

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

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2012**



**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
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For the Fiscal Year Ended June 30, 2012**

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**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Introduction and Citizens’ Oversight Committee Member Listing  
June 30, 2012**

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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. For Measure A, the District has elected to conform to the requirements of low bid construction delivery, as opposed to an alternate model such as lease-leaseback. In doing so, the District has likely increased the degree of the program’s cost accountability.

**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Introduction and Citizens’ Oversight Committee Member Listing, continued  
June 30, 2012**

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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, 2012:

<b>Name</b>	<b>Title</b>	<b>Representation</b>
Todd Collins	Chair	Taxpayers’ Organization
Mary Marth	Vice Chair	Parent
Bruce Whitson	Member	Parent
Ray Bacchetti	Member	Senior Citizens' Organization
Scott Darling	Member	At-Large Member
Catherine Garber	Member	Business Organization
Gary W. Hornbeek	Member	Parent & PTA Organization

INDEPENDENT AUDITORS' REPORT

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

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, 2012, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2012. 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, 2012, and the results of its operations for the fiscal year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

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State Board of Accountancy

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012, 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.

*Christy White Associates*

San Diego, California  
August 30, 2012

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## **FINANCIAL SECTION**

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**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Balance Sheet  
June 30, 2012**

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<b>ASSETS</b>	
Cash in county treasury	\$ 60,257,661
Accounts receivable	<u>171,797</u>
<b>Total Assets</b>	<b>\$ <u>60,429,458</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	<u>\$ 8,104,348</u>
<b>Total Liabilities</b>	<b><u>8,104,348</u></b>
<b>Fund Balance</b>	
Restricted for capital projects	<u>52,325,110</u>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>60,429,458</u></b>

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, 2012**

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<b>REVENUES</b>	
Interest income	\$ 624,659
	<hr/>
<b>Total Revenues</b>	624,659
	<hr/>
<b>EXPENDITURES</b>	
Facilities acquisition and construction	57,867,264
	<hr/>
<b>Total Expenditures</b>	57,867,264
	<hr/>
<b>Excess (Deficiency) of Revenues     Over (Under) Expenditures</b>	(57,242,605)
	<hr/>
<b>Net Change in Fund Balance</b>	(57,242,605)
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<b>Fund Balance, July 1, 2011</b>	109,567,715
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<b>Fund Balance, June 30, 2012</b>	\$ 52,325,110
	<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, 2012**

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**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 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  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2012**

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**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 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. 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, 2012**

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**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, 2012**

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**NOTE 2 – CASH AND INVESTMENTS**

**Summary of Cash and Investments**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as cash in county treasury for \$60,257,661.

**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, 2012**

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**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 \$60,487,243 and an amortized book value of \$60,257,661. The weighted average maturity for this pool as of June 30, 2012 is 472 days.

**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2012**

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**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 of \$171,797 as of June 30, 2012 consisted 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 \$52,894,876 as of June 30, 2012.

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

As of June 30, 2012, the principal balance outstanding on the District's Measure A – Strong Schools Bond ("Measure A") general obligation bonds, including accreted interest to date, was \$163,384,087.

- 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.

**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2012**

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

**Series 2008 General Obligation Bond**

As of June 30, 2012, the principal balance outstanding on the Measure A Series 2008 general obligation bonds, including accreted interest to date, was \$138,384,087. The annual requirements to amortize Measure A Series 2008 general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Fiscal Year Ended June 30,	Principal (including accreted interest to date)	Future Accreted Interest	Current Interest to Maturity	Total
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	3,003,298	566,702	-	3,570,000
2017	3,294,963	820,037	-	4,115,000
2018-2022	20,914,802	9,735,199	-	30,650,001
2023-2027	48,144,518	42,885,483	-	91,030,001
2028-2032	40,686,928	62,988,073	-	103,675,001
2033-2034	14,359,578	30,465,422	-	44,825,000
Total	\$ 138,384,087	\$ 147,460,916	\$ 452,325	\$ 286,297,328

**Series 2010 Qualified School Construction Bonds**

As of June 30, 2012, 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, 2012, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Federal Subsidy	Interest Payment	Total
2013	\$ -	\$ 1,418,755	\$ (1,332,718)	\$ 86,037	\$ 86,037
2014	-	1,418,755	(1,332,718)	86,037	86,037
2015	-	1,418,755	(1,332,718)	86,037	86,037
2016	-	1,418,755	(1,332,718)	86,037	86,037
2017	-	1,418,755	(1,332,718)	86,037	86,037
2018-2022	1,915,000	7,053,216	(6,623,031)	430,185	2,345,185
2023-2027	16,060,000	5,540,337	(5,138,691)	401,646	16,461,646
2028	7,025,000	411,806	(378,648)	33,158	7,058,158
Total	\$ 25,000,000	\$ 20,099,134	\$ (18,803,961)	\$ 1,295,173	\$ 26,295,173

**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2012**

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**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, 2012:

Project	Amount
Duveneck Elementary School	\$ 566,683
Fairmeadow Elementary School	2,019,504
Ohlone Elementary School	4,094,477
Other elementary schools	3,325
J.L.S. Middle School	988,352
Jordan Middle School	5,378,079
Terman Middle School	4,159,996
Gunn High School	14,075,842
Palo Alto High School	13,709,547
525 San Antonio Road	8,500,000
Technology	2,987,333
Program administration - District	1,384,126
Total	<u>\$ 57,867,264</u>

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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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

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

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, 2012, and have issued our report thereon dated August 30, 2012. 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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### 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California  
August 30, 2012

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

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, 2012 and have issued our report thereon dated August 30, 2012. 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, 2012. 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.

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

<b>Internal Control Evaluation</b>
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**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 2011-12 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.

<b>Facilities Site Walk</b>
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**Procedures Performed:**

We performed a site walk to verify that Measure A – Strong Schools Bond funds expended for the fiscal year ended June 30, 2012 were for valid facilities acquisition and construction purposes. We toured eight District construction sites where 2011-12 construction work occurred: Gunn High School; Palo Alto High School; Jordan Middle School; J.L.S. Middle School; Terman Middle School; Duveneck Elementary School; Fairmeadow Elementary School and Ohlone Elementary School. We also visited the site at 525 San Antonio Road that was purchased by Measure A in 2011-12.

**Results of Procedures Performed:**

Results of the site walks indicate that the major 2011-12 Measure A construction projects were successfully completed and advanced into 2012-13 expenditure/construction phases where applicable.

## 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 71 payments, of which 61 were vendor payments and 10 were payroll payments, totaling \$18.6 million, or approximately 32% of total Measure A expenditures for 2011-12.
2. We also tested payments made to 6 professional service firms. 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 and hours charged as compared to other school districts’ program management agreements.

### **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, 2012, 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: Palo Alto High School New Classroom and Media Arts Center  
Original Contract Award Amount: \$25,150,000
- Project: Gunn High School New Classroom Buildings A and B  
Original Contract Award Amount: \$17,632,000
- Project: Jordan Middle School Modernization and New Construction  
Original Contract Award Amount: \$13,987,000
- Project: Terman Middle School Modernization and New Construction  
Original Contract Award Amount: \$9,299,000

<b>Test of Contracts and Bid Procedures (continued)</b>
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**Procedures Performed: (continued)**

**Formal Bids (continued)**

- Project: Gunn High School New Gymnasium  
Original Contract Award Amount: \$8,347,000
- Project: Ohlone Elementary School Modernization and New Construction  
Original Contract Award Amount: \$7,484,000
- Project: Palo Alto High School Haymarket Boiler Replacement  
Original Contract Award Amount: \$392,000
- Project: Jordan Middle School Modulars 2011  
Original Contract Award Amount: \$153,284

**Informal Bids**

- Project: Palo Alto High School Football Stadium Modular Relocation  
Original Contract Award Amount: \$77,620

**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 were in compliance with applicable provisions of the Public Contract Code. Contracts tested with change orders included the following projects: J.L.S Middle School Modernization and New Construction, Jordan Middle School Modernization and New Construction, Terman Middle School Modernization and New Construction, Gunn High School New Gymnasium, Gunn High School New Classroom Buildings A and B, Ohlone Elementary School Modernization and New Construction and Air Conditioning of Existing Classrooms. 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 2011-12 and that no Measure A projects have a cumulative change order rate in excess of 10% of contract value.

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, 2012, 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.

*Christy White Associates*

San Diego, California  
August 30, 2012

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## **FINDINGS AND RESPONSES SECTION**

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**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2012**

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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, 2012.**

**MEASURE A – STRONG SCHOOLS BOND  
PALO ALTO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2012**

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*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.*