Facilities acquisition and construction	10,554,525
	<hr/>
Total Expenditures	10,554,525
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,997,876)
	<hr/>
Net Change in Fund Balance	(9,997,876)
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Fund Balance, July 1, 2016	58,138,541
	<hr/>
Fund Balance, June 30, 2017	\$ 48,140,665
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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, 2017**

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, and Series 2016 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, 2017**

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. Deposits 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, 2017**

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, 2017**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2017 consist of the following:

Cash in county treasury	\$	50,474,331
Total cash and investments	\$	<u>50,474,331</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, 2017**

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 \$50,359,142 and an amortized book value of \$50,474,331. The weighted average maturity for this pool as of June 30, 2017 is 528 days.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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, 2017**

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value, continued

The District's fair value measurements at June 30, 2017 were as follows:

	Uncategorized
Investment in county treasury	<u>\$ 50,359,142</u>
Total fair market value of investments	<u>\$ 50,359,142</u>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

Interest earned on investments	<u>\$ 171,596</u>
Total	<u>\$ 171,596</u>

NOTE 4 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

- Due from the Measure A – Strong Schools Bond to the General Fund for maintenance costs for smart boards totaling \$168,360.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities of \$2,336,902 at June 30, 2017 consisted of construction related liabilities.

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

As of June 30, 2017, the principal balance outstanding on the District's Measure A – Strong Schools Bond ("Measure A") general obligation bonds, including accreted interest to date, was \$284,187,220.

- 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.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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

Series 2008 General Obligation Bond

As of June 30, 2017, the principal balance outstanding on the Measure A Series 2008 general obligation bonds, including accreted interest to date, was \$137,685,177. The annual requirements to amortize Measure A Series 2008 general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Fiscal Year Ended June 30,	Principal (including accreted interest to date)	Accreted Interest	Total
2018	\$ 4,101,142	\$ 773,858	\$ 4,875,000
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
2023-2027	53,305,848	37,724,152	91,030,000
2028-2032	45,268,111	58,406,889	103,675,000
2033-2034	16,005,601	28,819,400	44,825,001
Total	\$ 137,685,177	\$ 132,494,825	\$ 270,180,002

Series 2010 Qualified School Construction Bonds

As of June 30, 2017, 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, 2017, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Federal Subsidy	Interest Payment	Total
2018	\$ -	\$ 1,418,755	\$ (1,332,718)	\$ 86,037	\$ 172,074
2019	-	1,418,755	(1,332,718)	86,037	172,074
2020	-	1,418,755	(1,332,718)	86,037	172,074
2021	870,000	1,418,755	(1,332,718)	86,037	1,042,074
2022	1,045,000	1,378,195	(1,292,159)	86,037	1,217,073
2023-2027	16,060,000	5,540,337	(5,138,691)	401,645	16,863,291
2028	7,025,000	411,806	(378,648)	33,158	7,091,316
Total	\$ 25,000,000	\$ 13,005,358	\$ (12,140,370)	\$ 864,988	\$ 26,729,976

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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

Series 2013 General Obligation Bond

As of June 30, 2017, the principal balance outstanding on the Measure A Series 2013 general obligation bonds was \$51,240,000. The annual requirements to amortize Measure A Series 2013 general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Fiscal Year Ended					
June 30,	Principal		Interest		Total
2018	\$ 1,700,000		\$ 1,697,588		\$ 3,397,588
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		1,404,287		3,404,287
2023-2027	-		6,821,437		6,821,437
2028-2032	6,850,000		6,441,187		13,291,187
2033-2037	34,995,000		3,744,981		38,739,981
Total	<u>\$ 51,240,000</u>		<u>\$ 24,790,044</u>		<u>\$ 76,030,044</u>

Series 2014 General Obligation Bond

As of June 30, 2017, the principal balance outstanding on the Measure A Series 2014 general obligation bonds was \$17,975,000. The annual requirements to amortize Measure A Series 2014 general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Fiscal Year Ended					
June 30,	Principal		Interest		Total
2018	\$ 1,525,000		\$ 463,475		\$ 1,988,475
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
2023-2027	-		1,500,625		1,500,625
2028-2032	6,055,000		1,160,050		7,215,050
2033-2034	3,790,000		121,313		3,911,313
Total	<u>\$ 17,975,000</u>		<u>\$ 4,732,950</u>		<u>\$ 22,707,950</u>

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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

Series 2016 General Obligation Bond

As of June 30, 2017, the principal balance outstanding on the Measure A Series 2016 general obligation bonds was \$34,000,000. The annual requirements to amortize Measure A Series 2016 general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Fiscal Year Ended						
June 30,	Principal		Interest		Total	
2018	\$	7,250,000	\$	911,125	\$	8,161,125
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
2026-2027		-		2,343,125		2,343,125
2028-2032		4,900,000		2,236,438		7,136,438
2033-2036		12,600,000		840,750		13,440,750
Total	\$	34,000,000	\$	8,630,938	\$	42,630,938

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, 2017:

Project	Amount
Gunn High School	\$ 1,425,384
Palo Alto High School	3,806,438
Elementary Muti-Use Building	68,780
All Other Elementary	381,186
Technology	1,586,653
Program Management	1,544,315
Planned Maintenance Cost	1,741,769
	<u>\$ 10,554,525</u>

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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, 2017.

B. Construction Commitments

The Measure A - Strong Schools Bond had construction commitments of \$28,251,332 as of June 30, 2017 and related to the Paly Gym Project, Gunn Central Building, Paly Library, and others.

**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 Ash, CPA

Heather 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, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Measure A - Strong Schools Bond's basic financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Measure A - Strong Schools Bond'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, but not for the purpose of expressing an opinion on the effectiveness of the Measure A - Strong Schools Bond's internal control. Accordingly, we do not express an opinion on the effectiveness of the Measure A - Strong Schools Bond'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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State Board of Accountancy*

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 Measure A - Strong Schools Bond's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 9, 2017

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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, as of and for the year ended June 30, 2017 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.

Auditor's 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*, issued by the Comptroller General of the United States. 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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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Objectives

In connection with our audit, we also performed an audit of compliance as required in the performance requirements for the Measure A General Obligation Bonds for the fiscal year ended June 30, 2017. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measure A Bonds were only used for the purposes set forth in the Measure A ballot language and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Measure A projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Measure A funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2016-17 financial statement balances for the Measure A - Strong Schools Bond are not materially misstated.

Results of Procedures Performed:

The result of our audit tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unmodified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Measure A – Strong Schools Bond funds expended for the fiscal year ended June 30, 2017 were for valid facilities acquisition and construction purposes. We toured two District construction sites where 2016-17 construction work occurred. The sites toured were Gunn High School and Palo Alto High School.

During the site walk of Palo Alto High School, we viewed the newly constructed gym. We toured throughout the gym viewing both courts, workout areas and classrooms. In addition, we viewed the completed pool area and in process library construction. During our site walk of Gunn High School, we viewed the completed painting project that was completed last summer. We also viewed the demoed building and construction that is currently in process for the central building project at Gunn High School.

Results of Procedures Performed:

Results of the site walks indicate that the major 2016-17 Measure A – Strong Schools Bond construction projects at Gunn High School and Palo Alto High School were successfully completed and closed out, or advanced into 2017-18 construction phases where applicable.

Test of Expenditures

Procedures Performed:

The following performance tests of expenditures and interfund transfers were performed:

1. We tested expenditures to determine whether Measure A – Strong Schools Bond funds were spent solely on voter and Board approved school facilities projects (as set forth in the District’s Facilities Master Plan and the Measure A ballot measure language). The expenditure test included a sample of 30 payments, of which 25 were vendor payments and salaries for 5 employees paid throughout the fiscal year, totaling \$10.5 million, or approximately 32% of total Measure A expenditures for 2016-17.
2. We also tested 3 payments made to various professional service firms contracted by the Measure A – Strong Schools bond program. We obtained the contracts for these firms and ensured that position rates per contract were accurately billed to the District.

Test of Expenditures

Results of Procedures Performed:

We found all expenditures tested to be in compliance with the terms of the Measure A – Strong Schools Bond ballot measure and applicable state laws and regulations, without exception. Also, our analysis indicated that the District is receiving program management services that are reasonable as compared to other school districts, with regard to billing rates, hours charged, and the ratio of consultants to District employees. Furthermore, it appeared that the District’s site projects were competitive in price with similar projects in size and scope to other school construction bond programs included in our benchmarking.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2017, we performed testing of four contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

Formal Bids

- Project: Jordan Painting
Original Contract Award Amount: \$106,420
- Project: Gunn Painting
Original Contract Award Amount: \$250,800
- Project: Gunn Central Building
Original Contract Award Amount: \$19,663,000
- Project: Paly Library and Building 500 Modernization
Original Contract Award Amount: \$9,424,800

Results of Procedures Performed:

We found that the contracts tested above for bidding procedures followed proper bidding procedures and were awarded in all cases to the lowest responsible bidder.

In addition, we tested two change orders and determined the change orders were executed in accordance with District internal controls and were in compliance with applicable provisions of the Public Contract Code. Contracts tested with change orders included the following projects:

- Palo Alto High School – Athletic Center
- Palo Alto High School – Performance Arts Center

Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Measure A – Strong Schools Bond projects in fiscal year 2016-17 and that no Measure A projects have a cumulative change order rate in excess of 10% of contract value.

Citizens' Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Ed Code Section 15278, the District is required to establish a bond oversight committee for Prop 39 bonds including one active member from each of the following sectors: a business organization, senior citizens' organization, bona fide taxpayer's association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The COC is to meet pursuant to Education Code Section 15280.

Results of Procedures Performed:

In our review of the minutes of the Citizens' Oversight Committee for Measure A, we found that there was adequate documentation of meetings held during fiscal year 2016-17. In addition, the District has submitted annual audit reports during the life of the Measure A – Strong Schools Bond. In our review of the composition of the committee, we noted that the District has the proper members in the COC that fulfill each of the required representations noted above.

Our audit of compliance was made for the purposes set forth in the Objectives section of this report and would not necessarily disclose all instances of noncompliance.

Opinion

In our opinion, based on the fieldwork described above as well as the other tests that we conducted, the District complied with the compliance requirements for the Measure A – Strong Schools Bond as listed and tested above.

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 accountability requirements pursuant to the passage of Proposition 39 and the enactment of AB 1908 (Chapter 44, Statutes of 2000). Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
November 9, 2017

FINDINGS AND RESPONSES SECTION

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2017**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure A – Strong Schools Bond for the fiscal year ended June 30, 2017.

**MEASURE A – STRONG SCHOOLS BOND
PALO ALTO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017**

Our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure A – Strong Schools Bond for the fiscal year ended June 30, 2016.