PALO ALTO UNIFIED SCHOOL DISTRICT
COUNTY OF SANTA CLARA
PALO ALTO, CALIFORNIA

AUDIT REPORT

JUNE 30, 2018

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

PALO ALTO UNIFIED SCHOOL DISTRICT
County of Santa Clara

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PALO ALTO UNIFIED SCHOOL DISTRICT
County of Santa Clara

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FINANCIAL SECTION

Chavan & Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Palo Alto Unified School District
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Palo Alto Unified School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of a Matter

Deficit Net Position

As of June 30, 2018, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 13. Our opinion is not modified with respect to this matter.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you go basis and through contributions to a trust. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of CalPERS pension contributions, schedule of CalPERS proportionate share of net pension liability, schedule of STRS pension contributions, schedule of STRS proportionate share of net pension liability, schedule of contributions for other postemployment benefits, and schedule of changes in net OPEB liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, organization schedule, schedule of average daily attendance, schedule of instructional time offered, schedule of charter schools, schedule of financial trends and analysis, schedule of expenditures of federal awards, as required *by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards,* and the reconciliation of the Annual Financial Budget report to the audited financial statements, as required by the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, schedule of average daily attendance, schedule of instructional time offered, schedule of financial trends and analysis, and the reconciliation of the Annual Financial Budget report to the audited financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Except for the budget information included in the schedule of financial trends and analysis, such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, combining statements – General Fund, schedule of expenditures of federal awards, schedule of average daily attendance, schedule of instructional time offered, schedule of financial trends and analysis (except for the budget information), and the reconciliation of the Annual Financial Budget report to the audited financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The organization schedule, schedule of charter schools and budget information included in the schedule of financial trends and analysis have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018 on our consideration of The District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

C & A LLP

November 1, 2018
San Jose, California

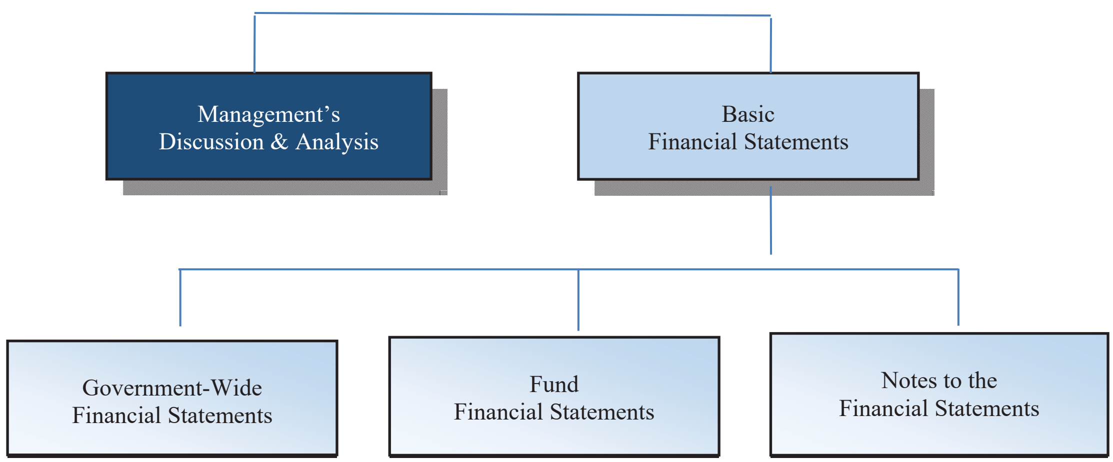
Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2018 were as follows:

- Total net position increased by $35,262,986 (71%), which included an increase in unrestricted net position of $5,896,508, from June 30, 2017 to June 30, 2018.

- The District recorded deferred outflows of resources of $90,500,858, an increase of 37%, and deferred inflows of resources of $18,502,384, a decrease of 46%, as required by governmental accounting standards for pensions and other postemployment benefits. Deferred outflows of resources are not assets but increase the Statement of Net Position similarly to an asset and deferred inflows of resources are not liabilities but decrease the Statement of Net Position similarly to liabilities.

- The District had $285,419,868 in government-wide expenses which is 91% of total government-wide revenues versus 101% in the prior year. Program specific revenues in the form of operating grants and contributions and charges for services accounted for $50,377,217, or 16%, of the total revenues of $312,058,785.

- General revenue of $261,681,568 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 84% of total revenues in 2018 versus 93% in 2017.

- The fund balances of all governmental funds increased by $40,022,776, which is a 27% increase from 2017.

- Total governmental fund revenues and expenditures totaled $312,058,787 and $313,336,439, respectively for the fiscal year ended 2018.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.

- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.

- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2017 - 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on with the balance sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds were the General Fund, Building Fund, and Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. We use internal service funds (a component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2018 as compared to June 30, 2017:

Table 1 - Summary of Statement of Net Position

Description	2018	2017	Change	Percentage Change
Assets				
Current Assets	$ 213,673,936	$ 172,818,600	$ 40,855,336	23.64%
Capital Assets	369,042,867	341,817,285	27,225,582	7.96%
Total Assets	**$ 582,716,803**	**$ 514,635,885**	**$ 68,080,918**	**13.23%**
Total Deferred Outflows of Resources	**$ 90,500,858**	**$ 56,581,693**	**$ 33,919,165**	**37.48%**
Liabilities				
Current Liabilities	$ 24,763,619	$ 25,112,349	$ (348,730)	-1.39%
Long-term Liabilities	644,375,003	568,786,498	75,588,505	13.29%
Total Liabilities	**$ 669,138,622**	**$ 593,898,847**	**$ 75,239,775**	**12.67%**
Total Deferred Inflows of Resources	**$ 18,502,384**	**$ 27,005,062**	**$ (8,502,678)**	**-45.95%**
Net Position				
Net Investment in Capital Assets	$ 178,269,689	$ 147,717,872	$ 30,551,817	20.68%
Restricted	11,583,541	12,768,880	(1,185,339)	-9.28%
Unrestricted	(204,276,575)	(210,173,083)	5,896,508	2.81%
Total Net Position	**$ (14,423,345)**	**$ (49,686,331)**	**$ 35,262,986**	**70.97%**

During the year, deferred outflows of resources increased by 37%, deferred inflows of resources decreased by 46%, and long-term liabilities increased by 13% mostly because of changes in employee benefit plan obligations and actuarial assumptions related to GASB 68 and 75. Table 6 includes a summary of changes in long-term liabilities. General obligation bonds increased by $25.3M primarily due to a $40M issuance during the year, at premium of $1.3M, and accreted interest of $8.5M, net of debt service payments of $22.4M. The utilization of the bond proceeds for facilities improvements accounts for the increase to capital assets of 8%. Net pension obligations increased by $42,740,212 because the discount rates and other assumptions used in valuations changed. The net OPEB obligation increased by $8,396,870 due to a change in accounting policies required by GASB 75.

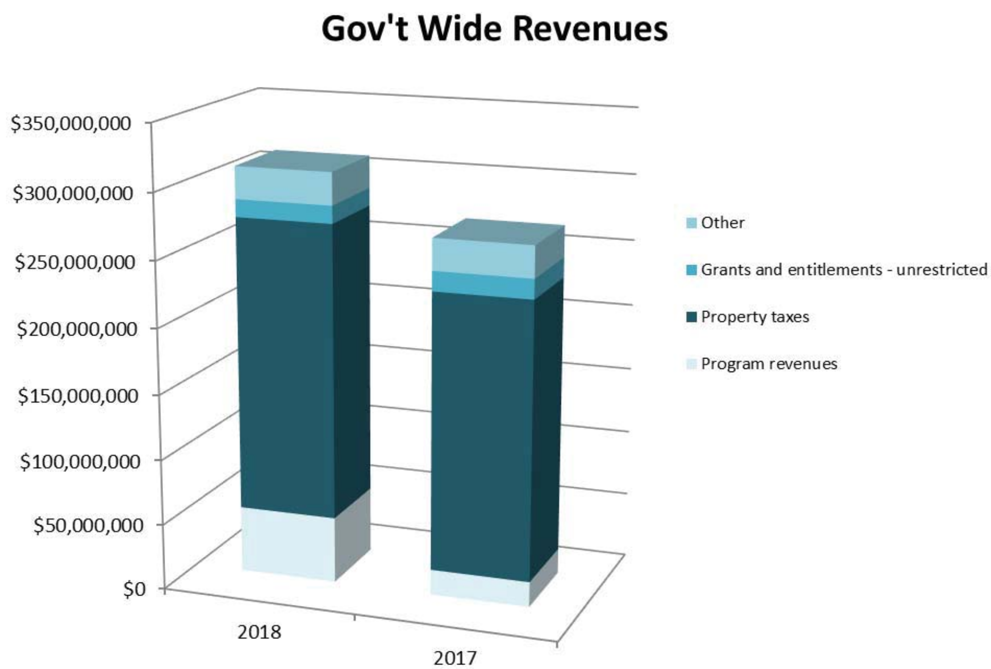
Table 2 shows the changes in net position for fiscal year 2018 as compared to 2017:

Table 2 - Summary of Changes in Statement of Activities

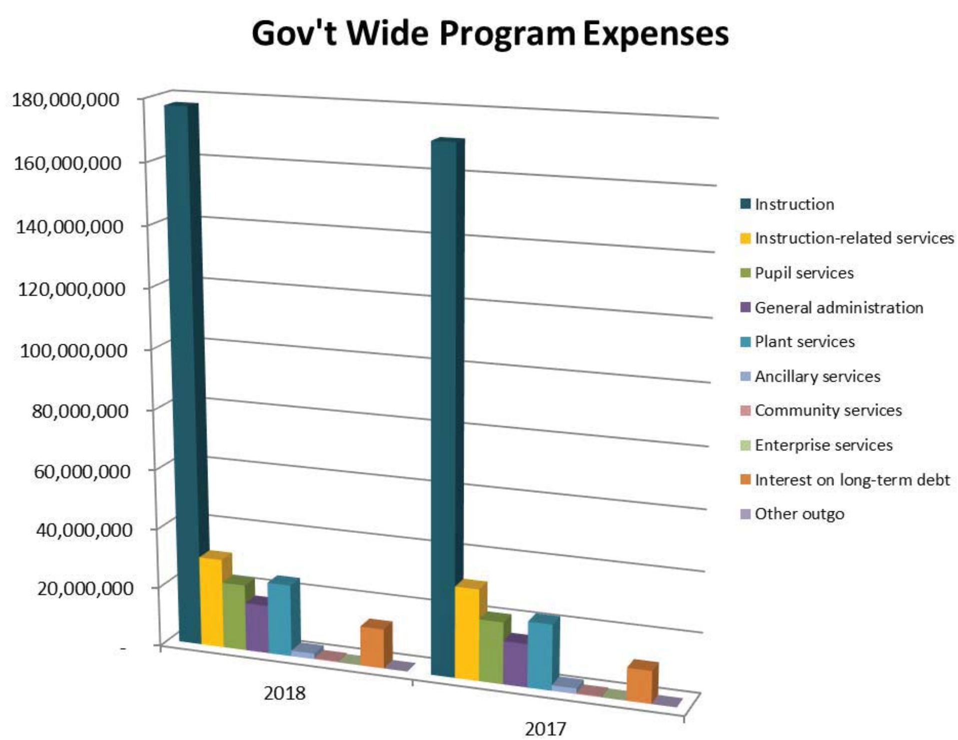
Description	2018	2017	Change	Percentage Change
Revenues				
Program revenues	$ 50,377,217	$ 19,210,616	$ 31,166,601	162.24%
General revenues:				
Property taxes	223,860,703	211,219,404	12,641,299	5.98%
Grants and entitlements - unrestricted	13,336,774	15,057,885	(1,721,111)	-11.43%
Other	24,484,091	24,047,686	436,405	1.81%
Total Revenues	312,058,785	269,535,591	42,523,194	15.78%
Program Expenses				
Instruction	177,313,287	170,867,036	6,446,251	3.77%
Instruction-related services	30,048,236	30,572,085	(523,849)	-1.71%
Pupil services	22,254,687	20,639,596	1,615,091	7.83%
General administration	16,216,992	14,445,550	1,771,442	12.26%
Plant services	24,170,315	21,939,214	2,231,101	10.17%
Ancillary services	1,884,265	1,842,514	41,751	2.27%
Community services	323,280	253,929	69,351	27.31%
Interest on long-term debt	13,208,806	10,844,742	2,364,064	21.80%
Other outgo	-	7,014	(7,014)	-100.00%
Total Expenses	285,419,868	271,411,680	14,008,188	5.16%
Change in Net Position	26,638,917	(1,876,089)	28,515,006	1519.92%
Begininng Net Position	(49,686,331)	(47,810,242)	(1,876,089)	-3.92%
Prior Period Adjustments	8,624,069	-	8,624,069	100.00%
Ending Net Position	**$ (14,423,345)**	**$ (49,686,331)**	**$ 35,262,986**	**70.97%**

The District's expenses for instructional services was 72.65% of total expenses in 2017-18 as compared to 74.22% in 2016-17. The purely administrative activities of the District accounted for 5.68% of total costs in 2017-18 as compared to 5.32% in 2016-17. Interest on long-term debt represented 4.63% of total expenses in 2017-18 as compared to 4.00% in 2016-17. Total expenses were 91.46% of revenue in 2017-18 versus 100.70% in 2016-17. Program revenues were 7.13% of total revenues in 2017-18 and 7.19% of total revenues in 2016-17. Program revenues increased by $31,166,601 mostly due to a local contribution of $21,684,422 for the Addison project.

The following is a summary of government wide revenues for the fiscal year ended June 30, 2018:



The following is a summary of expenses by function for the fiscal year ended June 30, 2018:



GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services

Description	2018	2017	Change	Percentage Change
Instruction	$ 134,240,263	$ 158,628,081	$ (24,387,818)	-15.4%
Instruction-related services	27,644,919	28,204,067	(559,148)	-2.0%
Pupil services	18,347,804	17,198,620	1,149,184	6.7%
General administration	15,993,676	14,151,124	1,842,552	13.0%
Plant services	23,513,099	21,229,133	2,283,966	10.8%
Ancillary services	1,777,320	1,690,062	87,258	5.2%
Community services	323,280	253,929	69,351	27.3%
Interest on long-term debt	13,208,806	10,844,742	2,364,064	21.8%
Other outgo	(6,516)	1,306	(7,822)	-598.9%
Total Net Cost of Services	**$ 235,042,651**	**$ 252,201,064**	**$ (17,158,413)**	**-6.80%**

The District received capital grants totaling $28.7M during 2017/18 that directly offset instruction costs creating a decrease in net cost of services for instruction of $24.4M.

The following summarizes the District's most significant functions:

- *Instruction* expenditures include activities directly dealing with the teaching of pupils.
- *Instruction-related Services* include the activities involved with assisting staff with the content and process of educating students.
- *Pupil Services* include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- *General Administration* reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.
- *Plant Services* involve keeping the school grounds and equipment in effective working condition.

THE DISTRICT'S FUNDS

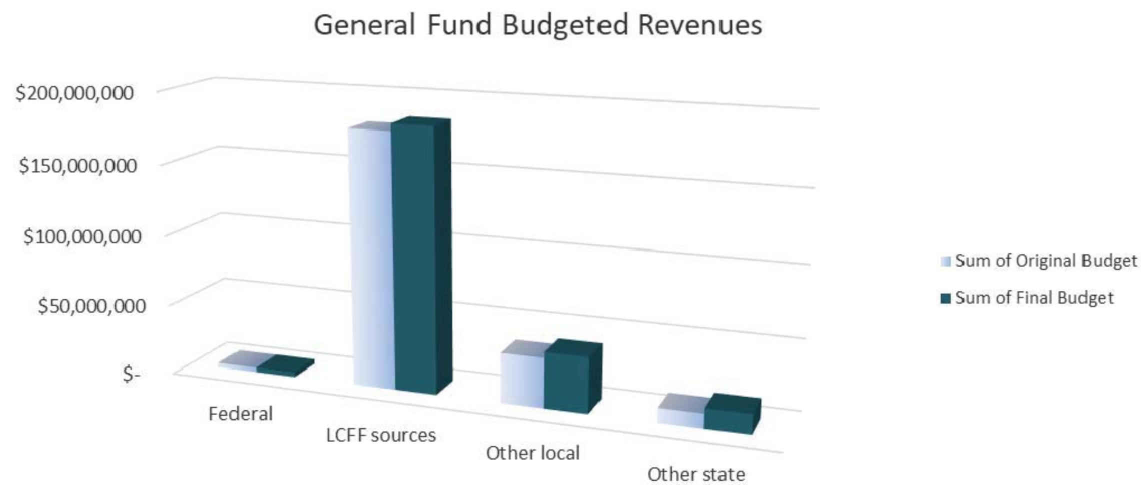
Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

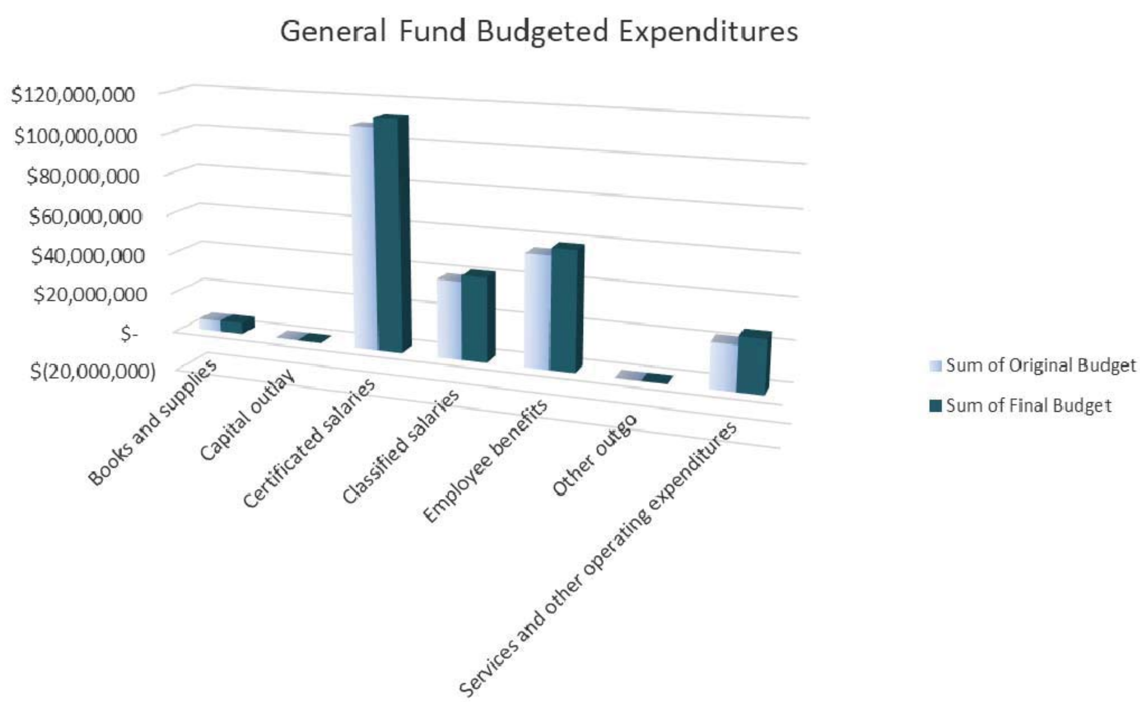
Table 4 - Summary of Fund Balances

Description	2018	2017	Change	Percentage Change
General Fund	$ 49,335,825	$ 53,303,754	$ (3,967,929)	-7.4%
Building Fund	94,076,101	55,136,110	38,939,991	70.6%
Bond Interest and Redemption Fund	38,329,532	32,734,711	5,594,821	17.1%
Adult Education Fund	2,077,410	1,963,179	114,231	5.8%
Child Development Fund	-	-	-	0.0%
Cafeteria Fund	216,956	176,015	40,941	23.3%
Deferred Maintenance Fund	735,354	861,320	(125,966)	-14.6%
Capital Facilities Fund	4,253,304	4,849,616	(596,312)	-12.3%
County School Facilities Fund	31,869	8,870	22,999	259.3%
Total Fund Balances	**$ 189,056,351**	**$ 149,033,575**	**$ 40,022,776**	**26.9%**

FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2017-18 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The following charts summarize the changes from the District's original and final budgets.





CAPITAL ASSETS

Table 5 shows June 30, 2018 balances as compared to June 30, 2017.

Table 5 - Summary of Capital Assets Net of Depreciation

Description	2018	2017	Change	Percentage Change
Land	$ 10,470,525	$ 9,726,493	$ 744,032	7.65%
Work-in-Progress	31,514,414	10,365,279	21,149,135	204.04%
Land Improvements	30,586,960	30,855,785	(268,825)	-0.87%
Buildings and Improvements	293,798,485	287,835,592	5,962,893	2.07%
Furniture and Equipment	2,672,483	3,034,136	(361,653)	-11.92%
Total Capital Assets - Net	**$ 369,042,867**	**$ 341,817,285**	**$ 27,225,582**	**7.96%**

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities

Description	2018	2017	Change	Percentage Change
General Obligation Bonds	$ 367,611,719	$ 342,315,195	$ 25,296,524	7.39%
Net Pension Liabilities	253,197,390	210,457,178	42,740,212	20.31%
Net OPEB Liability	23,637,849	15,240,979	8,396,870	55.09%
Compensated Absences	769,048	773,146	(4,098)	-0.53%
Total Long-term Liabilities	**$ 645,216,006**	**$ 568,786,498**	**$ 76,429,508**	**13.44%**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's primary funding source is from property taxes. As such, the District relies on the increase in assessed value of our geographical areas. Although the District has experienced healthy property taxes growth in the past six years, we need to be cautious as both the Governor and the Department of Finance continue to remind educational entities that an economic downturn is inevitable and would negatively affect school funding.

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

The employer CalSTRS rate continues to increase by 1.85% per year in 2017-18 through 2019-20, 1.0% 2020-21 and 2021-22, and no change in 2022-23 until 2022-23.

The employer CalPERS rate for 2017-18 is 15.53% and is projected to rise steadily. Projected rates are as follows: 18.1% in 18-19, 20.8% in 19-20, 23.5% in 20-21, 24.6% in 21-22, and 25.3% in 22-23.

Future predictions and uncertainties require management to plan carefully and prudently to provide the necessary resources to meet student's needs and continue to keep pace with inflation increases over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Chief Business Officer, Business Services, at Palo Alto Unified School District, 25 Churchill Avenue, Palo Alto, California, 94306.

Basic Financial Statements

Palo Alto Unified School District
Statement of Net Position
June 30, 2018

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 207,716,911
Accounts receivable	5,680,697
Prepaid expenditures	82,090
Stores inventories	194,238
Total current assets	213,673,936
Noncurrent assets:	
Non-depreciable capital assets	41,984,939
Capital assets, net of depreciation	327,057,928
Total noncurrent assets	369,042,867
Total Assets	$ 582,716,803
Deferred Outflows of Resources	
Deferred loss on early retirement of long-term debt	$ 3,083,934
OPEB adjustments	295,749
Pension adjustments	87,121,175
Total Deferred Outflows of Resources	$ 90,500,858
Liabilities	
Current liabilities:	
Accounts payable	$ 9,806,219
Unearned revenue	8,244,400
Accrued interest	2,416,000
Claim liabilities	4,297,000
Total current liabilities	24,763,619
Long-term liabilities:	
Due within one year	
General obligation bonds	29,259,344
Total due within one year	29,259,344
Due after one year	
General obligation bonds	338,352,375
Annual net OPEB obligation	22,796,846
Net Pension Liability	253,197,390
Compensated absences (vacation)	769,048
Total due after one year	615,115,659
Total long-term liabilities	644,375,003
Total Liabilities	$ 669,138,622
Deferred Inflows of Resources	
OPEB adjustments	$ 1,136,752
Pension adjustments	17,365,632
Total Deferred Inflows of Resources	$ 18,502,384
Net Position	
Net investment in capital assets	$ 178,269,689
Restricted for:	
Educational programs	4,850,938
Cafeteria programs	177,466
Capital projects	4,285,173
Self-insurance	2,269,964
Unrestricted	(204,276,575)
Total Net Position	$ (14,423,345)

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

Palo Alto Unified School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:					
Instruction	$ 177,313,287	$ -	$ 14,380,246	$ 28,692,778	$ (134,240,263)
Instruction-related services:					
Supervision of instruction	9,133,915	-	419,178	-	(8,714,737)
Instruction library, media and technology	2,587,831	-	66,491	-	(2,521,340)
School site administration	18,326,490	-	1,917,648	-	(16,408,842)
Pupil services:					
Home-to-school transportation	3,191,531	-	11	-	(3,191,520)
Food services	3,450,080	2,334,014	625,478	-	(490,588)
All other pupil services	15,613,076	-	947,380	-	(14,665,696)
General administration:					
Data processing	5,051,173	-	-	-	(5,051,173)
All other general administration	11,165,819	-	223,316	-	(10,942,503)
Plant services	24,170,315	-	657,216	-	(23,513,099)
Ancillary services	1,884,265	-	106,945	-	(1,777,320)
Community services	323,280	-	-		(323,280)
Interest on long-term debt	13,208,806	-	-	-	(13,208,806)
Other outgo	-	-	6,516		6,516
Total governmental activities	$ 285,419,868	$ 2,334,014	$ 19,350,425	$ 28,692,778	(235,042,651)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					176,411,755
Taxes levied for debt service					32,391,118
Taxes levied for other specific purposes					15,057,830
Federal and state aid not restricted to specific purposes					13,336,774
Interest and investment earnings					1,848,671
Lease income					10,161,250
Miscellaneous					12,474,170
Total general revenues and special items					261,681,568
Change in net position					26,638,917
Net position beginning					(49,686,331)
Prior period adjustments					8,624,069
Net position beginning as adjusted					(41,062,262)
Net position ending					$ (14,423,345)

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

Palo Alto Unified School District
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 55,750,042	$ 99,254,064	$ 38,219,128	$ 8,118,667	$ 201,341,901
Accounts receivable	5,038,977	243,239	110,404	262,797	5,655,417
Due from other funds	1,662,714	25,000	-	181,081	1,868,795
Prepaid expenditures	72,050	-	-	10,040	82,090
Stores inventories	137,057	-	-	57,181	194,238
Total Assets	$ 62,660,840	$ 99,522,303	$ 38,329,532	$ 8,629,766	$ 209,142,441
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 5,151,498	$ 3,984,926	$ -	$ 660,817	$ 9,797,241
Due to other funds	381,734	1,458,968	-	203,747	2,044,449
Unearned revenue	7,791,783	2,308	-	450,309	8,244,400
Total Liabilities	13,325,015	5,446,202	-	1,314,873	20,086,090
Fund balances:					
Nonspendable:					
Revolving fund	30,000	-	-	-	30,000
Stores inventories	137,057	-	-	57,181	194,238
Prepaid expenditures	72,050	-	-	10,040	82,090
Loan receivable	-	-	-	-	-
Restricted for:					
Educational programs	4,850,938	-	-	-	4,850,938
Debt service	-	-	38,329,532	-	38,329,532
Cafeteria programs	-	-	-	177,466	177,466
Capital projects	-	94,076,101	-	4,285,173	98,361,274
Committed for:					
Educational programs	-	-	-	2,042,748	2,042,748
Site repairs	-	-	-	735,354	735,354
Cafeteria programs	-	-	-	6,931	6,931
Assigned for:					
Educational programs	18,128,083	-	-	-	18,128,083
Postemployment benefits	2,177,388	-	-	-	2,177,388
Unassigned:					
Economic uncertainties	23,891,468	-	-	-	23,891,468
Unappropriated	48,841	-	-	-	48,841
Total Fund Balances	49,335,825	94,076,101	38,329,532	7,314,893	189,056,351
Total Liabilities and Fund Balances	$ 62,660,840	$ 99,522,303	$ 38,329,532	$ 8,629,766	$ 209,142,441

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

Palo Alto Unified School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds		$ 189,056,351
Amounts reported in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital assets at cost	$ 702,553,008	
Accumulated depreciation	(333,510,141)	369,042,867
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(2,416,000)
Deferred outflows of resources include amounts that will not be included in the calculation of the District's net pension liability of the plan year included in this report such as current fiscal year contributions as recorded in the fund statements.		87,121,175
The differences from pension plan assumptions in actuarial valuations are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position.		(17,365,632)
The differences between projected and actual amounts in OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows:		
OPEB adjustments:		
Contributions subsequent to the measurement date		295,749
Change in assumptions		(1,136,752)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the Statement of Net Position.		2,269,966
The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred outflow in the government-wide Statement of Net Position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements.		3,083,934
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General obligation bonds	$ 367,611,719	
Net OPEB liability	22,796,846	
Net pension liability	253,197,390	
Compensated absences (vacation)	769,048	(644,375,003)
Total net position - governmental activities		$ (14,423,345)

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

Palo Alto Unified School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	$ 184,425,781	$ -	$ -	$ -	$ 184,425,781
Federal revenue	3,355,251	-	1,244,759	737,398	5,337,408
Other state	15,803,915	1,467	72,934	9,214,641	25,092,957
Other local	37,334,091	22,959,418	32,577,921	4,331,211	97,202,641
Total revenues	240,919,038	22,960,885	33,895,614	14,283,250	312,058,787
Expenditures:					
Current					
Instruction	161,174,593	-	-	1,836,282	163,010,875
Instruction-related services:					
Supervision of instruction	8,263,439	-	-	22,590	8,286,029
Instruction library, media and technology	2,307,399	-	-	-	2,307,399
School site administration	15,751,886	-	-	1,107,139	16,859,025
Pupil services:					
Home-to-school transportation	2,944,597	-	-	-	2,944,597
Food services	258,921	-	-	2,919,898	3,178,819
All other pupil services	14,372,949	-	-	-	14,372,949
General administration:					
Data processing	4,599,314	-	-	-	4,599,314
All other general administration	10,292,235	-	-	104,516	10,396,751
Plant services	22,154,567	-	-	105,323	22,259,890
Facilities acquisition and construction	96,968	30,834,750	-	2,290,879	33,222,597
Ancillary services	1,790,768	-	-	-	1,790,768
Community services	311,705	-	-	-	311,705
Debt service:					
Principal	-	-	22,412,864	-	22,412,864
Interest and fees	-	194,500	7,188,357	-	7,382,857
Total expenditures	244,319,341	31,029,250	29,601,221	8,386,627	313,336,439
Excess (deficiency) of revenues over (under) expenditures	(3,400,303)	(8,068,365)	4,294,393	5,896,623	(1,277,652)
Other financing sources (uses):					
Transfers in	32,374	7,008,356	-	600,000	7,640,730
Transfers out	(600,000)	-	-	(7,040,730)	(7,640,730)
Proceeds from bond issuance	-	40,000,000	-	-	40,000,000
Premium from bond issuance	-	-	1,300,428	-	1,300,428
Total other financing sources (uses)	(567,626)	47,008,356	1,300,428	(6,440,730)	41,300,428
Net changes in fund balances	(3,967,929)	38,939,991	5,594,821	(544,107)	40,022,776
Fund balances beginning	53,303,754	55,136,110	32,734,711	7,859,000	149,033,575
Fund balances ending	$ 49,335,825	$ 94,076,101	$ 38,329,532	$ 7,314,893	$ 189,056,351

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

Palo Alto Unified School District
Reconciliation of the Governmental Funds Statement of
Revenues and Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds		$ 40,022,776
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year capital additions	$ 27,160,586	
Depreciation expense	(15,447,912)	11,712,674
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		84,288
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The net effect of these differences in the treatment of long-term debt and related items is as follows:		
Repayment of bond principal	22,412,864	
Proceeds from issuance of bond	(40,000,000)	
Bond premiums	(1,300,428)	(18,887,564)
Discounts and premiums related to bond issues is recorded as other financing sources and uses in the fund financial statements, but is recorded as assets or liabilities and amortized over the life of the bond in the Statement of Net Position:		
Amortization of deferred loss	$ (513,989)	
Amortization of premiums	312,572	(201,417)
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation used exceeded the amounts earned.		4,098
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		1,036,673
In the Statement of Activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net postemployment benefit obligation is not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the Statement of Activities in the amount of:		(1,508,079)
Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements.		(6,721,532)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		1,097,000
Changes in net position of governmental activities		$ 26,638,917

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

Palo Alto Unified School District
Statement of Net Position
Proprietary Fund
June 30, 2018

	Governmental Activities - Internal Service Fund
	Self-Insurance
Assets	
Current assets:	
Cash and investments	$ 6,375,010
Accounts receivable	25,280
Due from other funds	175,652
Total current assets	$ 6,575,942
Liabilities	
Current liabilities:	
Accounts payable	$ 8,978
Non-current liabilities:	
Workers' Compensation Claims liabilities	4,297,000
Total Liabilities	$ 4,305,978
Net Position	
Restricted for insurance programs	$ 2,269,964
Total Net Position	$ 2,269,964

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

Palo Alto Unified School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities - Internal Service Fund
	Self-Insurance
Operating Revenues	
In-district premiums	$ 2,185,082
Operating Expenses	
Payroll costs	30,173
Supplies and materials	23,517
Claims expense	2,128,661
Total operating expenses	2,182,351
Operating income (loss)	2,731
Nonoperating Revenues (Expenses)	
Interest income	81,557
Net changes in net position	84,288
Total net position - beginning	2,185,676
Total net position - ending	$ 2,269,964

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

Palo Alto Unified School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities - Internal Service Fund
	Self-Insurance
Cash Flows from Operating Activities	
Receipts from user charges	$ 1,998,682
Payments to employees	(30,432)
Payments for insurance claims	(2,128,661)
Payments to vendors	(18,544)
Net cash provided by (used for) operating activities	(178,955)
Cash Flows from Investing Activities	
Interest income	81,557
Net cash provided by (used for) investing activities	81,557
Increase (decrease) in Cash and Cash Equivalents	(97,398)
Cash and Cash Equivalents - Beginning	6,472,408
Cash and Cash Equivalents - Ending	$ 6,375,010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 2,731
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Decrease (increase) in operating assets	
Accounts receivable	(10,748)
Due from other funds	(175,652)
Increase (decrease) in operating liabilities	
Accounts payable	4,973
Due to other funds	(259)
Net cash provided by (used for) operating activities	$ (178,955)

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

Palo Alto Unified School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	Agency Funds
Assets	
Cash and investments	$ 1,534,845
Total Assets	$ 1,534,845
Liabilities	
Due to student groups	$ 530,300
Scholarships	1,004,545
Total Liabilities	$ 1,534,845

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

Notes to the Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Palo Alto Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues result from non-exchange transactions or ancillary activities.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary and proprietary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means 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. For the District, “available” means collectible within the current period or within 45 to 60 days after year-end. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as unearned revenue. Security deposits for leased facilities are recorded as unearned in the government-wide statements and in the fund statements.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, than unrestricted resources as they are needed.

E. <u>Fund Accounting</u>

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into governmental (major and nonmajor), proprietary and fiduciary funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and nonmajor governmental funds:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Two funds currently defined as special revenue funds in the California School Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Revenue Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds and may not be used for any purposes other than those for which the bonds were issued.

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund.

The District maintains four nonmajor special revenue funds.

- The *Adult Education Fund* is used to account separately for federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

- The *Child Development Fund* is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

- The *Cafeteria Fund* is used to account separately for federal, state and local resources to operate the food service program and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program.

- The *Deferred Maintenance Fund* is used to account for state apportionments and the District's contributions for deferred maintenance purposes and for items of maintenance approved by the State Allocation Board.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains two nonmajor capital projects fund.

- The *Capital Facilities Fund* is used to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development. Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer.

- The *County School Facilities Fund* is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

Proprietary Funds

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis.

- The *Self Insurance Fund* accounts for benefit premiums, such as retirement health, dental and vision.

Fiduciary Funds

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

Agency Funds are used to account for assets of others for which the District acts as an agent. The District's agency fund accounts are for student body activities (ASB) and scholarship activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final 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. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

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, and did not, legally exceed appropriations by major object account.

G. 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. All encumbrances are liquidated on June 30.

H. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (STRS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and STRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this period, the following time frames were used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

I. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

J. Assets, Liabilities, and Equity

a) Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows. Investments held at the balance sheet date with original maturities greater than one year are stated at fair value.

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation. In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the 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.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

The following is a summary of the District's authorized investments:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

c) Inventories and Prepaid Expenditures

Inventories

Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets. Inventories consist of expendable food and supplies held for consumption.

Prepaid expenditures

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

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of $5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset’s lives are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Assets	Years
Buildings	20-50
Improvements	5-50
Equipment	2-15

e) Compensated Absences

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified and certificated school members who retire after January 1, 1999. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave, and each certificated member will receive .0054 year of service credit for each day of unused sick leave.

f) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts as well as issuance costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

g) Fund Balance Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 3 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54*, Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are established, modified, or rescinded only through resolutions or other action as approved by the District's board of education.

- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Under the District's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

- Unassigned includes positive fund balance within the general fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

h) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Educational Program restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Debt service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Cafeteria program restrictions reflect the amounts in the cafeteria fund to be expended for food services and child nutrition programs.

Capital projects restrictions will be used for the acquisition and construction of capital facilities.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

h) Operating Revenue and Expenses (Proprietary Funds)

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating revenues are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

i) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

j) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage. See Note 12 for further disclosure.

k) Interfund Balances and Activity

In the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

l) Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

m) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

K. Implemented New Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of $6,888,791 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the District's financial statements.

L. Upcoming Accounting and Reporting Changes

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2018 is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Governmental Activities:			
Cash on hand	$ 6,869,904	$ 6,869,904	Not Rated
Cash in revolving fund	30,000	30,000	Not Rated
Cash in county treasury investment pool	200,715,535	199,103,326	Aa1
Total Cash Deposits	207,615,439	206,003,230	
Investments:			
California Local Agency Investment Fund	11,472	11,451	N/A
Total Governmental Cash and Investments	207,626,911	206,014,680	
Proprietary Funds:			
Cash with fiscal agent	90,000	90,000	Not Rated
Total Proprietary Cash and Investments	90,000	90,000	
Total Government-Wide Cash and Investments	$ 207,716,911	$ 206,104,680	
Fiduciary Funds:			
Cash in banks	$ 530,300	$ 530,300	Not Rated
Certificates of deposit	1,004,545	1,004,545	Not Rated
Total Fiduciary Cash and Investments	$ 1,534,845	$ 1,534,845	

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2018, the bank balance of the District's accounts with banks was $1,570,113, which exceeded FDIC limits by $1,070,113.

Cash in County Treasury Investment Pool

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with 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.

Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized cost which approximates fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Entity has the following recurring fair value measurements as of June 30, 2018:

- 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.
- The California Local Agency Investment Fund (LAIF) of $11,451 was valued using Level 2 inputs

Policies and Practices

The District is authorized under California Government Code Section 53635 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.

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of Santa Clara Investment Pool. The pool has a fair value of approximately $7.5 billion and an amortized book value of $7.6 billion. The weighted average maturity for this pool as of June 30, 2018 is 479 days and holds no derivative products.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of Santa Clara Investment Pool is governed by the County's general investment policy. The investment with the County of Santa Clara Investment Pool is rated at least Aa1 by Moody's Investor Service.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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.

3. ACCOUNTS RECEIVABLE

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

Receivables	General Fund	Building Fund	Bond Interest & Redemption Fund	Nonmajor Funds	Total Governmental Funds	Proprietary Fund
Federal Government	$ 1,342,121	$ -	$ -	$ 161,898	$ 1,504,019	$ -
State Government	794,505	-	-	55,638	850,143	-
Local Government	52,489	-	-	-	52,489	-
Unrestricted	2,849,862	243,239	110,404	45,261	3,248,766	25,280
Total Accounts Receivable	$ 5,038,977	$ 243,239	$ 110,404	$ 262,797	$ 5,655,417	$ 25,280

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2018 were as follows:

Capital Assets	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Land - not depreciable	$ 9,726,493	$ 744,032	$ -	$ 10,470,525
Work-in-progress - not depreciable	10,365,279	23,648,636	(2,499,501)	31,514,414
Land Improvements	45,890,794	2,034,611	-	47,925,405
Buildings and Improvements	583,743,477	18,461,764	-	602,205,241
Furniture and Equipment	9,974,753	283,953	(114,689)	10,144,017
Library Collections	293,406	-	-	293,406
Total capital assets	659,994,202	45,172,996	(2,614,190)	702,553,008
Less accumulated depreciation for:				
Land Improvements	15,035,009	2,303,436	-	17,338,445
Buildings and Improvements	295,907,885	12,498,871	-	308,406,756
Furniture and Equipment	6,940,617	645,606	(114,689)	7,471,534
Library Collections	293,406	-	-	293,406
Total accumulated depreciation	318,176,917	15,447,913	(114,689)	333,510,141
Total capital assets - net depreciation	$ 341,817,285	$ 29,725,083	$ (2,499,501)	$ 369,042,867

During the year, the District increased buildings and improvements by $15,212,909 to account for work-in-progress that had been completed as of July 1, 2017. After the decrease to net position of $6,888,791 from the implementation of GASB 75, the net increase to net position was $8,624,069.

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 10,071,168
Supervision of instruction	632,599
Instruction library, media and technology	220,482
School site administration	1,029,435
Home-to-school transportation	170,428
Food services	188,669
All other pupil services	866,690
Data processing services	332,360
All other general administration	498,940
Plant services	1,332,069
Ancillary services	93,497
Community services	11,575
Total depreciation expense	$ 15,447,912

5. RELATED PARTY RECEIVABLE

On September 15, 2015, the District granted a secured note receivable to its Superintendent, as part of his employment agreement with the District, in the amount of $1,458,888 bearing no interest for the purpose of securing a principal residence in the Palo Alto area. The Note was due and payable in full upon the occurrence of the following events, whichever occurs first: 1) cessation of employment, or 2) sale of the property. On October 31, 2017, after the Superintendent's termination of employment with the District, the property was sold to the District to pay off the Note in full.

6. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements. Interfund receivables and payables *(Due From/Due To)* consisted of the following as of June 30, 2018:

Fund	Due From	Due To
General Fund	$ 1,662,714	$ 381,734
Building Fund	25,000	1,458,968
Nonmajor Funds	181,081	203,747
Internal Service Self-Insurance Fund	175,654	-
Totals	$ 2,044,449	$ 2,044,449

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

Fund	Transfers In	Transfers Out
General Fund	$ 32,374	$ 600,000
Building Fund	7,008,356	-
Nonmajor Funds	600,000	7,040,730
Totals	$ 7,640,730	$ 7,640,730

7. ACCOUNTS PAYABLE

Accounts payable consisted of the following as of June 30, 2018:

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmtental Funds	Proprietary Funds
Vendor payables	$ 2,725,129	$ 3,983,807	$ 643,660	$ 7,352,596	$ 8,978
Salaries and benefits	2,426,369	1,119	17,157	2,444,645	-
Total payables	$ 5,151,498	$ 3,984,926	$ 660,817	$ 9,797,241	$ 8,978

8. UNEARNED REVENUE

Unearned revenue consisted of the following as of June 30, 2018:

Resource	General Fund	Building Fund	Nonmajor Governmental Funds	Total
Other federal financial assistance	$ 15,882	$ -	$ 337,604	$ 353,486
State assistance	962,636	-	-	962,636
Local assistance	1,063,265	2,308	112,705	1,178,278
Palo Alto Partners in Education	5,750,000	-	-	5,750,000
Total unearned revenue	$ 7,791,783	$ 2,308	$ 450,309	$ 8,244,400

9. LONG-TERM LIABILITIES

Schedule of Changes in Long-term Liabilities

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2018, is shown below:

Description	Balance July 01, 2017	Additions	Adjustments & Deletions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds	$ 342,315,195	$ 49,754,096	$ 24,457,572	$ 367,611,719	$ 29,259,344
Net Pension Obligations	210,457,178	42,740,212	-	253,197,390	-
Net OPEB Liability	15,240,979	7,555,867	-	22,796,846	-
Compensated Absences	773,146	386,573	390,671	769,048	-
Total Long-term Liabilities	$ 568,786,498	$ 100,436,748	$ 24,848,243	$ 644,375,003	$ 29,259,344

Payments on the general obligation bonds were made from the Bond Interest and Redemption Fund using local revenues. Compensated absences, pension liabilities were paid by the fund for which the employee worked. The OPEB obligations were paid by the General Fund.

General Obligation Bonds Payable

The following summarizes the general obligation bonds outstanding as of June 30, 2018:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2017	Issued	Adjustments & Redeemed	Bonds Outstanding June 30, 2018
2008 GOB, Series 2008	2034	2.5-3.0%	$119,999,249	$ 104,086,553	$ -	$ 3,142,864	$ 100,943,689
2008 GOB, Series 2010	2028	4.7-5.8%	25,000,000	25,000,000	-	-	25,000,000
2012 GORB	2025	0.4-2.9%	52,845,000	48,545,000	-	8,795,000	39,750,000
2008 GOB, Series 2013	2037	2.0-3.5%	70,000,000	51,240,000	-	1,700,000	49,540,000
2008 GOB, Series 2014	2024	2.0-3.25%	40,000,000	17,975,000	-	1,525,000	16,450,000
2008 GOB, Series 2016	2035	2.0-4.0%	45,000,000	34,000,000	-	7,250,000	26,750,000
2008 GOB, Series 2018	2039	2.5-5.0%	40,000,000	-	40,000,000	-	40,000,000
Subtotal General Obligation Bonds			392,844,249	280,846,553	40,000,000	22,412,864	298,433,689
Accreted Interest		5.0-5.5%		56,806,067	8,453,668	1,732,136	63,527,599
Bond Premiums			12,271,304	4,662,575	1,300,428	312,572	5,650,431
Total General Obligation Bonds				$ 342,315,195	$ 49,754,096	$ 24,457,572	$ 367,611,719

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

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

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

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

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

On May 10, 2016, the District issued 2008 General Obligation Bonds, Series 2016 which consisted of current interest bonds with an initial par amount of $45,000,000, with stated interest rates of 2.00% to

4.00% and maturing through August 1, 2035. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

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

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

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 29,259,344	$ 7,488,843	$ 36,748,187
2020	25,413,383	8,650,359	34,063,742
2021	22,622,790	8,127,383	30,750,173
2022	22,528,463	8,223,301	30,751,764
2023	11,266,041	12,701,485	23,967,526
2024-2028	65,386,916	71,239,536	136,626,452
2029-2033	59,796,240	86,157,548	145,953,788
2034-2038	58,160,512	21,719,647	79,880,159
2039-2043	4,000,000	135,000	4,135,000
Total Debt Service	$ 298,433,689	$ 224,443,102	$ 522,876,791

The annual tax credit subsidies to be received from the U.S. Treasury, for the Series 2010 qualified school construction bonds, outstanding as of June 30, 2018, are as follows:

For the Fiscal Year Ending June 30,	Total
2019	$ 1,247,424
2020	1,291,404
2021	1,312,438
2022	1,266,494
2023	1,206,888
2024-2028	3,690,037
Total Debt Service	$ 10,014,685

10. OPERATING LEASE REVENUE

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

Future minimum lease payments under these agreements are as follows:

Fiscal Year Ending June 30,	Lease Revenue
2019	$ 8,560,568
2020	8,904,935
2021	2,715,861
2022	2,797,337
2023	1,697,062
2024-2028	9,280,230
2029-2033	10,758,329
Total Minimum Lease Payments	$ 44,714,322

11. COMMITMENTS AND CONTINGENCIES

Litigation

The District may be exposed to various litigation arising from the normal course of business. Management believes, based on consultation with legal counsel, that the ultimate resolution of legal matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Awards, and Grants

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

The District had the following construction commitments on unfinished capital project as of June 30, 2018:

Project	Contract Awarded and Change Orders	Remaining Construction Commitment	Expected Date of Completion
Gunn Central building	$ 19,933,192	$ 6,841,876	3/1/2019
Paly Library	10,051,333	2,134,612	11/1/2018
Addison Mordenization	17,371,000	16,621,568	Pending
Clock/Bell/Speaker Replacment Paly	111,339	83,339	8/15/2018
Gunn Fire Alarm replacement	734,750	448,545	9/1/2018
Total Construction Commitments	$ 48,201,614	$ 26,129,940	

12. RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

The District is a participant in the Schools Alliance for Workers' Compensation Excess Self-Funded insurance purchasing pool (the Insurance Pool). The intent of the Insurance Pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Insurance Pool. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Insurance Pool. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participating school district. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Insurance Pool. Participation in the Insurance Pool is limited to districts that can meet the Insurance Pool's selection criteria.

Employee Medical Benefits

The District has purchased health insurance for its employees with rates that are set through an annual calculation process by the health plan providers. The District pays the health plan provider a monthly premium.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims including future claim adjustment expenses and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The self-insurance fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, June 30, 2016	$ 4,797,000
Claims and changes in estimates	1,253,913
Adjustments	(1,172,193)
Claims payments	(581,720)
Liability Balance, June 30, 2017	4,297,000
Claims and changes in estimates	236,684
Claims payments	(236,684)
Liability Balance, June 30, 2018	$ 4,297,000
Assets available to pay claims at June 30, 2018	$ 6,375,010

13. EMPLOYEE RETIREMENT SYSTEMS

A. California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalPERS	
	Classic	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	7.0%	6.0%
Required employer contribution rates	15.531%	15.531%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2018, the District contributed $5,924,496 to the CalPERS plan.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
CalPERS	$ 66,389,810

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of measurement dates, June 30, 2016 and 2017 was as follows:

	CalPERS
Proportion - June 30, 2017	0.27660%
Proportion - June 30, 2018	0.27810%
Change - Increase/(Decrease)	0.00150%

For the year ended June 30, 2018, the District recognized pension expense of $12,414,456 for the Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 9,697,276	$ 781,658
Differences between Expected and Actual Experience	2,378,473	-
Differences between Projected and Actual Investment Earnings	2,296,633	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	68,351
Change in Employer's Proportion	767,968	-
Pension Contributions Made Subsequent to Measurement Date	5,924,496	-
Total	$ 21,064,846	$ 850,009

The District reported $5,924,496 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Outflows/(Inflows) of Resources CalPERS
2019	$ 4,114,282
2020	6,811,902
2021	4,621,794
2022	(1,257,636)
2023	-
Thereafter	-
Total	$ 14,290,342

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Varies by age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

		CalPERS
1% Decrease		6.15%
Net Pension Liability	$	97,680,685
Current		7.15%
Net Pension Liability	$	66,389,810
1% Increase		8.15%
Net Pension Liability	$	40,431,409

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

B. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law. The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2018, the District contributed $16,077,393 to the Plan. The following summarizes the District's contributions and the state on-behalf contributions during the year.

	CalSTRS
Employer Contributions	$ 16,077,393
State Contributions	9,004,210
Total	$ 25,081,603

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
District	$ 186,807,580
State	69,436,377
Total	$ 256,243,957

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The state contributed 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047.

The District's proportionate share of the net pension liability for the Plan as of measurement dates, June 30, 2016 and 2017 was as follows:

	CalSTRS
Proportion - June 30, 2017	0.20800%
Proportion - June 30, 2018	0.20200%
Change - Increase/(Decrease)	-0.00600%

For the year ended June 30, 2018, the District recognized pension expense of $9,206,930 for the Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 34,608,660	$ -
Differences between Expected and Actual Experience	690,840	3,258,260
Differences between Projected and Actual Investment Earnings	-	4,975,260
Differences between Employer's Contributions and Proportionate Share of Contributions	5,701,249	421,349
Change in Employer's Proportion	8,978,186	7,860,754
Pension Contributions Made Subsequent to Measurement Date	16,077,393	-
Total	$ 66,056,328	$ 16,515,623

The District reported $16,077,393 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Outflows/(Inflows) of Resources CalSTRS
2019	$ 2,032,879
2020	9,299,829
2021	6,621,309
2022	1,748,059
2023	7,583,849
Thereafter	6,177,387
Total	$ 33,463,312

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Varies by age and service. Approximately 6% average over career including inflation

(2) Net of pension plan investment expenses and administrative expenses, including inflation

(3) Derived using CalSTRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.1 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Long-Term Expected Rate of Return [1]
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return / Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	100.00%	

[1] 20 year average

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

		CalSTRS
1% Decrease		6.10%
Net Pension Liability	$	274,295,800
Current		7.10%
Net Pension Liability	$	186,807,580
1% Increase		8.10%
Net Pension Liability	$	115,808,620

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description.

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District.

Benefits

The District pays 100% of the monthly medical premium for retired employees who choose employee-only coverage. Retirees who choose two-party or family coverage must pay the same dollar amount of the premium as active employees do. The District also pays 100% of the monthly premium for dental, vision and life insurance coverage. All premium amounts change each January 1st. The District pays benefits for a maximum of 5 years, or until the retiree reaches age 65, whichever comes first. No benefits are paid to surviving spouses or other dependents after the retiree's death. After the benefit period expires, retirees are permitted to continue coverage, but the retiree must pay 100% of all premiums.

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

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were $295,749. Total benefit payments included in the measurement period were $346,882. The actuarially determined contribution for the measurement period was $848,754. The District's contributions were .19% of payroll for the fiscal year ended June 30, 2018. Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan. At June 30, 2018, the District's General Fund held total assigned assets in the amount of $2,257,388 consisting of $2,247,903 on deposit with the county treasurer, and $9,485 in receivables.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Assumptions and Methods	
Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Level Percent of Pay
Amortization Period:	20 years
Asset Valuation Method:	20 years
Actuarial Assumptions:	
Discount Rate	3.56%
Inflation	2.75%
Salary Increases	3.25%
Healthcare Trend Rate	6.5% down to 4.5% in 2022
Mortality	Mortality rates were taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and the 2016 STRS valuation (for certificated employees).

Discount Rate

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017 (measurement date) and was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

Changes in the Total OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018, for the measurement date of June 30, 2017:

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balances at 6-30-2017	$ 22,476,652	$ -	$ 22,476,652
Changes for the year			
Service cost	1,255,915	-	1,255,915
Interest	651,254	-	651,254
Differences between expected and actual experience	-	-	-
Assumption changes	(1,240,093)	-	(1,240,093)
Benefit changes	-	-	-
Contributions - employer	-	346,882	(346,882)
Net investment income	-	-	-
Benefit payments	(346,882)	(346,882)	-
Administrative expense	-	-	-
Net changes	320,194	-	320,194
Balances at 6-30-2018	$ 22,796,846	$ -	$ 22,796,846

The District's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	1,136,752
OPEB contribution subsequent to measurement date	295,749	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Total	$ 295,749	$ 1,136,752

Of the total amount reported as deferred outflows of resources related to OPEB, $295,749 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	$ (103,341)
2020	(103,341)
2021	(103,341)
2022	(103,341)
2023	(103,341)
Thereafter	(620,047)
Total	$ (1,136,752)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018, for the measurement date of June 30, 2017:

Service cost	$ 1,255,915
Interest	651,254
Expected investment return	-
Administrative expense	-
NOL change due to amendments	-
Recognitions of other NOL changes	(103,341)
Total	**$ 1,803,828**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018, for the measurement date of June 30, 2017:

NOL at beginning of year	$ 22,476,652
Annual OPEB expense	1,803,828
Contributions	(346,882)
Unrecognized deferred outflows/inflows of resources	(1,136,752)
NOL at end of year	**$ 22,796,846**

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	1% Decrease 2.56%	Discount Rate 3.56%	1% Increase 4.56%
Net OPEB Liability (Asset)	$ 24,768,189	$ 22,796,846	$ 21,004,310

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	1% Decrease 3.5% - 5.5%	Trend Rate 4.5% - 6.5%	1% Increase 5.5% - 7.5%
Net OPEB Liability (Asset)	$ 20,629,896	$ 22,796,846	$ 25,302,998

REQUIRED SUPPLEMENTARY INFORMATION

Palo Alto Unified School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
LCFF sources	$ 179,230,666	$ 184,225,236	$ 184,425,781	$ 200,545
Federal revenues	3,322,792	3,459,396	3,355,251	(104,145)
Other state	10,301,937	14,031,215	15,803,915	1,772,700
Other local	35,193,334	39,349,791	37,334,091	(2,015,700)
Total revenues	228,048,729	241,065,638	240,919,038	(146,600)
Expenditures:				
Certificated salaries	108,036,464	112,911,332	112,911,332	-
Classified salaries	38,339,231	41,419,741	41,419,741	-
Employee benefits	54,681,919	58,213,150	58,213,150	-
Books and supplies	5,583,825	5,687,639	5,687,639	-
Services and other operating expenditures	21,920,214	25,900,405	25,900,405	-
Capital outlay	270,000	291,590	291,590	-
Other outgo	(117,371)	39,709	(104,516)	144,225
Total expenditures	228,714,282	244,463,566	244,319,341	144,225
Excess (deficiency) of revenues over (under) expenditures	(665,553)	(3,397,928)	(3,400,303)	(2,375)
Other financing sources (uses):				
Transfers in	30,000	45,800	32,374	(13,426)
Transfers out	(450,000)	(465,800)	(600,000)	(134,200)
Total other financing sources (uses)	(420,000)	(420,000)	(567,626)	(147,626)
Change in fund balance	(1,085,553)	(3,817,928)	(3,967,929)	(150,001)
Fund balance beginning	53,303,754	53,303,754	53,303,754	-
Fund balance ending	$ 52,218,201	$ 49,485,826	$ 49,335,825	$ (150,001)

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures can not legally exceed appropriations by maor object. The above expenditures were in accordance with Education Code 42600.

Palo Alto Unified School District

Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2018

CalPERS Plan Fiscal Year Ended	**2018**	**2017**	**2016**	**2015**
Contractually Required Contributions	$ 5,924,496	$ 4,925,764	$ 3,934,909	$ 3,412,370
Contributions in Relation to Contractually Required Contributions	5,924,496	4,925,764	3,934,909	3,412,370
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Employee Payroll	**$ 38,146,262**	**$ 35,467,771**	**$ 33,213,551**	**$ 29,823,192**
Contributions as a Percentage of Covered Payroll	**15.53%**	**13.89%**	**11.85%**	**11.44%**

Notes to Schedule:

Valuation Date:	June 30, 2016
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll and Direct Rate Smoothing
	4 Years Remaining Amortization Period
	Inflation Assumed at 2.75%
	Investment Rate of Returns set at 7.5%
	CalPERS mortality table using 20 years of membership data for all funds

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

Palo Alto Unified School District

Schedule of CalPERS Proportionate Share
Of Net Pension Liability
For the Fiscal Year Ended June 30, 2018

CalPERS Plan

Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.27810%	0.27114%	0.26928%	0.26824%
Proportionate Share of Net Pension Liability	$ 66,389,810	$ 53,549,525	$ 39,691,967	$ 30,451,905
Covered Payroll	$ 35,467,771	$ 33,213,551	$ 29,823,192	$ 28,266,649
Proportionate Share of NPL as a % of Covered Payroll	**187.18%**	**161.23%**	**133.09%**	**107.73%**
Plan's Fiduciary Net Position as a % of the TPL	**71.87%**	**73.90%**	**79.43%**	**83.38%**

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

Palo Alto Unified School District

Schedule of CalSTRS Pension Plan Contributions

For the Fiscal Year Ended June 30, 2018

CalSTRS Plan

Fiscal Year Ended	2018	2017	2016	2015
Contractually Required Contributions	$ 16,077,393	$ 13,602,277	$ 10,810,489	$ 8,218,669
Contributions in Relation to Contractually Required Contributions	16,077,393	13,602,277	10,810,489	8,218,669
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	**$ 111,416,445**	**$ 108,126,208**	**$ 100,750,130**	**$ 83,779,040**
Contributions as a Percentage of Covered Payroll	**14.43%**	**12.58%**	**10.73%**	**9.81%**

Notes to Schedule:

Valuation Date: June 30, 2016

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll
7 Years Remaining Amortization Period
Inflation Assumed at 3.00%
Investment Rate of Returns set at 7.50%
STRS mortality table using membership data for all funds

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Palo Alto Unified School District
Schedule of CalSTRS Proportionate Share
Of Net Pension Liability
For the Fiscal Year Ended June 30, 2018

CalSTRS Plan Fiscal Year Ended	**2018**	**2017**	**2016**	**2015**
Proportion of Net Pension Liability	0.20200%	0.19400%	0.19118%	0.20007%
Proportionate Share of Net Pension Liability	$ 186,807,580	$ 156,907,653	$ 128,709,093	$ 116,913,315
Covered Payroll	$ 108,126,208	$ 100,750,130	$ 83,779,040	$ 89,006,480
Proportionate Share of NPL as a % of Covered Payroll	**172.77%**	**155.74%**	**153.63%**	**131.35%**
Plan's Fiduciary Net Position as a % of the TPL	**69.46%**	**70.04%**	**74.02%**	**76.52%**

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Palo Alto Unified School District

Schedule of Contributions for Postemployment Benefits

For the Fiscal Year Ended June 30, 2018

Year ending	2018
Actuarially Determined Contributions	$ 848,754
Less: actual contribution in relation to ADC	(295,749)
Contribution deficiency (excess)	$ 553,005
Covered payroll for the fiscal year 2017/18	$ 155,669,352
Contributions as a percentage of covered payroll	0.19%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Level Percent of Pay
Amortization Period:	20 years
Asset Valuation Method:	20 years
Actuarial Assumptions:	
Discount Rate	3.56%
Inflation	2.75%
Salary Increases	3.25%
Healthcare Trend Rate	6.5% down to 4.5% in 2022
Mortality	Mortality rates were taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and the 2016 STRS valuation (for certificated employees).

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

Palo Alto Unified School District
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2018

	2018
Total OPEB liability	
Service cost	$ 1,255,915
Interest	651,254
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(1,240,093)
Benefit payments	(346,882)
Net change in Total OPEB Liability	320,194
Total OPEB Liability - beginning	22,476,652
Total OPEB Liability - ending	$ 22,796,846
Plan fiduciary net position	
Contributions - employer	$ 346,882
Net investment income	-
Benefit payments	(346,882)
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	$ -
Net OPEB liability	$ 22,796,846
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered employee payroll	$ 150,769,348
Net OPEB Liability as a percentage of covered payroll	15.12%

GASB 75 requires this for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budget for the General Fund IS presented as Required Supplementary Information. The basis of budgeting is the same as GAAP and there were not expenditures in excess of appropriations during the year.

NOTE 2 - SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

These schedules present information on the District's portion of the Net Pension Liability of CalSTRS and the Net Pension Liability of CalPERS in compliance with GASB 68.

NOTE 3 - SCHEDULES OF THE DISTRICT'S CONTRIBUTIONS

These schedules provide information about the District's required and actual contributions to CalSTRS and CalPERS.

NOTE 4 - SCHEDULE OF CONTRIBUTIONS FOR POSTEMPLOYMENT BENEFITS

These schedules provide information about the District's actuarially determined contribution and actual contributions for other postemployment benefits.

NOTE 5 - SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

This schedule presents information on the District's changes in total OPEB liability in compliance with GASB 75.

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds
Combining Schedules

Palo Alto Unified School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Funds				Capital Projects Funds		
	Cafeteria Fund	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Nonmajor Governmental Funds
Assets							
Cash and investments	$576,876	$2,169,118	$ 263,595	$ 824,191	$4,253,084	$ 31,803	$ 8,118,667
Accounts receivable	2,705	168,702	55,114	3,616	32,594	66	262,797
Due from other funds	28,386	2,695	150,000	-	-	-	181,081
Prepaid expenditures	9,875	165	-	-	-	-	10,040
Stores inventories	22,684	34,497	-	-	-	-	57,181
Total Assets	$640,526	$2,375,177	$ 468,709	$ 827,807	$4,285,678	$ 31,869	$ 8,629,766
Liabilities and Fund Balance							
Liabilities:							
Accounts payable	$ 24,586	$ 75,069	$ 468,709	$ 92,453	$ -	$ -	$ 660,817
Due to other funds	61,380	109,993	-	-	32,374	-	203,747
Unearned revenue	337,604	112,705	-	-	-	-	450,309
Total Liabilities	423,570	297,767	468,709	92,453	32,374	-	1,314,873
Fund Balances:							
Nonspendable stores inventories	22,684	34,497	-	-	-	-	57,181
Nonspendable prepaid expenditures	9,875	165	-	-	-	-	10,040
Restricted for cafeteria programs	177,466	-	-	-	-	-	177,466
Restricted for capital projects	-	-	-	-	4,253,304	31,869	4,285,173
Committed for educational programs	-	2,042,748	-	-	-	-	2,042,748
Committed for site repairs	-	-	-	735,354	-	-	735,354
Committed for cafeteria programs	6,931	-	-	-	-	-	6,931
Total Fund Balance	216,956	2,077,410	-	735,354	4,253,304	31,869	7,314,893
Total Liabilities and Fund Balances	$640,526	$2,375,177	$ 468,709	$ 827,807	$4,285,678	$ 31,869	$ 8,629,766

Palo Alto Unified School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds				Capital Projects Funds		
	Cafeteria Fund	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Nonmajor Governmental Funds
Revenues:							
Federal revenue	$ 578,205	$ 159,193	$ -	$ -	$ -	$ -	$ 737,398
Other state	37,776	1,552,380	616,129	-	-	7,008,356	9,214,641
Other local	2,344,858	812,379	-	11,358	1,139,617	22,999	4,331,211
Total revenues	2,960,839	2,523,952	616,129	11,358	1,139,617	7,031,355	14,283,250
Expenditures:							
Current							
Instruction	-	1,070,153	766,129	-	-	-	1,836,282
Instruction-related services:							
Supervision of instruction	-	22,590	-	-	-	-	22,590
School site administration	-	1,107,139	-	-	-	-	1,107,139
Pupil services:							
Food services	2,919,898	-	-	-	-	-	2,919,898
General administration:							
All other general administration	-	104,516	-	-	-	-	104,516
Plant services	-	105,323	-	-	-	-	105,323
Facilities acquisition and construction	-	-	-	587,324	1,703,555	-	2,290,879
Total expenditures	2,919,898	2,409,721	766,129	587,324	1,703,555	-	8,386,627
Excess (deficiency) of revenues over (under) expenditures	40,941	114,231	(150,000)	(575,966)	(563,938)	7,031,355	5,896,623
Other financing sources (uses):							
Transfers in	-	-	150,000	450,000	-	-	600,000
Transfers out	-	-	-	-	(32,374)	(7,008,356)	(7,040,730)
Total other financing sources (uses)	-	-	150,000	450,000	(32,374)	(7,008,356)	(6,440,730)
Change in fund balance	40,941	114,231	-	(125,966)	(596,312)	22,999	(544,107)
Fund balance beginning	176,015	1,963,179	-	861,320	4,849,616	8,870	7,859,000
Fund balance ending	$ 216,956	$ 2,077,410	$ -	$ 735,354	$ 4,253,304	$ 31,869	$ 7,314,893

STATE AND FEDERAL AWARD COMPLIANCE SECTION

The Palo Alto Unified School District was founded on March 20, 1893 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District operates twelve elementary, three middle, two high schools, an adult education program, a Young Fives program and two children's centers.

The Board of Education for the fiscal year ended June 30, 2018, was comprised of the following members:

GOVERNING BOARD

Name	Office	Term Expires
Ken Dauber	President	2018
Jennifer DiBrienza	Vice President	2020
Melissa Baten Caswell	Member	2020
Todd Collins	Member	2020
Terry Godfrey	Member	2018

ADMINISTRATION

Name	Title
Karen Hendricks	Interim Superintendent
Cathy Mak	Chief Business Officer
Robert Golton, Ph.D.	Bond Program Manager
Anne Brown	Interim Assistant Superintendent, Human Resources
Yolanda Conaway	Assistant Superintendent, Strategic Initiatives and Operations
Sharon Ofek	Chief Academic Officer, Secondary
Barbara Harris	Chief Academic Officer, Elementary

Palo Alto Unified School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report	Annual Report
Regular ADA:		
Grades TK/K through three	3,163.99	3,170.36
Grades four through six	2,664.33	2,666.49
Grades seven and eight	1,991.47	1,992.62
Grades nine through twelve	3,888.95	3,875.27
Regular ADA Total	11,708.74	11,704.74
Extended year special education:		
Grades TK/K through three	3.89	3.89
Grades four through six	3.64	3.64
Grades seven and eight	2.43	2.43
Grades nine through twelve	2.79	2.79
Special education - nonpublic, nonsect schools:		
Grades TK/K through three	1.10	1.22
Grades four through six	0.94	0.94
Grades seven and eight	5.04	5.34
Grades nine through twelve	12.49	12.34
Extended year special education - nonpublic, nonsect schools:		
Grades TK/K through three	-	0.11
Grades seven and eight	0.11	0.11
Grades nine through twelve	0.89	0.89
ADA Totals	11,742.06	11,738.44

Palo Alto Unified School District
Schedule of Instructional Time Offered
For the Fiscal Year Ended June 30, 2018

Grade Level	Minutes Requirements	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	46,555	180	0	In compliance
Grade 1	50,400	51,360	180	0	In compliance
Grade 2	50,400	51,360	180	0	In compliance
Grade 3	50,400	51,360	180	0	In compliance
Grade 4	54,000	54,835	180	0	In compliance
Grade 5	54,000	54,835	180	0	In compliance
Grade 6	54,000	60,500	180	0	In compliance
Grade 7	54,000	60,500	180	0	In compliance
Grade 8	54,000	60,500	180	0	In compliance
Grade 9	64,800	66,670	180	0	In compliance
Grade 10	64,800	66,670	180	0	In compliance
Grade 11	64,800	66,670	180	0	In compliance
Grade 12	64,800	66,670	180	0	In compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

The District has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has exceeded its target funding.

Palo Alto Unified School District
Schedule of Charter Schools (Unaudited)
June 30, 2018

This schedule is provides to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Palo Alto Unified School District.

Palo Alto Unified School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

	(Budget [1]) 2019	2018	2017	2016
General Fund				
Revenues and other financial sources	$ 246,350,705	$ 231,947,202	$ 221,190,537	$ 223,883,708
Expenditures	243,965,436	235,315,131	223,307,540	213,447,591
Other uses and transfers (out)	895,975	600,000	450,000	460,473
Total outgo (2)	244,861,411	235,915,131	223,757,540	213,908,064
Change in fund balance	$ 1,489,294	$ (3,967,929)	$ (2,567,003)	$ 9,975,644
Ending fund balance	$ 50,825,119	$ 49,335,825	$ 53,303,754	$ 55,870,757
Available reserves (3)	$ 24,177,169	$ 23,940,309	$ 21,536,772	$ 21,034,272
Reserve for economic uncertainties	$ 24,177,169	$ 23,891,468	$ 21,169,935	$ 20,919,051
Unassigned fund balance	$ -	$ 48,841	$ 366,837	$ 115,221
Available reserves as a percentage of total outgo	9.9%	10.1%	9.6%	9.8%
Total long-term debt	$ 615,115,659	$ 644,375,003	$ 568,786,498	$ 547,586,246
Average daily attendance (ADA) at P-2	11,757	11,742	11,823	11,924

ADA has dcreased by 182 over the past three years. The district anticipates ADA to increase by 15.

The general fund balance has decreased by $6,534,932 over the past three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, other uses (total outgo). The fiscal year 2017-18 budget projects a $1,489,294 increase in fund balance.

The district has had an operating deifict in 2 of the past three years. Total long-term debt has increased by $96,788,757 over the past three years.

[1] Budget numbers are based on the first adopted budget of the fiscal year 2018/19, which is unaudited.

[2] Total outgo and revenue and other financial sources does not include onbehalf STRS contributions made by the state.

[3] Available reserves consists of all unassigned fund balances in the general fund, which includes the reserve for

Palo Alto Unified School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

PROGRAM NAME	Federal Catalog Number		Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF AGRICULTURE:				
Passed through California Department of Education:				
Child Nutrition Cluster				
Child Nutrition: School Programs (School Breakfast Needy)	10.553		13526	$ 43,844
Child Nutrition: School Programs (School Breakfast Basic)	10.553		13525	42,045
Child Nutrition: School Programs (NSL Sec 11)	10.555		13396	492,316
Child Nutrition: CCFP Cash in Lieu of Commodities	10.555		13389	84,459
Total Child Nutrition Cluster				662,664
TOTAL U.S. DEPARTMENT OF AGRICULTURE				662,664
U. S. DEPARTMENT OF EDUCATION:				
Passed through California Department of Education:				
Special Education Cluster				
Sp Ed: IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	(1)	13379	1,993,593
Sp Ed: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	(1)	10115	34,301
Sp Ed: IDEA Mental Health ADA Allocation, Part B, Sec 611	84.027A	(1)	15197	138,101
Sp Ed: IDEA Preschool Local Entitlement, Part B, Sect 611 (AGE 3-4-5)	84.027A	(1)	13682	173,312
Sp Ed: IDEA Preschool Staff Development, Part B, Sec 619	84.173A	(1)	13431	433
Sp Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	(1)	13430	54,600
Sp Ed: Alternate Dispute Resolution, Part B, Sec 611	84.173A	(1)	13007	5,513
Total Special Education Cluster				2,399,853
Adult Education: Adult Secondary Education (Section 231)	84.002		13978	325
Adult Education: Adult Basic Education & ESL (Section 231)	84.002A		14508	158,868
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048		14894	37,819
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010		14329	205,702
ESEA (ESSA): Title II, Part A, Improving Teacher Quality Local Grants	84.367		14341	133,142
ESEA (ESSA): Title III, English Learner Student Program	84.365		14346	148,017
ESEA (ESSA): Title III, Immigrant Education Program	84.365		15146	96,670
Dept of Rehabilitation: Workability II, Transitions Partnership Program	84.126		10006	334,048
TOTAL U. S. DEPARTMENT OF EDUCATION				3,514,444
TOTAL FEDERAL PROGRAMS				$ 4,177,108

(1) Audited as major program
There were no pass throughs to subrecipients during the year

Palo Alto Unified School District
Reconciliation of Annual Financial and Budget Report (SACS)
With Audited Financial Statements
For the Fiscal Year Ended June 30, 2018

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
June 30, 2018 Annual Financial and Budget Report Fund Balances	$ 30,635,680	$ 16,522,752	$ 2,177,388
Adjustments and Reclassifications:			
To conform with GASB 54, activities included in certain special revenue funds have been reported in the General Fund in the audited financial statements	18,700,145	(16,522,752)	(2,177,388)
June 30, 2018 Audited Financial Statements Fund Balances	$ 49,335,825	$ -	$ -

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments in state funds are made to school Districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

E. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements. The District has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the schedule of federal grant activity as shown on the Schedule of Expenditures of Federal and State Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consisted of the rebated interest on qualified school construction bonds and the fair market value of noncash awards under the National School Lunch Program.

Description	CFDA Number	Amount
Federal revenues as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 5,337,408
Rebated interest on qualified school construction bonds are not included in the Schedule of Expenditures of Federal Awards, but are included in the financial statements:		(1,244,759)
Noncash Federal expenditures are not recorded on the financial statements, but are included in the Schedule of Expenditures of Federal Awards:	10.555	84,459
Total Schedule of Expenditures of Federal Awards		$ 4,177,108

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

Board of Education
Palo Alto Unified School District
Palo Alto, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Alto Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2018 .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

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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.

C & A LLP

November 1, 2018
San Jose, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 CFR PART 200 (UNIFORM GUIDANCE)

Board of Education
Palo Alto Unified School District
Palo Alto, California

Report on Compliance for Each Major Federal Program

We have audited Palo Alto Unified School District's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our

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

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

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

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

C & A LLP

November 1, 2018
San Jose, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS

Board of Education
Palo Alto Unified School District
Palo Alto, California

Compliance

We have audited the Palo Alto Unified School District's (the District) compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Description	Procedures Performed
Local Education Agencies Other than Charter Schools:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials	Yes

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Description	Procedures Performed
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	N/A
School Districts, County Offices of Education, and Charter Schools	
Educator Effectiveness	Yes
California Clean Energy Job Acts	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes-Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for the Full-time Independent Study and Independent Study-Course Based programs because the ADA was under the level that requires testing.

Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2018.

C & A LLP

November 1, 2018
San Jose, California

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FINDINGS AND RECOMMENDATIONS

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses?	____ Yes __x__ No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes __x__ No
Non-compliance material to financial statements noted?	____ Yes __x__ No

Federal Awards

The District did not spend or incur expenditures of $750,000 or more in federal awards.

Internal control over major programs:	
Material weaknesses?	____ Yes __x__ No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes __x__ No
Type of auditor's report issued on compliance over major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes __x__ No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
84.027	Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Section 611 (Formerly PL 94-142)
84.027	Special Ed: IDEA Local Assistance, Part B, Sec 611, Private School ISPs
84.027A	Special Ed: IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)
84.173A	Special Ed: Alternate Dispute Resolution, Part B, Sec 611

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low risk auditee?	__x__ Yes ____ No

State Awards

Internal control over state programs:	
Material weaknesses?	____ Yes __x__ No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes __x__ No
Type of auditor's report issued on compliance over state programs:	Unmodified

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None