

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

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2011**



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OF PALO ALTO UNIFIED SCHOOL DISTRICT
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Table of Contents**

	<u>Page</u>
Introduction and Citizens’ Oversight Committee Member Listing.....	1
Independent Auditors’ Report.....	2
FINANCIAL SECTION	
Balance Sheet.....	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Notes to Financial Statements.....	6
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 <i>Government Auditing Standards</i>	14
Independent Auditors’ Report on Performance.....	16
FINDINGS AND RESPONSES SECTION	
Schedule of Findings and Responses.....	21
Summary Schedule of Prior Audit Findings.....	22

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Introduction and Citizens’ Oversight Committee Member Listing
June 30, 2011**

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 Santa Clara County 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. The bonds were issued with initial par amount of \$25,000,000, which stated interest rates of 4.662% to 5.862% and maturing through July 1, 2027.

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, 2011:

Name	Title	Representation
Todd Collins	Chair	Taxpayers’ Organization
Gary W. Hornbeek	Vice Chair	Parent & PTA Organization
Deepak Kanugo *	Member	Parent
Ray Bacchetti	Member	Senior Citizens' Organization
Scott Darling	Member	At-Large Member
Catharine Garber	Member	Business Organization
Mary Marth	Member	Parent

* Subsequent to June 30, 2011, Deepak Kanugo resigned due to leaving Palo Alto. Bruce Whitson has been selected to fill the vacancy.



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Measure A – Strong Schools Bond of Palo Alto Unified School District (the “District”) as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2011. These financial statements are the responsibility of the District’s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Measure A – Strong Schools Bond (“Measure A”), consisting of the net construction proceeds of Measure A Series 2008 and Series 2010 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.

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, 2011, and the results of its operations for the fiscal year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

SAN DIEGO

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2

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, on our consideration of Palo Alto Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Chint White Accountancy Corporation

San Diego, California

September 16, 2011

FINANCIAL SECTION

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2011**

ASSETS	
Cash in county treasury	\$ 111,228,456
Accounts receivable	197,483
Prepaid expenditures	<u>15,999</u>
Total Assets	\$ 111,441,938
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 1,874,223</u>
Total Liabilities	<u>1,874,223</u>
Fund Balance	
Restricted for capital projects	<u>109,567,715</u>
Total Liabilities and Fund Balance	\$ 111,441,938

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

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011**

REVENUES	
Interest income	\$ 940,134
Total Revenues	<u>940,134</u>
EXPENDITURES	
Facilities acquisition and construction	19,523,171
Bond issuance costs	257,500
Total Expenditures	<u>19,780,671</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(18,840,537)</u>
OTHER FINANCING SOURCES	
Proceeds from long-term debt	25,000,000
Total Other Financing Sources	<u>25,000,000</u>
Net Change in Fund Balance	6,159,463
Fund Balance, July 1, 2010	<u>103,408,252</u>
Fund Balance, June 30, 2011	<u><u>\$ 109,567,715</u></u>

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

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Palo Alto Unified School 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 – Strong Schools Bond) 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, called the Measure A – Strong Schools Bond (“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 expenditure of bond revenues. 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 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 and Series 2010 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
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 collectible within the current period or within 60 days after year-end. 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 District maintains a portion of 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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. 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
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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.

I. Fund Balance

Under GASB 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
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as cash in county treasury for \$111,228,456.

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
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 \$111,615,531 and an amortized book value of \$111,228,456. The weighted average maturity for this pool as of June 30, 2011 is 452 days.

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 consist of interest earned on the District's investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Measure A - Strong Schools Bond had construction commitments of \$3,816,622 as of June 30, 2011.

NOTE 5 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS

As of June 30, 2011, the principal balance outstanding on the District's Measure A – Strong Schools Bond ("Measure A") general obligation bonds, including accreted interest to date, was \$158,582,093.

- 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, which stated interest rates of 4.662% to 5.862% and maturing through July 1, 2027.

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – MEASURE A – STRONG SCHOOLS BOND GENERAL OBLIGATION BONDS (continued)

Series 2008 General Obligation Bond

As of June 30, 2011, the principal balance outstanding on the Measure A Series 2008 general obligation bonds, including accreted interest to date, was \$133,582,093. The annual requirements to amortize Measure A Series 2008 general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Fiscal Year Ended June 30,	Principal (including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2012	\$ 1,780,000	\$ -	\$ 263,900	\$ 2,043,900
2013	2,825,000	-	219,400	3,044,400
2014	2,350,000	-	148,775	2,498,775
2015	2,805,000	-	84,150	2,889,150
2016	2,858,570	711,430	84,150	3,654,150
2017-2021	18,559,137	8,610,863	-	27,170,000
2022-2026	41,770,297	37,964,703	-	79,735,000
2027-2031	39,799,212	60,765,788	-	100,565,000
2032-2034	20,834,877	45,990,123	-	66,825,000
Total	<u>\$ 133,582,093</u>	<u>\$ 154,042,907</u>	<u>\$ 800,375</u>	<u>\$ 288,425,375</u>

Series 2010 Qualified School Construction Bonds

As of June 30, 2011, the principal balance outstanding on the Measure a Series 2010 qualified school construction bond was \$25,000,000. The annual requirements to amortize Measure A Series 2010 general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ -	\$ 1,332,053	\$ 1,332,053
2013	-	1,418,755	1,418,755
2014	-	1,418,755	1,418,755
2015	-	1,418,755	1,418,755
2016	-	1,418,755	1,418,755
2017-2021	870,000	7,093,775	7,963,775
2022-2026	11,280,000	6,165,265	17,445,265
2027-2028	12,850,000	1,165,073	14,015,073
Total	<u>\$ 25,000,000</u>	<u>\$ 21,431,186</u>	<u>\$ 46,431,186</u>

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 6 – MEASURE A – STRONG SCHOOLS BOND EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2011:

<u>Project</u>	<u>Amount</u>
Ohlone Elementary School	\$ 4,942,002
Other elementary schools	3,168,186
J.L.S. Middle School	1,396,037
Jordan Middle School	1,123,559
Terman Middle School	857,378
Gunn High School	2,415,063
Palo Alto High School	4,366,445
Program management services	1,254,501
Series 2010 bond issuance costs	257,500
Total	<u>\$ 19,780,671</u>

**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**

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

We have audited the financial statements of the Measure A – Strong Schools Bond of Palo Alto Unified School District as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. 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.

Internal Control Over Financial Reporting

Management of Palo Alto Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Palo Alto Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palo Alto Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Palo Alto Unified School District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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14

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure A – Strong Schools Bond of Palo Alto Unified School District’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*.

This report is intended solely for the information and use of the District’s Governing Board, the Measure A – Strong Schools Bond Citizens’ Oversight Committee, management, others within the entity, and the taxpayers of Palo Alto Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christ White Accountancy Corporation

San Diego, California
September 16, 2011

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We have audited the financial statements of the Measure A – Strong Schools Bond of the Palo Alto Unified School District (the “District”) as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated September 16, 2011. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Measure A – Strong Schools Bond (“Measure A”) for the fiscal year ended June 30, 2011. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of the Measure A – Strong Schools Bonds were only used for the purposes set forth in the ballot measure 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, waste, or abuse regarding Measure A resources
- Ensure adequate separation of duties exists in the accounting for Measure A funds
- Prevent material misstatements in the Measure A financial statements
- Ensure expenditures are allocated to the proper District fund

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 2010-11 financial statement balances for the Measure A – Strong Schools Bond are not materially misstated.

Results of Procedures Performed:

The results of our audits 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 unqualified opinion was expressed on the Measure A – Strong Schools Bond 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, 2011 were for valid facilities acquisition and construction purposes. We toured five District construction sites where 2010-11 construction work occurred: Gunn High School; Palo Alto High School; Jordan Middle School; J.L.S. Middle School; and Ohlone Elementary School.

Results of Procedures Performed:

We noted during our tour of Gunn High School that 28 modular buildings were relocated from the back side of the campus known as Titan Village. This area was cleared to make way for a two-story classroom building to be constructed with bond proceeds. Also, the tennis courts and basketball courts were removed for the gymnasium project that is in the planning stage. We observed contractors clearing and grading the land to prep for the underground utilities and foundation of the two-story building and gymnasium project. Moreover, the modular buildings move caused a displacement for bicycle parking. The District installed new bike racks and bike cages to provide sufficient bicycle parking.

Facilities Site Walk (continued)

Results of Procedures Performed: (continued)

We noted at Palo Alto High School that 16 modular buildings were relocated from the Village area to the fringe of the quad area of the campus to create space for the new two-building which will ultimately have 28 new classrooms. The new media arts project was started with the demolition of concrete walkways and the removal of old excessive drainage pipes.

Six modular buildings were installed at Jordan Middle School. The modular buildings were installed with ADA compliant ramps, sinks, fire alarms, new cabinets, and data lines. The PTA modular building at the school site was demolished and removed from the campus. Also, trees were relocated throughout the campus. While at J.L. Middle school, modular buildings were moved to make space for a new classroom building that will be constructed on the boundary of J.L. Middle School and Fairmeadow Elementary.

Construction work was being performed on the two-story classroom building at Ohlone Elementary. The new building was installed with new sheet-rock in conjunction with electrical system. The building has a patio area on the second floor for a planting area. Pavers and bricks were installed to create a walking path. The existing classrooms were equipped with energy management system (EMS) to help regulate the room temperature. Also, new hanging lights were installed which is more energy efficient. The classrooms outfitted with wireless internet, smart boards, and a surround sound system to enhance the students learning environment.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures 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 54 payments, of which 46 were vendor payments and 8 were payroll payments, totaling \$8.5 million, or approximately 43% of total expenditures for 2010-11.
2. We also tested payments made to Gilbane Building Company and O’Connor Construction Management, the Measure A – Strong Schools Bond construction management and program management firms, respectively. We obtained the contracts for these firms and ensured that position rates per contract were accurately billed to the District. In addition, for program management, we analyzed the billing rates, hours charged, and ratio of consultants to District employees as compared to other school districts’ program management agreements.
3. We benchmarked the District’s capital projects with other school facilities bond programs of similar project size and scope listed on the National Clearinghouse for Educational Facilities (NCEF) website and other resources.

Tests of Expenditures (continued)

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 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, 2011, we performed testing of nine contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

Formal Bids

- Project: Ohlone Two-Story
Original Contract Award Amount: \$7,484,000

- Project: Palo Alto HS Media Arts & New Classroom Building
Original Contract Award Amount: \$25,150,000

- Project: Gunn Air Conditioning
Original Contract Award Amount: \$1,754,000

- Project: JLS Modular
Original Contract Award Amount: \$212,943

- Project: Fairmeadow Modular Move
Original Contract Award Amount: \$118,470

Test of Contracts and Bid Procedures (continued)

Procedures Performed: (continued)

Informal Bids

- Project: Paly Haymarket Painting
Original Contract Award Amount: \$34,500

- Project: Building D Electrical Upgrade
Original Contract Award Amount: \$41,500

- Project: JLS MS Locker
Original Contract Award Amount: \$8,061

- Project: Carpeting Barron Park
Original Contract Award Amount: \$11,687

Results of Procedures Performed:

We found that the contracts tested above followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder. In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and was in compliance with applicable provisions of the Public Contract Code. Contracts tested with change orders included the following projects: Ohlone Two-Story; Ohlone Elementary School Portable Building Relocations; Palo Alto High School Baseball / Softball Field Improvements; Gunn Portables Relocation Project; and Palo Alto High School Portables Relocation Project. 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 2010-11.

Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure A – Strong Schools Bond, for the fiscal year ended June 30, 2011, as listed and tested above.

This report is intended solely for the information and use of the District’s Governing Board, the Measure A – Strong Schools Bond Citizens’ Oversight Committee, management, others within the entity, and the taxpayers of Palo Alto Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christine White Accountancy Corporation

San Diego, California
September 16, 2011

FINDINGS AND RESPONSES SECTION

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2011**

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*.

We found Palo Alto Unified School District's accounting systems to be functioning efficiently and effectively to account for the Measure A – Strong Schools Bond. In addition, 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, 2011.

**MEASURE A – STRONG SCHOOLS BOND
OF PALO ALTO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011**

Original Finding No.	Finding	Recommendation	Current Status
<i>Finding #2010-1: Financial Data Provided to the Citizens' Oversight Committee</i>	We tested the April 2010 monthly financial report that was presented to the Citizens' Oversight Committee ("COC"). The monthly financial report shows cumulative Measure A – Strong Schools Bond project expenditure data from project inception. However, the monthly report tested excluded expenditures for 2008-09 bond issuance costs of \$1,583,200 because this item was not construction or capital outlay related. Thus, the financial data that was provided to the COC in April 2010 did not include all prior year audited expenditures.	We recommend that financial reporting for the Measure A – Strong Schools Bond Program reflect all historical expenditure types, including bond issuance costs.	Implemented