Financial Statements
June 30, 2020

Palo Alto Unified School District

Independent Auditor's Report

Governing Board
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 Palo Alto Unified School District (the District) as of and for the year ended June 30, 2020, 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
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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
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 Palo Alto Unified School District, as of June 30, 2020, 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.

Other Matters

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 changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net pension liability, and the schedule of District contributions, 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.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto Unified School District's financial statements. The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2021 on our consideration of Palo Alto Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Palo Alto Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palo Alto Unified School District's internal control over financial reporting and compliance.

Eide Bailly LLP

Menlo Park, California
January 12, 2021

Management's Discussion and Analysis

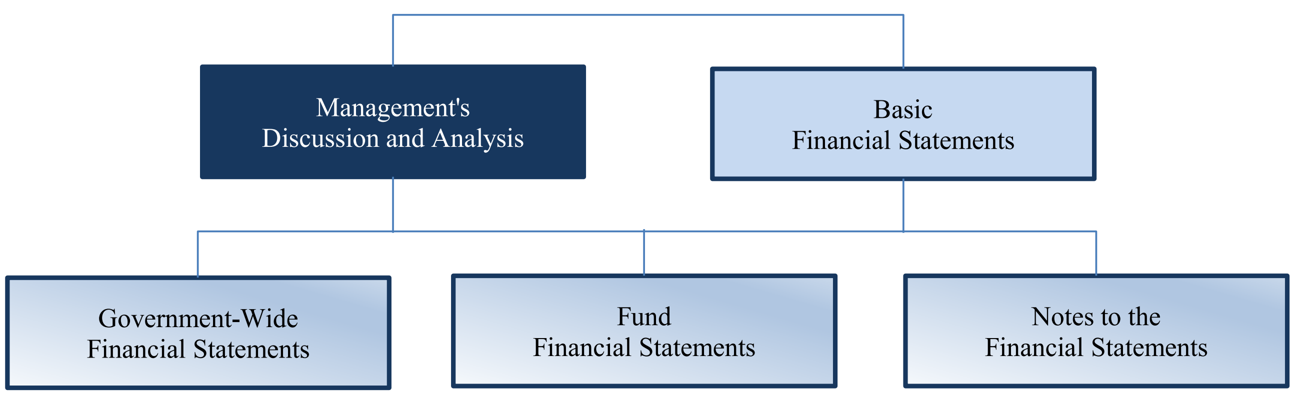
June 30, 2020

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, 2020. 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, 2020 were as follows:

- Total net position increased by $4.94 million (20.62%) from June 30, 2019 to June 30, 2020, which was mainly due to a increase in the net investment in capital assets offset by other components of net position.

The District recorded deferred outflows of resources of $79.77 million, a decrease of 10.13%, and deferred inflows of resources of $22.78 million, an increase of 15.11%, 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 $322.76 million in government-wide expenses which is 98.49% of total government-wide revenues versus 103.07% in the prior year. Program specific revenues in the form of operating grants and contributions and charges for services accounted for $39.42 million, or 16% of the total revenues of $327.71 million.
- General revenue of $288.29 million which includes property taxes, unrestricted federal and state grants and LCFF sources, was 87.97% of total revenues in 2020 versus 89.26% in 2019.
- The fund balances of all governmental funds increased by $29.96 million, which is an 17.94% increase from 2019.
- Total governmental fund revenues and expenditures totaled $326.54 million and $328.19 million, respectively for the fiscal year ended 2020.

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 statement 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. The basic financial statements also include notes that explain some of the information on 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 financial statements, 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 2019-2020?" The Statement of Net Position and the Statement of Net 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.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins with the balance sheet. Fund financial reports provide detailed information about the District's major funds. The District's 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 balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting.

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 excluded 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, 2020 as compared to June 30, 2019.

Table 1 - Summary of Statement of Net Position

(Amounts in millions)	2020	2019	Change	Percentage Change
Assets				
Current assets	$ 243.93	$ 189.46	$ 54.47	28.75%
Capital assets	381.92	377.16	4.76	1.26%
Total Assets	**625.85**	**566.62**	**59.23**	**10.45%**
Total Deferred Outflows of Resources	**79.77**	**88.77**	**(9.00)**	**-10.13%**
Liabilities				
Current liabilities	47.43	22.63	24.80	109.60%
Long-term liabilities	654.42	636.91	17.51	2.75%
Total Liabilities	**701.85**	**659.54**	**42.31**	**6.41%**
Total Deferred Inflows of Resources	**22.78**	**19.79**	**2.99**	**15.11%**
Net Position				
Net investment in capital assets	181.80	101.01	80.79	79.99%
Restricted	14.70	47.81	(33.11)	-69.24%
Unrestricted: excluding pension activities	(2.94)	24.28	(27.22)	112.09%
Unrestricted: related to pension activities	(212.58)	(197.04)	(15.53)	-7.88%
Total Net Position	**$ (19.00)**	**$ (23.94)**	**$ 4.94**	**20.62%**

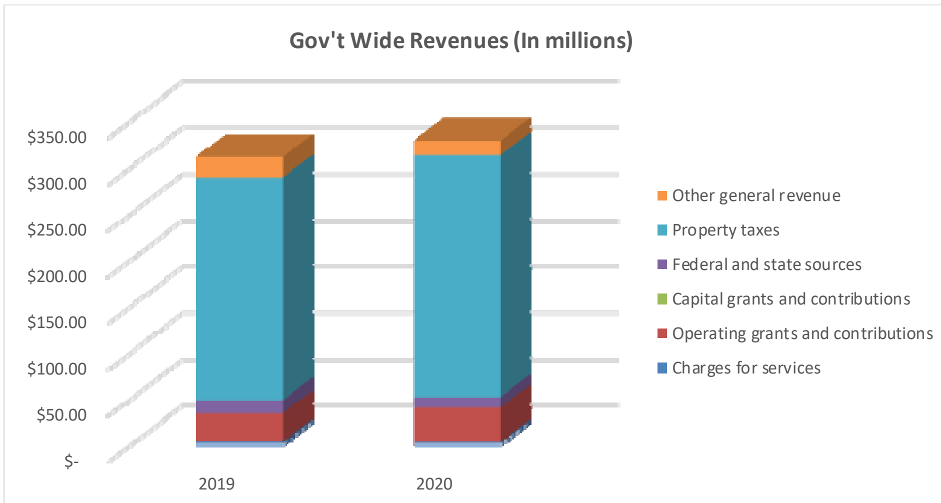
The District's net position was a deficit of $19.00 million for the fiscal year ended June 30, 2020. Of this amount, $215.51 million deficit was unrestricted. The $2.94 million deficit and $212.58 million deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use the net position for day-to-day operations.

Table 2 shows the changes in net position for fiscal year 2020 as compared to 2019:

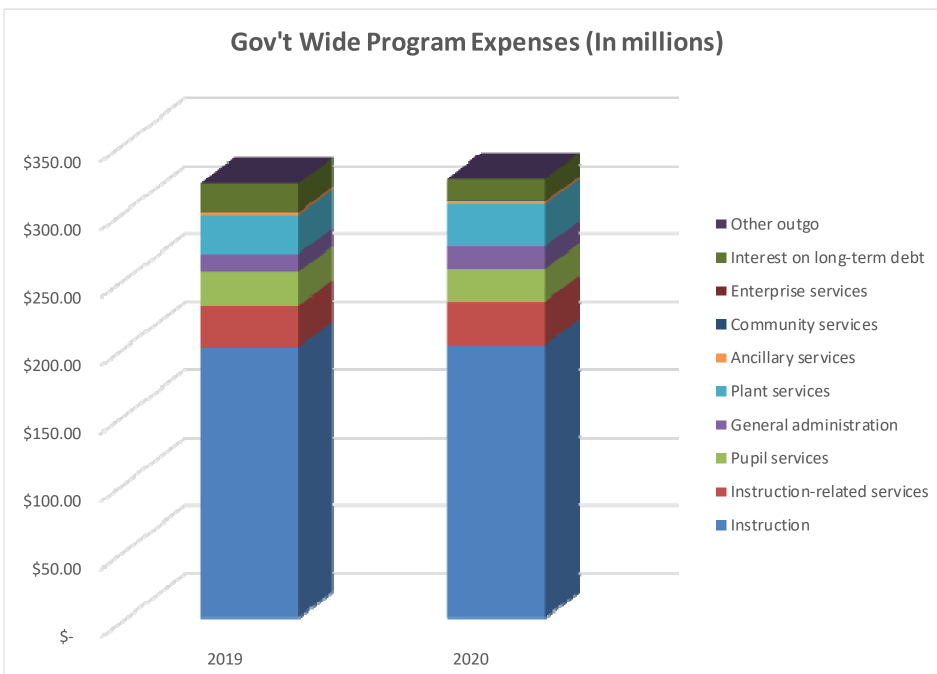
Table 2 - Summary of Changes in Statement of Activities				
(Amounts in millions)	**2020**	**2019**	**Change**	**Percentage Change**
Revenues				
Program revenues	$ 39.42	$ 33.28	$ 6.14	15.58%
General revenues:				
Federal and state sources	11.42	14.27	(2.85)	-24.93%
Property taxes	261.18	240.41	20.77	7.95%
Other general revenue	15.69	22.05	(6.36)	-40.55%
Total Revenues	327.71	310.01	11.56	3.53%
Program Expenses				
Instruction	200.49	198.67	1.82	0.91%
Instruction-related services	32.00	30.60	1.40	4.38%
Pupil services	24.03	25.08	(1.05)	-4.37%
General administration	16.42	13.28	3.14	19.12%
Plant services	30.98	28.51	2.47	7.97%
Ancillary services	1.94	2.12	(0.18)	-9.28%
Community services	0.40	0.30	0.10	24.86%
Enterprise services	0.01	0.18	(0.17)	-1700.00%
Interest on long-term debt	16.48	20.78	(4.30)	-26.09%
Other outgo	0.01	0.01	(0.00)	-13.85%
Total Expenditures	322.76	319.53	3.23	1.00%
Change in Net Position	4.95	(9.52)	8.33	-168.29%
Net Position - Beginning	(23.94)	(14.42)	(9.52)	-39.78%
Net Position - Ending	**$ (19.00)**	**$ (23.94)**	**$ 1.20**	**-208.07%**

The District's expenses for instructional services was 72.03% of total expenses in the fiscal year ended June 30, 2020 as compared to 71.75% in the fiscal year ended June 30, 2019. The purely administrative activities of the District accounted for 5.09% of total costs in the fiscal year ended June 30, 2020 as compared to 4.16% in the fiscal year ended June 30, 2019. Interest on long-term debt represented 5.11% of total expenses in the fiscal year ended June 30, 2020 as compared to 6.50% in the fiscal year ended June 30, 2019. Total expenses were 98.49% of revenue in the fiscal year ended June 30, 2020 versus 103.07% in the fiscal year ended June 30, 2019. Program revenues were 12.03% of total revenues in the fiscal year ended June 30, 2020 and 10.74% of total revenues in the fiscal year ended June 30, 2019. Programs revenues increased by $6.14 million from the prior fiscal year.

The following is a summary of government-wide revenues for the fiscal year ended June 30, 2020:



The following is a summary of expenses by function for the fiscal year ended June 30, 2020:



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				
(Amounts in millions)	**2020**	**2019**	**Change**	**Percentage Change**
Instruction	$ 200.49	$ 175.05	$ 25.44	14.53%
Instruction-related services	32.00	26.93	5.07	18.83%
Pupil services	24.03	20.43	3.60	17.62%
General administration	16.42	12.66	3.76	29.70%
Plant services	30.98	27.89	3.09	11.08%
Ancillary services	1.94	2.02	(0.08)	-3.96%
Community services	0.40	0.30	0.10	33.09%
Enterprise services	0.01	0	(0.17)	100.00%
Interest on long-term debt	16.48	20.78	(4.30)	-20.69%
Other outgo	0.01	0.01	-	0.00%
Total Net Cost	**$ 322.76**	**$ 286.25**	**$ 36.51**	**12.75%**

- 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 conditions.

The District's Funds

As the District completed this year, governmental funds had a reported combined fund balance of $196.97 million, which is an increase of $29.96 million from last year.

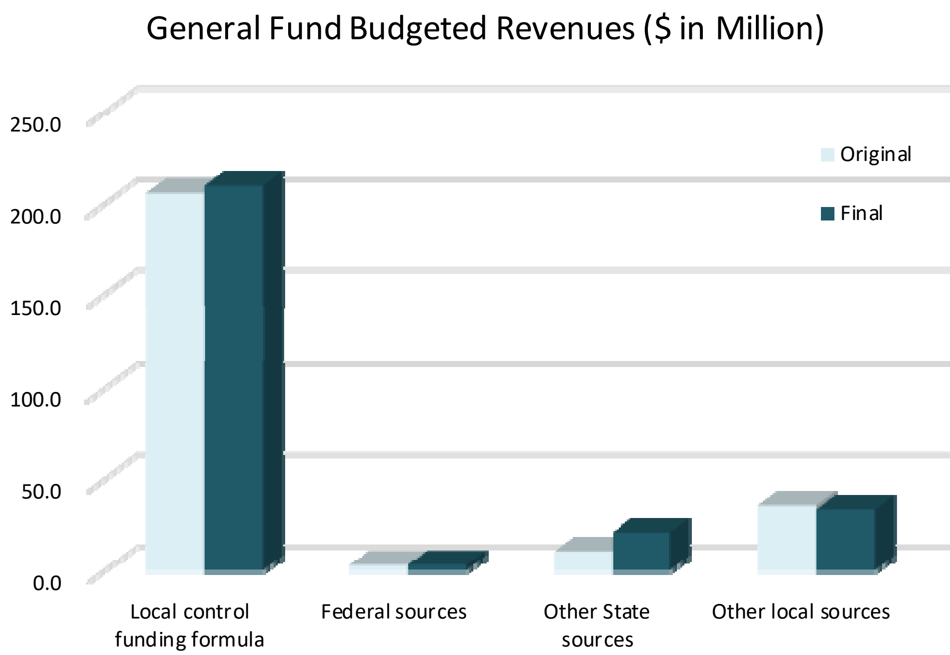
Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

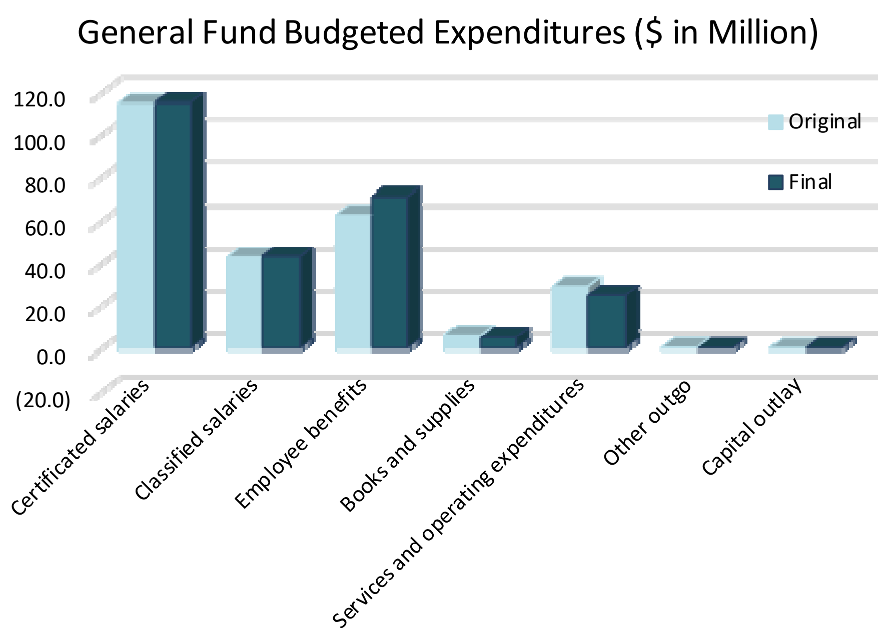
Table 4 - Summary of Fund Balances				
(Amount in millions)	**2020**	**2019**	**Change**	**Percentage Change**
General Fund	$ 58.80	$ 49.90	$ 8.90	17.84%
Building Fund	78.12	69.56	8.56	12.30%
Bond Interest and Redemption Fund	51.28	38.73	12.55	32.41%
Adult Education Fund	1.65	2.01	(0.36)	-17.79%
Cafeteria Fund	0.88	0.32	0.56	174.60%
Deferred Maintenance Fund	1.47	0.98	0.49	49.92%
Capital Facilities Fund	4.73	5.48	(0.75)	-13.68%
County School Facilities Fund	0.03	0.03	0	11.84%
Total Fund Balance	**$ 196.97**	**$ 167.01**	**$ 29.96**	**17.94%**

Significant increase in the total fund balances was predominately due to increases in the fund balances of General Fund, Building Fund and Bond Interest and Redemption Fund. The Increase in General Fund balance was mainly attributable to the increase in property tax revenues. The increases in both Building Fund and Bond Interest and Redemption Fund balances were due to a new issuance of the bonds in the amount of $30 million.

Financial Analysis of the General Fund and Budgeting Highlights

The District's budget is prepared accordingly to California law and in the modified accrual basis of accounting. During the course of the 2019-20 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 Asset and Debt Administration

Capital Assets

At June 30, 2020, the District had $747.76 million in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, depreciation and disposal) of $21.43 million from last year.

Table 5 - Summary of Capital Assets Net of Depreciation				
(Amounts in millions)	**2020**	**2019**	**Change**	**Percentage Change**
Land	$ 10.47	$ 10.47	$ 0.00	0.01%
Construction in progress	34.33	39.98	(5.65)	-14.13%
Land improvements	49.05	48.59	0.46	0.94%
Buildings and improvement	642.85	616.28	26.57	4.31%
Furniture and equipment	11.07	11.01	0.06	0.51%
Total Capital Assets	**$ 747.76**	**$ 726.33**	**$ 21.43**	**2.95%**

Long-Term Liabilities

At the end of this year, the District had $654.42 million in long-term liabilities debt outstanding versus $636.91 million last year, an increase of 2.75%.

Table 6 - Summary of Long-term Liabilities				
(Amounts in millions)	**2020**	**2019**	**Change**	**Percentage Change**
General obligation bonds	$ 360.30	$ 348.29	$ 12.01	3.45%
Net pension liabilities	269.36	266.45	2.91	1.09%
Net OPEB liability	23.77	21.43	2.33	10.89%
Compensated absences	1.00	0.74	0.26	34.48%
Total Long-term Liabilities	**$ 654.42**	**$ 636.91**	**$ 17.50**	**2.75%**

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 years, we need to be cautious that a 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 contributions rates are required of the District.

The employer CalSTRS rate increased by 0.82% in 2019-2020, and decreased by 0.95% in 2020-2021, and 0.15% in 2021-2022, while increasing by 2.1% in 2022-2023.

The employer CalPERS rate for 2019-2020 is 19.72% and is projected to rise steadily. Projected rates are as follows: 20.70% in 2020-2021, 22.84% in 2021-2022, and 25.50% in 2022-2023.

The future predictions and uncertainties required management to plan carefully and prudently to provide the necessary resources to meet student's needs and continue to keep pace with inflation increasing over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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.

	Governmental Activities
Assets	
Deposits and investments	$ 235,578,690
Receivables	8,056,832
Prepaid items	30,707
Stores inventories	267,923
Capital assets not depreciated	44,802,971
Capital assets, net of accumulated depreciation	337,112,754
Total assets	625,849,877
Deferred Outflows of Resources	
Deferred charge on refunding	2,055,956
Deferred outflows of resources related to OPEB	1,126,593
Deferred outflows of resources related to pensions	76,592,310
Total deferred outflows of resources	79,774,859
Liabilities	
Accounts payable	13,799,025
Interest payable	5,249,305
Unearned revenue	8,075,312
Claim liabilities	2,308,000
Short-term loans	18,000,000
Long-term liabilities	
Long-term liabilities other than OPEB and pensions	
Due within one year	32,431,695
Due in more than one year	328,861,039
Net other postemployment benefits (OPEB) liabilities	23,765,293
Aggregage net pension liabilities	269,358,230
Total liabilities	701,847,899
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	2,970,734
Deferred inflows of resources related to pensions	19,810,269
Total deferred inflows of resources	22,781,003
Net Position	
Net investment in capital assets	181,803,471
Restricted for	
Self insurance	4,781,948
Capital projects	4,763,827
Educational programs	4,279,652
Food programs	878,725
Unrestricted	(215,511,789)
Total net position	$ (19,004,166)

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 200,500,183	$ 192,154	$ 29,718,439	$ (170,589,590)
Instruction-related activities				
Supervision of instruction	9,647,627	6,874	1,431,776	(8,208,977)
Instructional library, media, and technology	2,661,464	-	196,182	(2,465,282)
School site administration	19,692,005	7,906	2,913,386	(16,770,713)
Pupil services				
Home-to-school transportation	3,836,990	-	-	(3,836,990)
Food services	3,524,721	1,724,709	1,474,305	(325,707)
All other pupil services	16,668,042	-	1,249,955	(15,418,087)
Administration				
Data processing	5,367,537	-	-	(5,367,537)
All other administration	11,053,646	-	347,076	(10,706,570)
Plant services	30,978,288	-	5,405	(30,972,883)
Ancillary services	1,941,386	-	103,257	(1,838,129)
Community services	399,255	-	-	(399,255)
Enterprise services	10,405	-	-	(10,405)
Interest on long-term liabilities	16,476,691	-	-	(16,476,691)
Other outgo	10,000	41,565	8,226	39,791
Total governmental activities	$ 322,768,240	$ 1,973,208	$ 37,448,007	(283,347,025)
General Revenues and Subventions				
Property taxes, levied for general purposes				201,860,449
Property taxes, levied for debt service				43,949,925
Taxes levied for other specific purposes				15,366,422
Federal and State aid not restricted to specific purposes				11,422,154
Interest and investment earnings				6,601,207
Interagency revenues				1,490,717
Miscellaneous				7,596,576
Total general revenues and transfers				288,287,450
Change in Net Position				4,940,425
Net Position - Beginning				(23,944,591)
Net Position - Ending				$ (19,004,166)

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	$ 85,202,860	$ 84,276,122	$ 51,139,943	$ 8,414,794	$ 229,033,719
Receivables	7,166,569	384,583	141,319	339,525	8,031,996
Due from other funds	202,133	-	-	977,240	1,179,373
Prepaid expenditures	20,832	-	-	9,875	30,707
Stores inventories	203,261	-	-	64,662	267,923
Total assets	$ 92,795,655	$ 84,660,705	$ 51,281,262	$ 9,806,096	$ 238,543,718
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 6,898,078	$ 6,541,293	$ -	$ 359,654	$ 13,799,025
Due to other funds	1,497,381	-	-	202,133	1,699,514
Other current liabilities	18,000,000	-	-	-	18,000,000
Unearned revenue	7,596,543	2,352	-	476,417	8,075,312
Total liabilities	33,992,002	6,543,645	-	1,038,204	41,573,851
Fund Balances					
Nonspendable	254,093	-	-	74,537	328,630
Restricted	4,276,018	78,117,060	51,281,262	5,601,984	139,276,324
Committed	-	-	-	3,091,371	3,091,371
Assigned	45,399,569	-	-	-	45,399,569
Unassigned	8,873,973	-	-	-	8,873,973
Total fund balances	58,803,653	78,117,060	51,281,262	8,767,892	196,969,867
Total liabilities and fund balances	$ 92,795,655	$ 84,660,705	$ 51,281,262	$ 9,806,096	$ 238,543,718

Total Fund Balance - Governmental Funds		$ 196,969,867
Amounts Reported for Governmental Activities 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.		
The cost of capital assets is	$ 747,762,383	
Accumulated depreciation is	(365,846,658)	
Net capital assets		381,915,725
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(5,249,305)
An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		4,781,948
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings	2,055,956	
Other postemployment benefits	1,126,593	
Net pension obligation	76,592,310	
Total deferred outflows of resources		79,774,859
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits	(2,970,734)	
Net pension obligation	(19,810,269)	
Total deferred inflows of resources		(22,781,003)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(269,358,230)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(23,765,293)

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, including premiums	$ (280,285,270)	
Compensated absences (vacations)	(996,103)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(80,011,361)	
Total long-term liabilities		(361,292,734)
Total net position - governmental activities		$ (19,004,166)

	General Fund	Building Fund	Bond Interest and Redemption Fund
Revenues			
Local control funding formula	$ 210,056,127	$ -	$ -
Federal sources	3,405,659	-	627,044
Other State sources	18,786,232	930	85,393
Other local sources	37,950,657	2,887,765	44,896,134
Total revenues	270,198,675	2,888,695	45,608,571
Expenditures			
Current			
Instruction	174,470,428	-	-
Instruction-related activities			
Supervision of instruction	8,474,893	-	-
Instructional library, media, and technology	2,361,453	-	-
School site administration	16,135,764	-	-
Pupil services			
Home-to-school transportation	2,714,102	-	-
Food services	490,313	-	-
All other pupil services	15,453,616	-	-
Administration			
Data processing	4,801,367	-	-
All other administration	9,743,405	-	-
Plant services	22,643,742	-	-
Ancillary services	1,760,982	-	-
Community services	360,978	-	-
Other outgo	10,000	-	-
Facility acquisition and construction	26,709	24,332,467	-
Debt service			
Principal	-	-	25,413,383
Interest and other	389,900	-	9,257,605
Total expenditures	259,837,652	24,332,467	34,670,988
Excess (Deficiency) of Revenues Over Expenditures	10,361,023	(21,443,772)	10,937,583
Other Financing Sources (Uses)			
Transfers in	64,940	-	-
Issuance of bonds	-	30,000,000	1,610,363
Transfers out	(1,525,000)	-	-
Net Financing Sources (Uses)	(1,460,060)	30,000,000	1,610,363
Net Change in Fund Balances	8,900,963	8,556,228	12,547,946
Fund Balance - Beginning	49,902,690	69,560,832	38,733,316
Fund Balance - Ending	$ 58,803,653	$ 78,117,060	$ 51,281,262

	Non-Major Governmental Funds	Total Governmental Funds
Revenues		
Local control funding formula	$ -	$ 210,056,127
Federal sources	762,392	4,795,095
Other State sources	2,343,008	21,215,563
Other local sources	4,738,913	90,473,469
Total revenues	7,844,313	326,540,254
Expenditures		
Current		
Instruction	1,961,356	176,431,784
Instruction-related activities		
Supervision of instruction	29,213	8,504,106
Instructional library, media, and technology	-	2,361,453
School site administration	1,278,207	17,413,971
Pupil services		
Home-to-school transportation	-	2,714,102
Food services	2,737,062	3,227,375
All other pupil services	-	15,453,616
Administration		
Data processing	-	4,801,367
All other administration	119,220	9,862,625
Plant services	116,565	22,760,307
Ancillary services	-	1,760,982
Community services	-	360,978
Other outgo	-	10,000
Facility acquisition and construction	3,111,195	27,470,371
Debt service		
Principal	-	25,413,383
Interest and other	-	9,647,505
Total expenditures	9,352,818	328,193,925
Excess (Deficiency) of Revenues Over Expenditures	(1,508,505)	(1,653,671)
Other Financing Sources (Uses)		
Transfers in	1,525,000	1,589,940
Issuance of bonds	-	31,610,363
Transfers out	(64,940)	(1,589,940)
Net Financing Sources (Uses)	1,460,060	31,610,363
Net Change in Fund Balances	(48,445)	29,956,692
Fund Balance - Beginning	8,816,337	167,013,175
Fund Balance - Ending	$ 8,767,892	$ 196,969,867

Total Net Change in Fund Balances - Governmental Funds		$ 29,956,692
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	$ (16,677,189)	
Capital outlays	21,429,417	
Net expense adjustment		4,752,228
The District issued capital appreciation general obligations bonds. The accretion of interest on the general obligation bonds during the current fiscal year was:		(8,872,136)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(200)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		(255,375)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(15,531,447)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		(1,184,659)
Proceeds received from Sale of Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		(30,000,000)

Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Premium on issuance recognized	(1,610,363)
Premium amortization	408,905
Deferred amount on refunding amortization	(513,989)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	28,065,000
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	(503,583)
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	229,352
Change in net position of governmental activities	$ 4,940,425

	Governmental Activities - Internal Service Fund
Assets	
Current assets	
Deposits and investments	$ 6,544,971
Receivables	24,836
Due from other funds	520,141
Total current assets	7,089,948
Liabilities	
Noncurrent liabilities	
Claims liabilities	2,308,000
Net Position	
Restricted for insurance programs	$ 4,781,948

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for services	$ 2,086,755
Operating Expenses	
Payroll costs	26,330
Supplies and materials	13,738
Other operating cost	2,017,653
Total operating expenses	2,057,721
Operating Income	29,034
Nonoperating Revenues	
Interest income	200,318
Change in Net Position	229,352
Total Net Position - Beginning	4,552,596
Total Net Position - Ending	$ 4,781,948

	Governmental Activities - Internal Service Fund
Operating Activities	
Cash receipts from customers	$ 1,742,316
Cash payments to other suppliers of goods or services	(13,738)
Cash payments to employees for services	(26,330)
Cash payments for insurance claims	(2,018,346)
Net Cash Used for Operating Activities	(316,098)
Investing Activities	
Interest on investments	207,713
Net Change in Cash and Cash Equivalents	(108,385)
Cash and Cash Equivalents, Beginning	6,653,356
Cash and Cash Equivalents, Ending	$ 6,544,971
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating income	$ 29,034
Changes in assets and liabilities	
Due from other fund	(344,439)
Accrued liabilities	(693)
Net Cash Used for Operating Activities	$ (316,098)

	Agency Funds
Assets	
Deposits and investments	$ 1,490,376
Liabilities	
Due to student groups	$ 1,490,376

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

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 and two high schools, an adult education program, a Young Fives program and two children's centers.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Palo Alto Unified School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary and fiduciary.

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 non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for or reported in another fund. Two funds currently defined as special revenue funds in the California State 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 Reserve 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.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a local educational agency (*Education Code* Sections 15125-15262).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

- **Adult Education Fund** 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, except, for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

- **Child Development Fund** 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.

- **Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

- **Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

- **Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

- **County School Facilities Fund** 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 lA), 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.

- **Internal Service Fund** Internal Service Funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District operates a workers' compensation, dental, vision, and property and liability programs that are accounted for in an internal service fund.

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 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 District's trust fund accounts for contribution and payments related to retiree benefit activities and agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the District and for each governmental function, and exclude fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

- **Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

- **Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

- **Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. 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, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when consumed rather than when purchased.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at acquisition value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and building improvements, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated within the governmental funds and governmental activities.

Compensated Absences

Compensated absences 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.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the period the bonds are issued.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items. The deferred charge on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB relate to differences between expected and actual earnings on investments, changes of assumptions, and other pension and OPEB related changes.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

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 California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total 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 plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Current Loans

Current loans consist of amounts outstanding at year end for Tax Revenue and Anticipation Notes. The notes were issued as short-term liabilities to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

Fund Balances - Governmental Funds

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purpose.

Unassigned – all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally, unassigned funds as needed, unless, the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in compliance with GASB 54 to establish fund balance policies in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of committed and unassigned amounts equal to no less than 10 percent of General Fund expenditures and other financing uses. At June 30, 2020, $10,132,637 of the fund balance for the General Fund was reported as amounts unassigned and of that amount $8,013,485 was held for economic uncertainties.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position net of 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in 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 in the financial statements. Interfund transfers are eliminated in the governmental column of the statement of activities.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations.
- Statement No. 84, Fiduciary Activities.
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
- Statement No. 90, Majority Equity Interests.
- Statement No. 91, Conduit Debt Obligations.
- Statement No. 92, Omnibus 2020.
- Statement No. 93, Replacement of Interbank Offered Rates.
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases.
- Implementation Guide No. 2019-3, Leases.

The provisions of this Statement have been implemented as of June 30, 2020.

New Accounting Pronouncements

In January 2017, the GASB issued 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.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2017, the 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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost 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.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reporting.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.

- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The effects of this change on the District’s financial statements have not yet been determined.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	$ 229,033,719
Proprietary funds	6,544,971
Fiduciary funds	1,490,376
Total deposits and investments	$ 237,069,066

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	$ 8,778,926
Cash in revolving	30,000
Investments	228,260,140
Total deposits and investments	$ 237,069,066

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The pool is not registered with Security Exchange Commission.

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District monitors the interest rate risk inherent in its portfolio by measuring the average maturity of its portfolio. 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's fair value is approximately cost. The weighted average maturity for this pool as of June 30, 2020 is 517 days and holds no derivative products.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments issued by or explicitly guaranteed by the US government are exempt from this disclosure.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does 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. The fair value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2020, approximately $1,265,602 of the District's bank balances of $1,748,777 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Note 3 - Fair Value Measurements

Generally accepted accounting principles (GAAP) provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized - Investments in the 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. All assets have been valued using a market approach, with quoted market prices. The County Treasury Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

Note 4 - Receivables

Receivables at June 30, 2020, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government						
Categorical aid	$ 4,539,773	$ -	$ -	$ 160,928	$ 4,700,701	$ -
State Government						
LCFF apportionment	624,169	-	-	-	624,169	-
Categorical aid	249,128	-	-	136,543	385,671	-
Lottery	598,726	-	-	-	598,726	-
Other State	841,030	28,925	-	7,536	877,491	-
Local Government						
Interest	313,743	355,658	141,319	34,518	845,238	24,836
Total	$ 7,166,569	$ 384,583	$ 141,319	$ 339,525	$ 8,031,996	$ 24,836

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental Activities				
Capital assets not being depreciated				
Land	$ 10,470,525	$ -	$ -	$ 10,470,525
Construction in progress	39,980,573	18,714,111	(24,362,238)	34,332,446
Total capital assets not being depreciated	50,451,098	18,714,111	(24,362,238)	44,802,971
Capital assets being depreciated				
Land improvements	48,593,550	453,597	-	49,047,147
Buildings and improvements	616,279,546	26,566,506	-	642,846,052
Furniture and equipment	10,715,566	57,441	(200)	10,772,807
Library collections	293,406	-	-	293,406
Total capital assets being depreciated	675,882,068	27,077,544	(200)	702,959,412
Total capital assets	726,333,166	45,791,655	(24,362,438)	747,762,383
Accumulated depreciation				
Land improvements	(19,728,841)	(2,437,020)	-	(22,165,861)
Buildings and improvements	(321,056,561)	(13,618,274)	-	(334,674,835)
Furniture and equipment	(8,090,661)	(621,895)	-	(8,712,556)
Library collections	(293,406)	-	-	(293,406)
Total accumulated depreciation	(349,169,469)	(16,677,189)	-	(365,846,658)
Governmental activities capital assets, net	$ 377,163,697	$ 29,114,466	$ (24,362,438)	$ 381,915,725

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 11,076,065
Supervision of instruction	533,872
Instructional library, media, and technology	148,248
School site administration	1,093,217
Home-to-school transportation	170,386
Food services	202,609
All other pupil services	970,150
Data processing	301,421
All other administration	619,158
Plant services	1,428,851
Ancillary Services	133,212
Total depreciation expenses governmental activities	$ 16,677,189

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivables and payable balances at June 30, 2020, between major and non-major governmental funds, and the internal service fund are as follows:

	Due From			
Due To	General Fund	Non-Major Governmental Funds	Proprietary Funds	Total
General Fund	$ -	$ 977,240	$ 520,141	$ 1,497,381
Non-Major Governmental Funds	202,133	-	-	202,133
Total	$ 202,133	$ 977,240	$ 520,141	$ 1,699,514

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2020, consisted of the following:

	Transfer From		
Transfer To	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 1,525,000	$ 1,525,000
Non-Major Governmental Funds	64,940	-	64,940
Total	$ 64,940	$ 1,525,000	$ 1,589,940

The General Fund transferred to the Child Development Fund to support the programs.	$ 150,000
The General Fund transferred to the Deferred Maintenance Fund to cover deficit spending.	450,000
The General Fund transferred to the Cafeteria Fund to cover deficit spending.	925,000
Capital Facilities Fund reimbursed the three percent indirect costs related to developer fees to the General Fund.	64,940
Total	$ 1,589,940

Note 7 - Deferred Charge on Refunding

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of $181,803,471 includes the effect of deferring the recognition of loss from advance refunding. The $2,055,956 balance of the deferred outflows of resources at June 30, 2020, will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred charge on refunding at June 30, 2020, consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Deferred charges on refunding	$ 2,569,945	$ -	$ 513,989	$ 2,055,956

Note 8 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Vendor payables	$ 3,895,322	$ 6,538,878	$ 349,902	$ 10,784,102
Salaries and benefits	3,002,756	2,415	9,752	3,014,923
Total	$ 6,898,078	$ 6,541,293	$ 359,654	$ 13,799,025

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2020, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 60,328	$ -	$ -	$ 60,328
State categorical aid	28,767	-	-	28,767
Other local	7,507,448	2,352	476,417	7,986,217
Total	$ 7,596,543	$ 2,352	$ 476,417	$ 8,075,312

Note 10 - Tax and Revenue Anticipation Notes

On September 10, 2019, the District issued $18 million of Tax and Revenue Anticipation Notes (the Notes) bearing interest at two percent. The notes mature on August 31, 2020, and are not subject to redemption prior to maturity. The notes were sold to supplement cash flow. Repayment requirements are that 50 percentage of principal and interest be deposited with the Fiscal Agent by January 31, 2020, and remaining 50 percentage be deposited by April 30, 2020. By June 30, 2020, the District has placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded the cash available to make the principal and interest payments as Cash with Fiscal Agent and with the corresponding liability as a current loan.

Note 11 - Long-Term Liabilities other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 342,965,187	$ 38,872,136	$ (28,065,000)	$ 353,772,323	$ 32,022,790
Unamortized premiums	5,322,850	1,610,363	(408,905)	6,524,308	408,905
Compensated absences	740,728	255,375	-	996,103	-
Total	$ 349,028,765	$ 40,737,874	$ (28,473,905)	$ 361,292,734	$ 32,431,695

Payments on the general obligation bonds (GOB) are made by the Bond Interest and Redemption Fund with local revenues. The compensated absences will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Issued	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2020
2009	2034	5.0-5.5%	$ 119,999,249	$171,430,187	$ -	$ 8,872,136	$ (6,375,000)	$173,927,323
2011	2028	4.7-5.8%	25,000,000	25,000,000	-	-	-	25,000,000
2013	2037	2.0-3.5%	70,000,000	47,710,000	-	-	(1,885,000)	45,825,000
2013	2025	0.44-2.89%	52,845,000	30,795,000	-	-	(9,165,000)	21,630,000
2014	2024	2.0-3.25%	40,000,000	14,830,000	-	-	(1,640,000)	13,190,000
2016	2035	2.0-4.0%	45,000,000	20,500,000	-	-	(1,000,000)	19,500,000
2018	2039	2.5-5.0%	40,000,000	32,700,000	-	-	(8,000,000)	24,700,000
2019	2040	3.0-6.0%	30,000,000	-	30,000,000	-	-	30,000,000
				$342,965,187	$ 30,000,000	$ 8,872,136	$ (28,065,000)	$353,772,323

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 2008 General Obligation Bonds, Series 2018 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.

On July 10, 2019, the District issued 2018 General Obligation Bonds, Series 2019 which consisted of current interest bonds with an initial par amount of $30,000,000 with stated interest rates of 2% to 6% and maturing through August 1, 2039. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity.

Debt Service Requirements to Maturity

The capital appreciation bonds mature as follows:

Bonds Maturing Fiscal Year	Initial Bond Value	Accreted Interest	Accreted Obligation	Unaccreted Interest	Maturity Value
2021	$ 3,527,790	$ 2,865,931	$ 6,393,721	$ 1,201,279	$ 7,595,000
2022	3,968,463	3,223,913	7,192,376	9,937,624	17,130,000
2023	8,511,041	6,914,167	15,425,208	2,639,792	18,065,000
2024	8,534,809	6,933,377	15,468,186	2,866,814	18,335,000
2025	8,173,376	6,725,263	14,898,639	3,711,361	18,610,000
2026-2030	36,342,161	31,032,760	67,374,921	33,190,079	100,565,000
2031-2035	24,858,322	22,315,950	47,174,272	19,650,728	66,825,000
Total	$ 93,915,962	$ 80,011,361	$ 173,927,323	$ 73,197,677	$ 247,125,000

The current interest bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2021	$ 28,495,000	$ 6,219,262	$ 34,714,262
2022	28,560,000	5,020,190	33,580,190
2023	2,755,000	4,357,150	7,112,150
2024	3,100,000	4,229,103	7,329,103
2025	4,085,000	4,061,478	8,146,478
2026-2030	25,855,000	15,952,148	41,807,148
2031-2035	45,940,000	10,754,671	56,694,671
2036-2040	41,055,000	2,198,168	43,253,168
Total	$ 179,845,000	$ 52,792,170	$ 232,637,170

Compensated Absences

Compensated absences (unpaid employee vacations) for the District at June 30, 2020, amounted to $996,103.

Note 12 - Fund Balances

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 30,000	$ -	$ -	$ -	$ 30,000
Stores inventories	203,261	-	-	64,662	267,923
Prepaid expenditures	20,832	-	-	9,875	30,707
Total nonspendable	254,093	-	-	74,537	328,630
Restricted					
Legally restricted programs	4,276,018	-	-	3,634	4,279,652
Food service	-	-	-	834,523	834,523
Capital projects	-	78,117,060	-	4,763,827	82,880,887
Debt services	-	-	51,281,262	-	51,281,262
Total restricted	4,276,018	78,117,060	51,281,262	5,601,984	139,276,324
Committed					
Education programs	-	-	-	1,622,148	1,622,148
Deferred maintenance	-	-	-	1,469,223	1,469,223
Total committed	-	-	-	3,091,371	3,091,371
Assigned					
Program carryover	24,964,985	-	-	-	24,964,985
OPEB plan	2,131,042	-	-	-	2,131,042
Other assignments	18,303,542	-	-	-	18,303,542
Total assigned	45,399,569	-	-	-	45,399,569
Unassigned					
Reserve for economic uncertainties	7,852,430	-	-	-	7,852,430
Remaining unassigned	1,021,543	-	-	-	1,021,543
Total unassigned	8,873,973	-	-	-	8,873,973
Total	$ 58,803,653	$ 78,117,060	$ 51,281,262	$ 8,767,892	$ 196,969,867

Note 13 - Lease Revenues

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 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 an 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:

Year Ending June 30,	Lease Revenues
2021	$ 5,575,314
2022	2,813,334
2023	1,713,538
2024	1,764,944
2025	1,817,893
2026-2030	9,940,982
2031-2035	11,524,322
Total	$ 35,150,327

Note 14 - 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 the 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.

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.

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.

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 represents the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2020:

	Workers' Compensation
Liability Balance, July 1, 2018	$ 4,297,000
Claims and changes in estimates	(157,790)
Claims payments	(1,831,210)
Liability Balance, June 30, 2019	2,308,000
Claims and changes in estimates	1,970,181
Claims payments	(1,970,181)
Liability Balance, June 30, 2020	$ 2,308,000
Assets available to pay claims at June 30, 2020	$ 7,089,948

Note 15 - Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 188,147,244	$ 57,613,221	$ 17,379,805	$ 24,037,941
CalPERS	81,210,986	18,979,089	2,430,464	14,155,712
Total	$ 269,358,230	$ 76,592,310	$ 19,810,269	$ 38,193,653

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the District's total contributions were $19,490,042.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	$ 188,147,244
State’s proportionate share of the net pension liability	102,646,883
Total	$ 290,794,127

The net pension liability was measured as of June 30, 2019. 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 school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.2083 percent and 0.2061 percent, resulting in a net increase in the proportionate share of 0.0022 percent.

For the year ended June 30, 2020, the District recognized pension expense of $24,037,941. In addition, the District recognized pension expense and revenue of $15,286,334 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 19,490,042	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	13,851,693	4,830,546
Differences between projected and actual earnings on pension plan investments	-	7,247,489
Differences between expected and actual experience in the measurement of the total pension liability	474,972	5,301,770
Changes of assumptions	23,796,514	-
Total	$ 57,613,221	$ 17,379,805

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (731,033)
2022	(5,753,653)
2023	(1,194,547)
2024	431,744
Total	$ (7,247,489)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 6,329,096
2022	5,635,524
2023	7,415,357
2024	8,690,971
2025	176,526
Thereafter	(256,611)
Total	$ 27,990,863

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.8%
Fixed income	12%	1.3%
Real estate	13%	3.6%
Private equity	13%	6.3%
Risk mitigating strategies	9%	1.8%
Inflation sensitive	4%	-3.3%
Cash/liquidity	2%	-0.4%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP'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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 280,166,821
Current discount rate (7.10%)	188,147,244
1% increase (8.10%)	111,845,491

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation reports, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

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 service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	19.721%	19.721%

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. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. 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. The contributions rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the total District contributions were $7,939,650.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $81,210,986. The net pension liability was measured as of June 30, 2019. 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 school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively, was percent 0.2787 and 0.2890 percent, resulting in a net decrease in the proportionate share of 0.0103 percent.

For the year ended June 30, 2020, the District recognized pension expense of $14,155,712. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 7,939,650	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,274,367	1,677,217
Differences between projected and actual earnings on pension plan investments	-	753,247
Differences between expected and actual experience in the measurement of the total pension liability	5,899,177	-
Changes of assumptions	3,865,895	-
Total	$ 18,979,089	$ 2,430,464

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 743,538
2022	(1,485,194)
2023	(225,063)
2024	213,472
Total	$ (753,247)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 6,386,273
2022	2,525,347
2023	409,638
2024	40,964
Total	$ 9,362,222

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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 ten years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 117,060,297
Current discount rate (7.15%)	81,210,986
1% increase (8.15%)	51,471,507

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the APPLE Retirement Program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $15,286,334, $17,288,909, and $9,004,210, for fiscal years ending June 30, 2020, 2019 and 2018 respectively (10.328, 9.328, and 8.828 percent of 2019-2020, 2018-2019 and 2017-2018 annual payrolls, respectively). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves and of the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Note 16 - Other Postemployment Benefits (OPEB) Obligation

For the fiscal year ended June 30, 2020, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense as follows:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
The District OPEB Plan	$ 23,765,293	$ 1,126,593	$ 2,970,734	$ 1,488,984

The details of the District plan are as follows:

Plan Administration

The Employee Benefit Trust administers the Postemployment Benefits Plan (the "Plan") - a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions for the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided. The District contributes toward post-retirement benefits for employees who retire after meeting certain age and service requirements. Certificated and management employees are eligible upon retiring after age 55 with at least 20 years of service. Classified, confidential and supervisory employees are eligible upon retiring after age 55 with at least 10 years of service. For eligibility purposes, a “year” means 1784 hours. Employees hired after May 31, 2009 are not eligible. Benefits are pro-rated for part-time employees. The medical plans offered are Kaiser and Sutter Health Plus. 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 (total OPEB obligation) is presented in the statement of net position as a portion of long-term liabilities.

Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the *plan*. The District's Governing Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Plan membership. As of the measurement date at June 30, 2019, Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	586
Active employees	22
Total	608

Contributions. The District finances subsidy benefits on a pay-as-you-go basis. For fiscal year ended on June 30, 2020, the District contributed $304,327 to the Plan, all of which was used for current premiums. 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.

Changes in the Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

	Total OPEB Liability
Total OPEB Liability	
Balance at June 30, 2018	$ 21,431,285
Changes recognized for the year:	
Service cost	970,158
Interest on total OPEB liability	770,157
Change in assumption	906,171
Benefit payments	(312,478)
Net change	2,334,008
Balance at June 30, 2019	$ 23,765,293

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of $1,488,984. At June 30, 2020, the District reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions after measurement date	$ 304,327	$ -
Differences between expected and actual experience	-	1,953,102
Changes of assumptions	822,266	1,017,632
Total	$ 1,126,593	$ 2,970,734

GASB 75 requires that the annual change in the total OPEB liability be recognized as OPEB expense, except for certain specific changes which are first recorded as either deferred outflows of resources or deferred inflows of resources and to be recognized over different periods of time. The deferral related to the contributions subsequent to measurement date will be fully recognized in the fiscal year 2021. Changes in actuarial assumptions, and experience gains and losses, are to be recognized over the average of the expected remaining service lives of all employees. As of June 30, 2019, this average is 10.8 years. Differences between actual and expected investment earnings, if any, are to be recognized over 5 years. The following table shows the amortization schedule of the deferrals in future years:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (251,329)
2022	(251,329)
2023	(251,329)
2024	(251,329)
2025	(251,329)
Thereafter	(891,823)
Total	$ (2,148,468)

Actuarial Methods and Assumptions

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.25 percent, average, including inflation
Discount rate	3.13 percent
Healthcare cost trend rates	5.50 percent for 2020

Mortality rates were based on the 2016 CalSTRS Mortality Table and 2014 CalPERS Active Mortality Table for certificated and classified employees, respectively.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of applicable actuarial standards of practice, the District's actual historical experience, and actuarial experience and training.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.13 percent. Since the benefits are not funded, the discount rate is equal to the 20-Year Bond Rate.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.13 percent) or 1 percentage point higher (4.13 percent) than the current discount rate:

Discount Rate	Net OPEB Liability
1% decrease (2.13%)	$ 25,744,495
Current discount rate (3.13%)	23,765,293
1% increase (4.13%)	21,957,805

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.5 percent) or 1 percentage point higher (6.5 percent) than the current healthcare cost trend rates:

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (4.50%)	$ 21,378,636
Current healthcare cost trend rate (5.50%)	23,765,293
1% increase (6.50%)	26,503,065

Note 17 - Commitments and Contingencies

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2020.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2020.

Construction Commitments

As of June 30, 2020, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Expected Date of Completion	Commitment
Addison Elementary School Modernization	08/14/22	$ 2,044,137
Paly's Science Research Project	12/01/20	5,416,986
Paly's Turf Project	09/01/20	1,257,800
		$ 8,718,923

Note 18 - Subsequent Events

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2020.

Required Supplementary Information
June 30, 2020

Palo Alto Unified School District

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local control funding formula	$205,997,355	$210,006,712	$210,056,127	$ 49,415
Federal sources	3,339,068	3,482,082	3,405,659	(76,423)
Other State sources [1]	11,193,213	21,362,283	18,786,232	(2,576,051)
Other local sources	36,125,606	33,874,915	37,950,657	4,075,742
Total revenues	256,655,242	268,725,992	270,198,675	1,472,683
Expenditures				
Current				
Certificated salaries	114,946,393	115,579,003	115,579,005	(2)
Classified salaries	42,846,007	43,279,413	43,279,412	1
Employee benefits [1]	62,594,321	71,215,085	71,215,083	2
Books and supplies	5,819,326	4,997,465	4,994,978	2,487
Services and operating expenditures	28,985,867	24,845,620	24,845,621	(1)
Other outgo	240,000	32,769	(499,116)	531,885
Capital outlay	(121,357)	(109,220)	32,769	(141,989)
Debt service				
Debt service - interest and other	-	-	389,900	(389,900)
Total expenditures	255,310,557	259,840,135	259,837,652	2,483
Excess (Deficiency) of Revenues Over Expenditures	1,344,685	8,885,857	10,361,023	1,475,166
Other Financing Sources (Uses)				
Transfers in	110,000	110,000	64,940	(45,060)
Transfers out	(700,000)	(1,990,000)	(1,525,000)	465,000
Net financing sources (uses)	(590,000)	(1,880,000)	(1,460,060)	419,940
Net Change in Fund Balances	754,685	7,005,857	8,900,963	1,895,106
Fund balance - Beginning	49,902,690	49,902,690	49,902,690	-
Fund Balance - Ending	$ 50,657,375	$ 56,908,547	$ 58,803,653	$ 1,895,106

Measurement Date, June 30,	2019	2018	2017
Total OPEB Liability			
Service cost	$ 970,158	$ 1,164,509	$ 1,255,915
Interest on total OPEB liability	770,157	806,303	651,254
Change in benefit terms	-	(536,174)	-
Differences between expected and actual experience	-	(2,396,988)	-
Changes of assumptions	906,171	(107,462)	(1,240,093)
Benefit payments	(312,478)	(295,749)	(346,882)
Net changes in total OPEB liability	2,334,008	(1,365,561)	320,194
Total OPEB Liability - beginning	21,431,285	22,796,846	22,476,652
Total OPEB Liability - ending	$ 23,765,293	$ 21,431,285	$ 22,796,846
Covered payroll	N/A[1]	N/A[1]	N/A[1]
District's net OPEB liability as a as a percentage of covered - payroll	N/A[1]	N/A[1]	N/A[1]

[1] The OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note : In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018	2017	2016	2015
CalSTRS						
Proportion of the net pension liability	0.2083%	0.2061%	0.2024%	0.1940%	19.1180%	0.2001%
Proportionate share of the net pension liability	$ 188,147,244	$ 189,404,184	$ 186,807,580	$ 156,907,653	$ 128,709,093	$ 116,913,315
State's proportionate share of the net pension liability	102,646,883	108,442,753	110,723,741	95,567,184	68,072,922	70,597,307
Total	$ 290,794,127	$ 297,846,937	$ 297,531,321	$ 252,474,837	$ 196,782,015	$ 187,510,622
Covered payroll	$ 115,210,457	$ 111,416,445	$ 108,126,208	$ 100,750,130	$ 83,779,040	$ 89,006,480
Proportionate share of the net pension liability as a percentage of its covered payroll	163%	170%	171%	156%	159%	131%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS						
Proportion of the net pension liability	0.2787%	0.2890%	0.2781%	0.2711%	0.2693%	0.2682%
Proportionate share of the net pension liability	$ 81,210,986	$ 77,047,760	$ 66,389,810	$ 53,549,525	$ 39,691,967	$ 30,451,905
Covered payroll	$ 38,668,263	$ 38,146,262	$ 35,467,771	$ 33,213,551	$ 29,823,192	$ 28,266,649
Proportionate share of the net pension liability as a percentage of its covered payroll	210%	202%	187%	161%	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Note : In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018	2017	2016	2015
CalSTRS						
Contractually required contribution	$ 19,490,042	$ 18,439,878	$ 16,077,393	$ 13,602,277	$ 10,810,489	$ 8,218,669
Less contributions in relation to the contractually required contribution	19,490,042	18,439,878	16,077,393	13,602,277	10,810,489	8,218,669
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$113,976,854	$115,210,457	$111,416,445	$108,126,208	$100,750,130	$ 83,779,040
Contributions as a percentage of covered payroll	17.10%	16.01%	14.43%	12.58%	10.73%	9.81%
CalPERS						
Contractually required contribution	$ 7,939,650	$ 7,025,901	$ 5,924,496	$ 4,925,764	$ 3,934,909	$ 3,412,370
Less contributions in relation to the contractually required contribution	7,939,650	7,025,901	5,924,496	4,925,764	3,934,909	3,412,370
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 40,259,875	$ 38,668,263	$ 38,146,262	$ 35,467,771	$ 33,213,551	$ 29,823,192
Contributions as a percentage of covered payroll	19.721%	18.1697%	15.5310%	13.8880%	11.8500%	11.4420%

Note : In the future, as data becomes available, ten years of information will be presented.

Note 1 - Purpose of Schedules

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 3.62% to 3.13% since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Supplementary Information
June 30, 2020

Palo Alto Unified School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education and ESL	84.002A	14508	$ 170,465
Adult Secondary Education	84.002	13978	1,650
Title I-Basic Grants Low Income and Neglected	84.010	13797	349,454
Title II, Part A, Teacher Quality	84.367	14341	123,114
Title III-Immigrant Education Program	84.365	14346	152
Title III-Limited English Proficiency (LEP)	84.365	14346	134,858
Title IV, Part A,Student Support and Academic Enrichment Grants	84.424	15396	25,823
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement: Part B, Sec 611	84.027	13379	2,246,272
Mental Health ADA Allocation Plan, Part B, Sec 611	84.027A	14468	135,836
Preschool Grants, Part B, Section 619	84.173	13430	36,194
Total Special Education Cluster			2,418,302
Carl D Perkins Act:			
Technology Secondary, Section 131	84.048	14894	45,138
Department of Rehabilitation: Workability II, Transitions Partnership	84.126	10006	308,818
Total U.S. Department of Education			3,577,774
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13523	530,070
National School Breakfast	10.553	13525	28,618
Especially Needy Breakfast	10.553	13526	31,589
Commodity Supplemental Food Program [1]	10.555	13523	91,551
Total Child Nutrition Cluster			681,828
Total U.S. Department of Agriculture			681,828
Total Expenditures of Federal Awards			$ 4,259,602

ORGANIZATION

The Palo Alto Unified School District was established in 1925 under the laws of the State of California and consists of an area comprising approximately 42 square miles. The District operates five high schools, one community day school, one adult school and one independent study school. There were no boundary changes during the year.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Todd Collins	President	2024
Shounak Dharap	Vice President	2022
Melissa Baten Caswell	Member	2020
Ken Dauber	Member	2022
Jennifer DiBrienza	Member	2024

ADMINISTRATION

NAME	TITLE
Don Austin	Superintendent
Carolyn Chow	Chief Business Officer
Robert Golton, Ph.D.	Bond Program Manager
Karen Hendricks	Deputy Superintendent, Human Resources
Anne Brown	Assistant Superintendent, Education Services - Elementary
Sharon Ofek	Assistant Superintendent, Education Services - Secondary
Yolanda Conaway	Assistant Superintendent Equity and Student Affairs

	Final Report		As Adjusted per Audit	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA				
Transitional kindergarten through third	2,788.00	2,788.00	2,788.00	2,788.00
Fourth through sixth	2,314.54	2,314.54	2,314.54	2,314.54
Seventh and eighth	1,692.64	1,692.64	1,692.64	1,692.64
Ninth through twelfth	3,857.56	3,857.56	3,856.00	3,856.00
Total Regular ADA	10,652.74	10,652.74	10,651.18	10,651.18
Extended Year Special Education				
Transitional kindergarten through third	4.66	4.66	4.66	4.66
Fourth through sixth	4.35	4.35	4.35	4.35
Seventh and eighth	1.66	1.66	1.66	1.66
Ninth through twelfth	2.07	2.07	2.07	2.07
Total Extended Year Special Education	12.74	12.74	12.74	12.74
Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	2.41	2.41	2.41	2.41
Fourth through sixth	6.92	6.92	6.92	6.92
Seventh and eighth	3.30	3.30	3.30	3.30
Ninth through twelfth	20.26	20.26	20.26	20.26
Total Special Education, Nonpublic, Nonsectarian Schools	32.89	32.89	32.89	32.89
Extended Year Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	0.52	0.52	0.52	0.52
Seventh and eighth	0.04	0.04	0.04	0.04
Ninth through twelfth	2.50	2.50	2.50	2.50
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.06	3.06	3.06	3.06
Total ADA	10,701.43	10,701.43	10,699.87	10,699.87
Court-Ordered Voluntary Pupil Transfer				
Regular ADA				
Transitional kindergarten through third	201.00	201.00	201.00	201.00
Fourth through sixth	148.61	148.61	148.61	148.61
Seventh and eighth	88.63	88.63	88.63	88.63
Ninth through twelfth	141.92	141.92	141.92	141.92
Total Court-Ordered Voluntary Pupil Transfer ADA	580.16	580.16	580.16	580.16

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	44,580	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	50,520	180	N/A	Complied
Grade 2	50,400	50,520	180	N/A	Complied
Grade 3	50,400	50,520	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	54,930	180	N/A	Complied
Grade 5	54,000	54,930	180	N/A	Complied
Grade 6	54,000	62,565	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	62,565	180	N/A	Complied
Grade 8	54,000	62,565	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	65,455	180	N/A	Complied
Grade 10	64,800	65,455	180	N/A	Complied
Grade 11	64,800	65,455	180	N/A	Complied
Grade 12	64,800	65,455	180	N/A	Complied

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
Fund Balance				
Balance, June 30, 2020				
Unaudited Actuals	$ 57,545,813	$ 77,123,752	$ 50,678,508	$ 8,670,519
Fair market value adjustments	1,257,840	993,308	602,754	97,373
Balance, June 30, 2020				
Audited Financial Statements	$ 58,803,653	$ 78,117,060	$ 51,281,262	$ 8,767,892

	(Budget) 2021 [1]	2020	2019	2018
General Fund				
Revenues	$ 268,756,128	$ 270,198,675	$ 267,040,279	$ 231,914,828
Other sources	122,993	64,940	42,735	32,374
Total Revenues and Other Sources	268,879,121	270,263,615	267,083,014	231,947,202
Expenditures	267,837,553	259,837,652	265,916,149	235,315,131
Other uses and transfers out	1,201,993	1,525,000	600,000	600,000
Total Expenditures and Other Uses	269,039,546	261,362,652	266,516,149	235,915,131
Increase/(Decrease) in Fund Balance	(160,425)	8,900,963	566,865	(3,967,929)
Ending Fund Balance	$ 58,643,228	$ 58,803,653	$ 49,902,690	$ 49,335,825
Available Reserves [2]	$ 8,068,786	$ 8,873,973	$ 10,132,637	$ 23,940,309
Available Reserves as a Percentage of Total Outgo	3.00%	3.40%	3.80%	10.10%
Long-Term Liabilities	$ 621,984,562	$ 654,416,257	$ 636,911,994	$ 644,375,003
K-12 Average Daily Attendance at P-2	10,507	10,701	10,960	11,742

The General Fund balance has increased by $9,467,828 over the past two years. The fiscal year 2020-2021 budget projects a decrease of $160,425 (0.3 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in fiscal years 2018 and a surplus in fiscal year 2019 and 2020 but anticipates incurring an operating deficit during the 2020-2021 fiscal year. Total long-term liabilities have increased by $10,041,254 over the past two years.

Average daily attendance has decreased by 1041 over the past two years. Continuously, a decline of 194 ADA is anticipated during fiscal year 2020-2021.

[1] Budget 2021 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
Assets							
Deposits and investments	$ 1,523,553	$ 308,331	$ 309,466	$ 1,463,815	$ 4,776,213	$ 33,416	$ 8,414,794
Receivables	266,858	1,575	46,546	5,408	19,003	135	339,525
Due from other funds	-	-	977,240	-	-	-	977,240
Prepaid expenditures	-	-	9,875	-	-	-	9,875
Stores inventories	30,335	-	34,327	-	-	-	64,662
Total assets	$ 1,820,746	$ 309,906	$ 1,377,454	$ 1,469,223	$ 4,795,216	$ 33,551	$ 9,806,096
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ 22,395	$ 306,272	$ 30,987	$ -	$ -	$ -	$ 359,654
Due to other funds	137,193	-	-	-	64,940	-	202,133
Unearned revenue	8,675	-	467,742	-	-	-	476,417
Total liabilities	168,263	306,272	498,729	-	64,940	-	1,038,204
Fund Balances							
Nonspendable	30,335	-	44,202	-	-	-	74,537
Restricted	-	3,634	834,523	-	4,730,276	33,551	5,601,984
Committed	1,622,148	-	-	1,469,223	-	-	3,091,371
Total fund balances	1,652,483	3,634	878,725	1,469,223	4,730,276	33,551	8,767,892
Total liabilities and fund balances	$ 1,820,746	$ 309,906	$ 1,377,454	$ 1,469,223	$ 4,795,216	$ 33,551	$ 9,806,096

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
Revenues							
Federal sources	$ 172,115	$ -	$ 590,277	$ -	$ -	$ -	$ 762,392
Other State sources	1,717,988	586,278	38,742	-	-	-	2,343,008
Other local sources	640,810	3,634	1,740,784	37,168	2,315,485	1,032	4,738,913
Total revenues	2,530,913	589,912	2,369,803	37,168	2,315,485	1,032	7,844,313
Expenditures							
Current							
Instruction	1,225,078	736,278	-	-	-	-	1,961,356
Instruction-related activities							
Supervision of instruction	29,213	-	-	-	-	-	29,213
School site administration	1,278,207	-	-	-	-	-	1,278,207
Pupil services							
Food services	-	-	2,737,062	-	-	-	2,737,062
Administration							
All other administration	119,220	-	-	-	-	-	119,220
Plant services	116,565	-	-	-	-	-	116,565
Facility acquisition and construction	117,401	-	-	-	2,993,794	-	3,111,195
Total expenditures	2,885,684	736,278	2,737,062	-	2,993,794	-	9,352,818
Excess (Deficiency) of Revenues Over Expenditures	(354,771)	(146,366)	(367,259)	37,168	(678,309)	1,032	(1,508,505)
Other Financing Sources (Uses)							
Transfers in	-	150,000	925,000	450,000	-	-	1,525,000
Transfers out	-	-	-	-	(64,940)	-	(64,940)
Net Financing Sources (Uses)	-	150,000	925,000	450,000	(64,940)	-	1,460,060
Net Change in Fund Balances	(354,771)	3,634	557,741	487,168	(743,249)	1,032	(48,445)
Fund Balance - Beginning	2,007,254	-	320,984	982,055	5,473,525	32,519	8,816,337
Fund Balance - Ending	$ 1,652,483	$ 3,634	$ 878,725	$ 1,469,223	$ 4,730,276	$ 33,551	$ 8,767,892

See Notes to Supplementary Information

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Palo Alto Unified School District (the District) under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Palo Alto Unified School District, it is not intended to and does not present the financial position or changes in fund balance of Palo Alto Unified School District.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the *modified accrual* basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Food Donation
Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2020, the District had food commodities totaling $34,327 in inventory.

Indirect Cost Rate
The District has not elected to use the ten percent de minimis cost rate.

SEFA Reconciliation
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.

	CFDA Number	Amount
Federal Revenues report in the Statement of Revenues,		$ 4,795,095
Federal interest subsidy from Build America Bonds Act	N/A	(627,044)
Food Commodities	10.555	91,551
Total Schedule of Expenditures of Federal Awards		$ 4,259,602

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. 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 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements, as required by *Education Code* Section 46201.

Due to school closures caused by COVID-19, the District filed the COVID-19 School Closure Certification certifying that schools were closed for 48 days due to the pandemic. As a result, the District received credit for these 48 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Independent Auditor's Reports
June 30, 2020

Palo Alto Unified School District

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*

Governing Board
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, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Palo Alto Unified School District's basic financial statements and have issued our report thereon dated January 12, 2021.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Palo Alto Unified School District's internal control over financial reporting (internal control) as a basis for designing 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 Palo Alto Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Palo Alto Unified School 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Palo Alto Unified School 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
January 12, 2021

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
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 compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palo Alto Unified School District's major federal programs for the year ended June 30, 2020. Palo Alto Unified School 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 Palo Alto Unified School 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, 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 Palo Alto Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that 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 Palo Alto Unified School District's compliance.

Opinion on Each Major Federal Program
In our opinion, Palo Alto Unified School District's 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, 2020.

Report on Internal Control over Compliance

Management of Palo Alto Unified School 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 audit of compliance, we considered Palo Alto Unified School 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 the 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 Palo Alto Unified School 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
January 12, 2021

Independent Auditor's Report on State Compliance

Governing Board
Palo Alto Unified School District
Palo Alto, California

Report on State Compliance

We have audited Palo Alto Unified School District's (the District) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has 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 state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, See Below
Continuation Education	No, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, See Below
Comprehensive School Safety Plan	Yes
District of Choice	No, See Below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, See Below
After School	No, See Below
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent study – Course Based	No, See Below
CHARTER SCHOOLS	
Attendance	No, See Below
Mode of Instruction	No, See Below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below
Annual Instruction Minutes Classroom-Based	No, See Below

The District does not offer an Independent Study Program during the current year; therefore, we did not perform any related procedures.

The District does not have any Continuation Education program; therefore, we did not perform any procedures related to Continuation Education.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

The District does not offer an After School Education and Safety Program; therefore, we did not perform any procedures related to the After School Education and Safety Program.

The District does not offer a Course Based Independent Study program; therefore, we did not perform any related procedures.

The District does not have any dependent Charter Schools; therefore, we did not perform any related procedures.

Basis for Qualified Opinion on Middle or Early College High Schools Program

As described in the accompanying *Schedule of State Compliance Findings and Questioned Costs,* the District did not comply with instructional minutes requirement regarding Middle or Early College High Schools program, see finding number 2020-001. Compliance with such requirement is necessary, in our opinion, for the District to comply with the requirements referred to above.

Qualified Opinion on Middle or Early College High Schools Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2020.

The District's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of State Compliance Findings and Questioned Costs.* The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Unmodified Opinion on Each of the Other Programs

In our opinion, Palo Alto Unified School District complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020, except As described in the accompanying *Schedule of State Compliance Findings and Questioned Costs.*

Palo Alto Unified School District‘s response to the noncompliance findings identified in our audit are described in the accompanying State Compliance Finding and Questioned costs. Palo Alto Unified School District‘s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
January 12, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No
Identification of major federal programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Type of auditor's report issued on compliance for State programs:
Unmodified for all programs, except below listed program was qualified:

Name of Program
Middle or Early College High Schools

None noted.

None noted.

The following findings represent instances of noncompliance and questioned costs relating to compliance with state laws and regulations. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2020-001 Code 40000

Criteria or Specific Requirements

Ed. Code 46146.5. (a) A day of attendance for a pupil enrolled in grade 11 or 12 at an early college high school or middle college high school is 180 minutes of attendance if the pupil is also enrolled part time in courses of the California State University or the University of California for which academic credit will be provided upon satisfactory completion of enrolled courses. (b) A day of attendance for a pupil enrolled in an early college high school or middle college high school, who is also a special part-time student enrolled in a community college under Article 1 (commencing with Section 48800) of Chapter 5 of Part 27, and who will receive academic credit upon satisfactory completion of enrolled courses, is 180 minutes of attendance. (c) A day of attendance for a pupil enrolled in an early college high school or middle college high school who does not satisfy subdivision (a) or (b) is 240 minutes of attendance.

Condition

The District does not compliance 180 minutes instructional minutes for an attendance day.

Questioned Costs

$200 basic aid per ADA x 28 participating students x error rate 10/180 = $311.

Context

We obtained a list of students who participated in the program and obtained their class schedules along with the class minutes. During our audit, we noted each class is scheduled 50 minutes with 3 classes per day, and two ten-minutes passing time, totaling 170 minutes per day. (50 minutes x 3 classes + 20 minutes passing time = 170 minutes).

Effect

The District may potentially loss its basic aid funding for those 28 participants.

Cause

Calculation error for the Instruction minutes of the program.

Repeat Finding

No.

Recommendation

Make sure participants has scheduled 180 minutes per day per Ed Code 46146.5 (a).

Corrective Action Plan

The Palo Alto Unified School District ("PAUSD" or "District") disagrees with the audit finding regarding the calculation of instructional minutes for the Middle College program. The audit finding states that the instructional minutes offered total 170 minutes per day, 10 minutes short of the required 180 minutes per day. PAUSD contests the finding that the total number of instructional minutes offered in the program is insufficient. The District further believes that the finding is unqualified since Middle College is an out-of-district program in which PAUSD pays a per student fee to participate. Middle College is not operated or staffed by PAUSD.

Middle College is an alternative program run by Mountain View Los Altos ("MVLS") High School District that allows students to attend high school courses through MVLA while also being enrolled in community college part-time. PAUSD had 28 students enrolled in the MVLA Middle College program during 2019-20. Students attend three fifty-minute high school courses per day taught by MVLA certificated staff. Two ten-minute passing periods are included in the instructional minute calculation which equates to 170 minutes of high school instruction per day. In addition, students are concurrently enrolled in a minimum of two community college courses at Foothill College. Total student instructional minutes for the high school courses and the community college courses far exceed the minimum 180 minutes per day.

Middle College is not a PAUSD administered program. It is an out-of-district program that has been operated by the neighboring high school district since 1994. PAUSD has an MOU with MVLA which stipulates the number of students that can enroll in the program and the cost to PAUSD for those students attending the MVLA program. For 2019-20, PAUSD had 28 students participating in the MVLA Middle College program for a total cost of $310,179, or $9,651 per student.

Following the auditor's review of the instructional minutes for the Middle College program, District staff have worked with MVLA administrators to increase the minutes for the high school courses taught by MVLA. Starting in January 2021, the three fifty-minute high school courses offered by MVLA will increase to 55 minutes each. Combined with the two ten-minute passing periods between courses, the instructional minutes for this program for 2020-21 will be 185 minutes per day for the high school courses offered by MVLA. Courses taken at the community college level will continue to be in addition to the instructional minutes offered by the high school district.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.