PALO ALTO UNIFIED
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

PALO ALTO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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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 and each major fund, and the aggregate remaining fund information of the Palo Alto Unified School District (the District) as of and for the year ended June 30, 2015, 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; and *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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.

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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 the District, as of June 30, 2015, 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.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 12, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Adoption of which required a restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by (Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations)* and the other supplementary information as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is 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 our report dated December 11, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 11, 2015

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PALO ALTO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	$156,301,651
Receivables	8,262,011
Prepaid expenses	65,490
Stores inventories	242,681
Capital assets not depreciated	26,304,556
Capital assets, net of accumulated depreciation	313,248,742
Total Assets	504,425,131
DEFERRED OUTFLOW OF RESOURCES	
Deferred amount on refunding	4,625,901
Current year pension contribution	11,631,038
Total Deferred Outflows of Resources	16,256,939
LIABILITIES	
Accounts payable	6,905,428
Interest payable	4,113,663
Unearned revenue	7,619,001
Claim liabilities	5,297,000
Current portion of long-term obligations other than pensions	32,512,169
Noncurrent portion of long-term obligations other than pensions	323,330,385
Aggregate net pension liability	147,365,220
Total Liabilities	527,142,866
DEFERRED INFLOWS OF RESOURCES	
Difference between actual and expected rate of investment return	39,253,297
Total Deferred Inflows of Resources	39,253,297
NET POSITION	
Net investment in capital assets	50,277,359
Restricted for:	
Educational programs	3,606,083
Debt service	35,187,534
Child nutrition services	181,945
Capital projects	5,125,919
Self-insurance	1,390,397
Unrestricted	(141,483,330)
Total Net Position	$ (45,714,093)

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (Expenses) Revenues
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities				
Instruction	$ 147,876,433	$ -	$ 12,205,017	$ (135,671,416)
Instruction-related activities				
Supervision of instruction	9,214,048	-	428,915	(8,785,133)
Instructional library and technology	3,611,367	-	44,164	(3,567,203)
School site administration	14,859,333	-	491,361	(14,367,972)
Pupil services				
Home-to-school transportation	2,744,406	-	-	(2,744,406)
Food services	2,821,277	1,914,894	581,681	(324,702)
All other pupil services	12,211,272	-	990,708	(11,220,564)
General administration				
Data processing	4,083,607	-	-	(4,083,607)
All other general administration	7,872,126	-	110,805	(7,761,321)
Plant services	21,694,737	-	480,173	(21,214,564)
Ancillary services	1,362,241	-	71,270	(1,290,971)
Community services	183,564	-	-	(183,564)
Interest on long-term obligations	13,657,281	-	-	(13,657,281)
Other outgo	3,491	-	-	(3,491)
Total Governmental Activities	$ 242,195,183	$ 1,914,894	$ 15,404,094	(224,876,195)
General revenues and subventions				
Property taxes, levied for general purposes				139,607,594
Property taxes, levied for debt service				27,649,268
Taxes levied for other specific purposes				12,313,099
Federal and state aid not restricted to specific purposes				11,368,219
Interest and investment earnings				634,896
Miscellaneous				34,303,041
Subtotal, general revenues				225,876,117
Change in Net Position				999,922
Net Position - Beginning, as restated				(46,714,015)
Net Position - Ending				$ (45,714,093)

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	$ 50,844,878	$ 51,839,652	$ 39,261,255	$ 8,111,513	$ 150,057,298
Receivables	7,455,532	72,827	39,942	685,181	8,253,482
Due from other funds	30,071	-	-	5,064	35,135
Prepaid expenditures	56,655	-	-	8,835	65,490
Stores inventories	166,529	-	-	76,152	242,681
Total Assets	$ 58,553,665	$ 51,912,479	$ 39,301,197	$ 8,886,745	$ 158,654,086
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 4,914,297	$ 1,752,982	$ -	$ 230,249	$ 6,897,528
Due to other funds	447,479	-	-	30,071	477,550
Unearned revenue	7,296,776	-	-	322,225	7,619,001
Total Liabilities	12,658,552	1,752,982	-	582,545	14,994,079
Fund Balances					
Nonspendable	253,184	-	-	84,987	338,171
Restricted	3,606,083	50,159,497	39,301,197	5,256,261	98,323,038
Committed	-	-	-	2,960,502	2,960,502
Assigned	21,025,731	-	-	2,450	21,028,181
Unassigned	21,010,115	-	-	-	21,010,115
Total Fund Balances	45,895,113	50,159,497	39,301,197	8,304,200	143,660,007
Total Liabilities and Fund Balances	$ 58,553,665	$ 51,912,479	$ 39,301,197	$ 8,886,745	$ 158,654,086

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Amounts Reported for governmental activities in the Statement of Net Position are different because of the following:

Total Fund Balance - Governmental Funds		$ 143,660,007
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	$ 628,875,103	
Accumulated depreciation is	(289,321,805)	
Net capital assets		339,553,298
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		11,631,038
In governmental funds, accrued interest on long-term obligations are recognized in the period when paid. In the government-wide statements, accrued interest on long-term obligations are recognized as they accrue.		(4,113,663)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		1,390,397
The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis a component of pension expense.		(39,253,297)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore are not reported as liabilities in the governmental funds.		
Long-term obligations at year end consist of the following:		
Bonds payable and related premiums and defeasance cost	339,435,436	
Compensated absences (vacations)	369,562	
Other postemployment benefit obligation	11,411,655	
Net pension liability	147,365,220	
Total long-term obligations		(498,581,873)
Total Net Position - Governmental Activities		$ (45,714,093)

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	$ 146,755,179	$ -	$ -	$ -	$ 146,755,179
Federal sources	3,643,914	-	1,236,096	758,566	5,638,576
Other State sources	9,306,856	1,530	87,867	503,889	9,900,142
Other local sources	37,177,934	425,374	27,665,434	4,775,616	70,044,358
Total Revenues	196,883,883	426,904	28,989,397	6,038,071	232,338,255
EXPENDITURES					
Current					
Instruction and	128,503,231	-	-	1,395,740	129,898,971
related activities:					
Supervision of instruction	8,115,830	-	-	22,617	8,138,447
Instructional library, media and technology	3,229,836	-	-	-	3,229,836
School site administration	12,004,764	-	-	930,213	12,934,977
Pupil services:					
Home-to-school transportation	2,383,517	-	-	-	2,383,517
Food services	49,752	-	-	2,496,711	2,546,463
All other pupil services	10,680,088	-	-	-	10,680,088
Administration:					
Data processing	3,797,233	-	-	-	3,797,233
All other administration	7,342,168	-	-	105,057	7,447,225
Plant services	17,243,948	16,655	-	94,519	17,355,122
Facility acquisition and construction	393,603	21,235,536	-	531,920	22,161,059
Ancillary services	1,232,133	-	-	-	1,232,133
Community services	160,653	-	-	-	160,653
Debt service					
Principal	-	-	25,920,000	-	25,920,000
Interest and other	-	-	6,078,702	-	6,078,702
Total Expenditures	195,136,756	21,252,191	31,998,702	5,576,777	253,964,426
Excess (Deficiency) of Revenues Over Expenditures	1,747,127	(20,825,287)	(3,009,305)	461,294	(21,626,171)
Other Financing Sources (Uses)					
Transfers in	47,742	-	-	1,055,700	1,103,442
Transfers out	(1,055,700)	-	-	(47,742)	(1,103,442)
Other uses	(3,491)	-	-	-	(3,491)
Net Financing Sources (Uses)	(1,011,449)	-	-	1,007,958	(3,491)
NET CHANGE IN FUND BALANCES	735,678	(20,825,287)	(3,009,305)	1,469,252	(21,629,662)
Fund Balance - Beginning	45,159,435	70,984,784	42,310,502	6,834,948	165,289,669
Fund Balance - Ending	$ 45,895,113	$ 50,159,497	$ 39,301,197	$ 8,304,200	$ 143,660,007

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement of activities are different because of the following items:		
Net change in fund balances - governmental funds		$ (21,629,662)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are capitalized 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 capital outlays exceed depreciation in the period.		
Capital outlays	$ 19,971,193	
Depreciation expense	(13,313,144)	
Net expense adjustment		6,658,049
Amortization of the bond premium and defeasance costs are not recognized in the governmental funds. In the statement of activities, they are amortized over the life of the bonds.		(257,303)
Accreted interest is not an expenditure in the governmental funds, but it increases the long term liabilities in the statement of net position and is reflected as additional interest expense in the statement of activities.		(7,858,227)
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). Vacation earned was less than the amounts used by this amount.		58,032
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.		(1,202,847)

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2015

Payment of principal on general obligation bonds 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.	25,920,000
Interest on long-term debt 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 accrues, regardless of when it is due.	536,951
Payments of the retiree benefits are recorded as an expenditure in the governmental funds. However, the difference between the annual required contributions and the actual benefit payments made, if less, is recorded as an expense in the statement of activities. The amount of the payment was less than the annual required contributions.	(1,957,445)
Payment of state school loan 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.	144,000
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	588,374
Change in net position of governmental activities	$ 999,922

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 6,244,353
Receivables	8,529
Due from other funds	442,415
Total Current Assets	6,695,297
LIABILITIES	
Current Liabilities	
Accounts payable	7,900
Noncurrent Liabilities	
Claim liabilities	5,297,000
Total Liabilities	5,304,900
NET POSITION	
Restricted for insurance programs	1,390,397
Total Net Position	$ 1,390,397

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district premiums	$ 2,094,763
Total operating revenues	2,094,763
OPERATING EXPENSES	
Payroll costs	20,857
Supplies and materials	631
Claims expense	1,514,808
Total operating expenses	1,536,296
Operating income	558,467
NONOPERATING REVENUES	
Interest income	29,907
Total nonoperating revenue	29,907
Change in Net Position	588,374
Total Net Position - Beginning	802,023
Total Net Position - Ending	$ 1,390,397

The accompanying notes are an integral part of these financial statements.

PALO ALTO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 1,746,120
Cash payments to employees for services	(39,560)
Cash payments for insurance claims	(2,648,808)
Cash payments to suppliers for goods and services	(631)
Net Cash provided by operating activities	(942,879)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	27,440
Net Decrease in Cash and Cash Equivalents	(915,439)
Cash and Cash Equivalents at beginning of year	7,159,792
Cash and Cash Equivalents at end of year	$ 6,244,353
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating income	$ 558,467
Increase in accounts receivable	(348,643)
Decrease in accounts payable	(18,703)
Decrease in claims liability	(1,134,000)
NET CASH USED FOR OPERATING ACTIVITIES	$ (942,879)

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	Agency Funds
ASSETS	
Deposits and investments	$ 2,250,234
Total Assets	$ 2,250,234
LIABILITIES	
Due to student groups	$ 710,008
Scholarships	1,540,226
Total Liabilities	$ 2,250,234

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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 the 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 nonmajor governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Two funds currently defined as special revenue funds in the California School Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 71, Retiree Benefits Fund, 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 District *(Education Code* Sections 15125-15262).

Nonmajor 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 and that compose a substantial portion of the inflows of the fund. 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.

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 state apportionments and the District's contributions for deferred maintenance purposes *(Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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. The District has the following proprietary fund:

> **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 self-insurance fund that is 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. The District's agency fund accounts are for student body activities (ASB) and scholarship activities.

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 for each governmental function and excludes 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 and other post employment benefits. 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 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 position 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.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor 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 position. 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. For the District, available means expected to be received within sixty days of fiscal year-end. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with respect to reimbursement grants and correcting state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: state apportionment, 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 revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

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, if measurable, and typically paid within ninety days. Principal and interest on long-term obligations, which have 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 government-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 held at the balance sheet date 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 and state investment pools are determined by the program sponsor.

Prepaid Expenditures

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

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 type funds and expenses in the proprietary type funds when used.

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 a 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.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 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 in the statement of net position.

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 as a current expense and reported as part of accounts payable. These amounts are reported in the general fund.

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations 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 obligations 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 obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net position. Debt premiums and discounts related are amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

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 the difference between actual and expected rate of return on investments specific to the net pension liability.

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.

Fund Balances - Governmental Funds

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 only 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 or 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 but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

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

In fiscal year 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts equal to no less than three percent of general fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. 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 in-district premiums. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Interfund Activity

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.

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.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures.

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 June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. Statement No. 68 requires a state or local government employer to recognize a net pension liability measures as of a date (the measurement date) no earlier than the end of its prior fiscal year. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net position liability of a state or local government employer that arise from other types of events. The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by $173,784,632. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued 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 No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

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

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental funds	$ 150,057,298
Fiduciary fund	2,250,234
Proprietary fund	6,244,353
Total deposits and investments	$ 158,551,885

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	$ 8,681,527
Investments	149,870,358
Total deposits and investments	$ 158,551,885

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 amortized cost of which approximate fair value provided by the county treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

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

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 manages its exposure to interest rate risk by depositing substantially all of its funds in the county treasury pool. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the maturity of the District's portfolio is presented in the following schedule:

Investment Type	Cost	Fair Value	Weighted Average Maturity
County Pool	$ 149,858,886	$ 150,608,180	469 days
State Investment Pool	11,472	11,476	239 days
Total	$ 149,870,358	$ 150,619,656	

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. The District's investments in the County Pool and LAIF are not rated as of June 30, 2015.

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 not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2015, the District's bank balance of $6,460,832 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full as noted in the following table:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal government						
Categorical aid	$ 2,783,469	$ -	$ -	$ 198,936	$ 2,982,405	$ -
State government						
State principal apportionment	149,072	-	-	-	149,072	-
Categorical aid	2,516,689	-	-	5,571	2,522,260	-
Lottery	1,127,478	-	-	-	1,127,478	-
Local government						
Interest	72,382	72,827	39,942	9,553	194,704	8,529
Other local sources	806,442	-	-	471,121	1,277,563	-
Total receivables	$ 7,455,532	$ 72,827	$ 39,942	$ 685,181	$ 8,253,482	$ 8,529

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital assets not being depreciated				
Land	$ 9,726,493	$ -	$ -	$ 9,726,493
Construction in progress	15,919,066	12,392,130	11,733,133	16,578,063
Nondepreciable capital assets	25,645,559	12,392,130	11,733,133	26,304,556
Capital assets being depreciated				
Land improvements	36,588,672	4,280,449	-	40,869,121
Buildings and improvements	537,772,891	14,736,874	-	552,509,765
Furniture and equipment	9,429,829	320,834	852,408	8,898,255
Library collections	293,406	-	-	293,406
Depreciable capital assets	584,084,798	19,338,157	852,408	602,570,547
Total capital assets	609,730,357	31,730,287	12,585,541	628,875,103
Less accumulated depreciation				
Land improvements	8,860,913	1,878,645	-	10,739,558
Buildings and improvements	261,875,129	10,730,400	-	272,605,529
Furniture and equipment	5,806,086	703,673	826,447	5,683,312
Library collections	292,980	426	-	293,406
Total accumulated depreciation	276,835,108	13,313,144	826,447	289,321,805
Net capital assets	$ 332,895,249	$ 18,417,143	$ 11,759,094	$ 339,553,298

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

Governmental Activities	
Instruction	$ 8,655,270
Supervision of instruction	542,271
Instructional library media and technology	215,207
School administration	861,868
Pupil transportation	158,816
Food services	169,673
Other pupil services	711,623
Ancillary services	82,098
Community services	10,704
Other general administration	496,215
Data processing services	253,013
Plant maintenance and operations	1,156,386
Total depreciation expense	$ 13,313,144

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2015, are as follows:

	Due from			
Due to	General Fund	Nonmajor Governmental Funds	Proprietary Funds	Total
General Fund	$ -	$ 5,064	$ 442,415	$ 447,479
Nonmajor Governmental Funds	30,071	-	-	30,071
Total	$ 30,071	$ 5,064	$ 442,415	$ 477,550

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, 2015, consisted of the following:

	Transfers in		
Transfers out	General Fund	Nonmajor Governmental Funds	Total Transfers in
General Fund	$ -	$ 1,055,700	$ 1,055,700
Nonmajor Governmental Funds	47,742	-	47,742
Total transfers out	$ 47,742	$ 1,055,700	$ 1,103,442

The General Fund transferred contributions to the adult education fund.	$ 1,055,700
The Capital Facilities Fund transferred to the General Fund for administrative cost recovery.	47,742
Total interfund transfers	$ 1,103,442

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Funds
Vendor payables	$ 2,268,618	$ 1,752,982	$ 208,175	$ 4,229,775	$ 7,900
Salaries and benefits	2,645,679	-	22,074	2,667,753	-
Total payables	$ 4,914,297	$ 1,752,982	$ 230,249	$ 6,897,528	$ 7,900

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	Nonmajor Governmental Funds	Total
Other federal financial assistance	$ 8,920	$ -	$ 8,920
Other local assistance	1,987,856	322,225	2,310,081
Palo Alto Partners in Education	5,300,000	-	5,300,000
Total unearned revenue	$ 7,296,776	$ 322,225	$ 7,619,001

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	$ 358,242,328	$ 7,858,227	$ 25,920,000	$ 340,180,555	$ 32,255,483
Bond premium	4,137,468	-	256,686	3,880,782	256,686
Compensated absences	427,594	-	58,032	369,562	-
OPEB obligation	9,454,210	2,501,230	543,785	11,411,655	-
State school building loan	144,000	-	144,000	-	-
Net pension liability	184,358,161	12,799,946	49,792,887	147,365,220	-
	$ 556,763,761	$ 23,159,403	$ 76,715,390	$ 503,207,774	$ 32,512,169
Deferred amount on refunding	$ (5,139,890)	$ -	$ (513,989)	$ (4,625,901)	$ (513,989)

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Compensated absences and pension liability will be paid by the fund for which the employee worked. The OPEB obligation will be paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2014	Additons/ Accretion	Deductions/ Redemption	Bonds Outstanding June 30, 2015
2005	2025	2.0-4.6%	$ 107,225,000	$ 20,885,000	$ -	$ 6,605,000	$ 14,280,000
2009	2015	2.5-3.0%	10,585,000	2,805,000	-	2,805,000	-
2009	2034	5.0-5.5%	109,414,249	147,807,328	7,858,227	-	155,665,555
2011	2028	4.7-5.8%	25,000,000	25,000,000	-	-	25,000,000
2013	2025	0.4-2.9%	52,845,000	51,745,000	-	1,060,000	50,685,000
2013	2037	2.0-3.5%	70,000,000	70,000,000	-	15,450,000	54,550,000
2014	2024	2.0-3.25%	40,000,000	40,000,000	-	-	40,000,000
				$ 358,242,328	$ 7,858,227	$ 25,920,000	$ 340,180,555

Debt Service Requirements to Maturity

The bonds mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ 32,255,483	$ 6,451,762	$ 38,707,245
2017	14,827,213	5,786,662	20,613,875
2018	15,162,864	5,541,726	20,704,590
2019	15,709,344	5,353,543	21,062,887
2020	16,413,383	5,218,974	21,632,357
2021-2025	69,110,479	26,793,271	95,903,750
2026-2030	58,227,161	22,726,591	80,953,752
2031-2035	51,368,322	15,115,866	66,484,188
2036-2037	20,855,000	733,294	21,588,294
Subtotal	293,929,249	$ 93,721,689	$ 387,650,938
Accretion to date	46,251,306		
Total	$ 340,180,555		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to $369,562.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was $2,567,789 and contributions made by the District during the year were $543,785. Interest on the net OPEB obligation and adjustments to the annual required contribution were $378,168 and $444,727, respectively, resulting in an increase to the net OPEB obligation of $1,957,445. As of June 30, 2015, the net OPEB obligation was $11,411,655. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

State and Public School Building Loans

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	$ 30,000	$ -	$ -	$ -	$ 30,000
Stores inventories	166,529	-	-	84,987	251,516
Prepaid expenditures	56,655	-	-	-	56,655
Total nonspendable	253,184	-	-	84,987	338,171
Restricted					
Capital projects	-	50,159,497	-	5,125,919	55,285,416
Debt service	-	-	39,301,197	-	39,301,197
Educational programs	3,606,083	-	-	130,342	3,736,425
Total restricted	3,606,083	50,159,497	39,301,197	5,256,261	98,323,038
Committed					
Adult education	-	-	-	1,678,280	1,678,280
Deferred maintenance	-	-	-	1,282,222	1,282,222
Total committed	-	-	-	2,960,502	2,960,502
Assigned					
Educational programs	18,679,835	-	-	2,450	18,682,285
Retiree benefits	2,345,896	-	-	-	2,345,896
Total assigned	21,025,731	-	-	2,450	21,028,181
Unassigned					
Reserve for economic uncertainties	20,247,271	-	-	-	20,247,271
Remaining unassigned	762,844	-	-	-	762,844
Total unassigned	21,010,115	-	-	-	21,010,115
Total fund balance	$ 45,895,113	$ 50,159,497	$ 39,301,197	$ 8,304,200	$ 143,660,007

Reconciliation of statement of net position

The following is a reconciliation of the difference between the unassigned general fund balance and the unrestricted net position deficit as shown in the governmental Statement of Net Position:

Balance per govenmental funds balance sheet	$ 42,289,030
Add back	
Deferred maintenance fund balance	1,282,222
Adult ed fund balance	1,714,114
Deferred outflows of resources	11,631,038
Deduct	
OPEB	(11,411,655)
Compensated absences liability	(369,562)
Net pension liability	(147,365,220)
Deferred inflows of resources	(39,253,297)
	$ (141,483,330)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses for a maximum of five years or until the retiree reaches age 65, whichever comes first. No benefits are paid to surviving spouses or other dependents after the retiree's death. After the benefit period expires, retirees are permitted to continue coverage, but the retiree must pay 100% of all premiums.

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

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District, the District’s bargaining units, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District’s bargaining units, and unrepresented groups. Plan members receiving benefits who select HMO are not required to contribute for employee only coverage. Plan members receiving benefits who select PPO are required to pay excess of active premium over the Blue Cross HMO premium. Contributions made by retirees who selected PPO are $985 per month for retiree-only coverage, and $2,230 to $3,032 per month for retiree and family coverage. The remainder of the premiums was funded from the District’s General Fund.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the Plan:

Annual required contribution	$ 2,567,789
Interest on net OPEB obligation	378,168
Adjustment to annual required contribution	(444,727)
Annual OPEB cost (expense)	2,501,230
Contributions made (pay-as-you-go)	(543,785)
Increase in net OPEB obligation	1,957,445
Net OPEB obligation, beginning of year	9,454,210
Net OPEB obligation, end of year	$ 11,411,655

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is was as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2015	$ 2,501,230	$ 543,785	21.74%	$ 11,411,655
2014	2,776,678	484,065	15.00%	9,454,210
2013	2,610,648	562,674	21.55%	7,171,597

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	$ -	$ 23,520,252	$ 23,520,252	0%	$ 122,469,237	19.21%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), based on the assets invested in the General Fund. Healthcare cost trend rates ranged from an initial 7.5 percent and 4.5 percent, to an ultimate rate of 4.5 percent. The cost trend rate used for the Dental and Vision programs was 3 percent. The UAAL is being amortized at a level percent of payroll. The remaining amortization period at July 1, 2014, was 24 years on a closed basis. At June 30, 2015, the District's General Fund held total assigned assets in the amount of $2,425,896, consisting of $2,422,574 on deposit with the county treasurer, and receivables in the amount of $3,322.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft, damage, destruction of asset's, errors and omissions, and injuries to employees and natural disasters. During fiscal year ending June 30, 2015, the District contracted with Northern California Relief for property and liability insurance coverage for liabilities exceeding $50,000 with a limit $1,000,000 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

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

Employee Medical Benefits

The District has purchased health insurance for its employees from Kaiser Foundation and Blue Cross. Rates are set through an annual calculation process by the health plan providers. The District pays the health plan provider a monthly premium.

Claims Liabilities

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

Unpaid Claims Liabilities

The Self-Insurance Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2013 to June 30, 2015:

	Workers' Compensation
Liability Balance, July 1, 2013	$ 6,431,000
Claims and changes in estimates	2,986,209
Claims payments	(2,986,209)
Liability Balance, June 30, 2014	6,431,000
Claims and changes in estimates	(753,192)
Claims payments	(380,808)
Liability Balance, June 30, 2015	$ 5,297,000
Assets available to pay claims at June 30, 2015	$ 6,687,397

NOTE 12 - 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).

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources, and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	$ 116,913,315	$ 8,218,668	$ 28,789,681	$ 10,093,394
CalPERS	30,451,905	3,412,370	10,463,616	2,706,552
Total	$ 147,365,220	$ 11,631,038	$ 39,253,297	$ 12,799,946

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, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://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 District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	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 precentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contribution 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, 2015, are presented above and the District's total contributions were $8,218,668 for the year ending June 30, 2015.

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

At June 30, 2015, 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:		
District's proportionate share of net pension liability	$	116,913,315
State's proportionate share of the net pension liability associated with the District		70,597,307
Total	$	187,510,622

The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.2001 percent.

For the year ended June 30, 2015, the District recognized pension expense of $4,731,786 and revenue of $4,731,786 for support provided by the State. The District also recognized pension expense of $10,093,394. At June 30, 2015, 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 measurment date	$ 8,218,668	$ -
Net differences between projected and actual earnings on plan investments	-	28,789,681
Total	$ 8,218,668	$ 28,789,681

The deferred outflow 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 year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	$ 7,197,420
2017	7,197,420
2018	7,197,420
2019	7,197,421
Total	$ 28,789,681

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined be assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquididty	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 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 (7.60 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 (6.60%)	$ 182,237,281
Current discount rate (7.60%)	116,913,315
1% increase	62,444,998

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(s) regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, 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 precentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were $3,412,370 for the year ended June 30, 2015.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $30,451,905. The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.2682 percent.

For the year ended June 30, 2015, the District recognized pension expense of $2,706,552. At June 30, 2015, 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	$ 3,412,370	$ -
Net differences between projected and actual earnings on plan investments	-	10,463,616
Total	$ 3,412,370	$ 10,463,616

The deferred outflow 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 year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	$ 2,615,904
2017	2,615,904
2018	2,615,904
2019	2,615,904
Total	$ 10,463,616

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The 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	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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 (6.50%)	$ 53,419,592
Current discount rate (7.50%)	30,451,905
1% increase (8.50%)	11,260,086

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 $4,731,786 (5.679 percent of annual payroll). 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 excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

State General Fund contributions for the current year and preceding two years were as follows:

Fiscal Year	Percent of Annual Payroll	Total Contribution
2014-15	5.679%	$ 4,731,786
2013-14	5.541%	4,260,083
2012-13	5.176%	3,870,429

NOTE 13 - 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, 2015.

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, 2015.

Construction Commitment

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital project

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Gunn High School	$ 82,728	8/1/2015
Palo Alto High School	12,081,594	3/6/2016
Total construction commitments	$ 12,164,322	

NOTE 14 - OPERATING LEASE REVENUE

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

Future minimum lease payments under these agreements are as follows:

Year Ending June 30, 2015	Lease Payment
2016	$ 1,379,866
2017	1,421,262
2018	1,463,900
2019	1,507,817
2020	1,553,051
2021-2025	4,095,806
Total	$ 11,421,702

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

As discussed in Note 1 & 12, the District implemented GASB No. 68, *Accounting and Financial Reporting for Pensions,* effectively July 1, 2014. Refer to Note 12 for further disclosures related to the plan and related balances. As a result of the implementation, the District restated beginning net position for the governmental activities as noted below:

	Government-Wide Governmental Activities
Beginning of the year, net position as previouly reported	$ 127,070,617
Restatement due to implementation of GASB Statement No. 68	(173,784,632)
Beginning of the year, net position as restated	$ (46,714,015)

REQUIRED SUPPLEMENTARY INFORMATION

PALO ALTO UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		General	Variances - Positive (Negative) Final
	Original	Final	Fund	to Actual
REVENUES				
Local Control Funding Formula	$ 140,674,666	$ 151,697,175	$ 146,755,179	$ (4,941,996)
Federal sources	3,305,028	3,739,399	3,643,914	(95,485)
Other State sources	3,659,955	4,609,717	9,306,856	4,697,139
Other local sources	36,796,232	41,524,593	37,177,934	(4,346,659)
Total Revenues[1]	184,435,881	201,570,884	196,883,883	(4,687,001)
EXPENDITURES				
Current				
Certificated salaries	90,407,604	101,504,543	93,216,112	8,288,431
Classified salaries	30,167,717	32,279,639	32,210,209	69,430
Employee benefits	36,014,472	42,427,958	40,739,678	1,688,280
Books and supplies	8,516,635	12,836,557	7,963,458	4,873,099
Services and operating expenditures	19,268,263	21,555,029	20,693,792	861,237
Capital outlay	182,000	462,715	313,507	149,208
Total Expenditures[1]	184,556,691	211,066,441	195,136,756	15,929,685
Excess (Deficiency) of Revenues Over Expenditures	(120,810)	(9,495,557)	1,747,127	11,242,684
Other Financing Sources (Uses)				
Transfers in	110,000	23,642	47,742	24,100
Transfers out	(1,135,700)	(1,056,536)	(1,055,700)	836
Other uses	-	-	(3,491)	(3,491)
Net Financing Sources (Uses)	(1,025,700)	(1,032,894)	(1,011,449)	21,445
NET CHANGE IN FUND BALANCES	(1,146,510)	(10,528,451)	735,678	11,264,129
Fund Balance - Beginning	45,159,435	45,159,435	45,159,435	-
Fund Balance - Ending	$ 44,012,925	$ 34,630,984	$ 45,895,113	$ 11,264,129

[1] The consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Revenue Fund for Postemployment Benefits Fund has been included in the actual and budgeted columns for comparability.

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	$ -	$ 23,520,252	$ 23,520,252	0%	$ 122,469,237	19.21%
July 1, 2012	-	22,451,506	22,451,506	0%	104,744,125	21.43%
July 1, 2010	-	21,366,638	21,366,638	0%	103,965,260	20.55%

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

	2015
CalSTRS	
District's proportion of the net pension liability	0.2001%
District's proportionate share of the net pension liability	$ 116,913,315
State's proportionate share of the net pension liability associated with the District	70,597,307
Total	$ 187,510,622
District's covered employee payroll as of the 2014 measurement date	$ 89,006,480
District's proportionate share of the net pension liability as a percentage of its	131.35%
Plan fiduciary net position as a percentage of the total pension liability	77%
CalPERS	
District's proportion of the net pension liability	0.2682%
District's proportionate share of the net pension liability	$ 30,451,905
District's covered employee payroll as of 2014 measurement date	$ 28,266,647
District's proportionate share of the net pension liability as a percentage of its	107.73%
Plan fiduciary net position as a percentage of the total pension liability	83%

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

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015

	2015
CalSTRS	
Contractually required contribution	$ 8,218,669
Contributions in relation to the contractually required contribution	(8,218,669)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 83,779,040
Contributions as a percentage of covered - employee payroll	10%
CalPERS	
Contractually required contribution	$ 3,412,370
Contributions in relation to the contractually required contribution	(3,412,370)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 29,823,192
Contributions as a percentage of covered - employee payroll	11%

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

SUPPLEMENTARY INFORMATION

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education			
Advanced Placement Program	84.330B	14831	$ 1,923
Adult Education-English Literacy	84.002A	14109	57,615
Adult Education-English Literacy	84.002A	14508	154,829
Adult Secondary Education	84.002	13978	4,381
Vocational and Applied Technology	84.048	14894	43,267
No Child Left Behind			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	299,205
Title II-Improving Teacher Quality	84.367	14341	387,820
Title III-Limited English Proficiency	84.365	14346	59,057
Title III-Immigrant Education Program	84.365	15146	117,131
Special Education Cluster			
Basic Local Assistance	84.027	13379	2,080,929
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	140,131
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	99,413
Preschool Staff Development, Part B, Section 619	84.173A	13431	389
Preschool Grants, Part B, Section 619	84.173	13430	46,263
Passed through California Department of Rehabilitation			
Workability II	84.126	10006	369,388
Total U.S. Department of Education			3,861,741
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child Nutrition Cluster			
Especially Needy Breakfast	10.553	13526	40,651
Basic School Breakfast Program	10.553	13525	43,843
School Lunch Program	10.555	13524	456,245
Schools/Child Nutrition Commodity Program [1]	10.555	13389	15,187
Total U.S. Department of Agriculture			555,926
Total Expenditures of Federal Awards			$ 4,417,667

[1] Not included in the financial statement.

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,470.92	3,489.95
Fourth through sixth	2,943.90	2,954.62
Seventh and eighth	1,863.16	1,866.71
Ninth through twelfth	3,660.52	3,613.82
Total Regular ADA	11,938.50	11,925.10
Extended Year Special Education		
Transitional kindergarten through third	0.03	0.03
Fourth through sixth	0.03	0.03
Seventh and eighth	0.02	0.02
Ninth through twelfth	0.03	0.03
Total Extended Year Special Education	0.11	0.11
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.66	0.70
Fourth through sixth	3.94	6.71
Seventh and eighth	4.58	4.15
Ninth through twelfth	21.53	20.21
Total Special Education, Nonpublic, Nonsectarian Schools	30.71	31.77
Total ADA	11,969.32	11,956.98

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Melissa Baten Caswell	President	2016
Heidi Emberling	Vice President	2016
Ken Dauber	Member	2018
Terry Godfrey	Member	2018
Camille Townsend	Member	2016

ADMINISTRATION

Max "Glenn" McGee, Ph.D.	Superintendent
Charles Young, M.A	Associate Superintendent, Educational Services
Cathy Mak, M.B.A.	Chief Business Officer
Robert Golton, Ph.D.	Bond Program Manager
Scott Bowers, Ed.D.	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2014-2015 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	35,000	43,880	180	Complied
Grade 1	50,400	49,000	51,600	180	Complied
Grade 2	50,400	49,000	51,600	180	Complied
Grade 3	50,400	49,000	51,600	180	Complied
Grade 4	54,000	52,500	55,050	180	Complied
Grade 5	54,000	52,500	55,050	180	Complied
Grade 6	54,000	52,500	58,240	180	Complied
Grade 7	54,000	52,500	58,240	180	Complied
Grade 8	54,000	52,500	58,240	180	Complied
Grade 9	64,800	63,000	65,315	180	Complied
Grade 10	64,800	63,000	65,315	180	Complied
Grade 11	64,800	63,000	65,315	180	Complied
Grade 12	64,800	63,000	65,315	180	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

	(Budget) 2016[1]	2015	2014	2013
GENERAL FUND [4]				
Revenues	$ 207,348,045	$ 196,883,883	$ 187,373,133	$ 176,823,558
Other sources	101,000	47,742	45,563	36,818
Total revenues and other sources	207,449,045	196,931,625	187,418,696	176,860,376
Expenditures	205,225,881	195,136,756	186,781,796	173,023,680
Other uses and transfers out	1,585,700	1,059,191	1,055,700	1,563,428
Total expenditures and other uses	206,811,581	196,195,947	187,837,496	174,587,108
CHANGE IN FUND BALANCE	$ 637,464	$ 735,678	$ (418,800)	$ 2,273,268
ENDING FUND BALANCE	$ 46,532,577	$ 45,895,113	$ 45,159,435	$ 45,578,235
AVAILABLE RESERVES [2, 5]	$ 21,559,807	$ 21,010,115	$ 26,068,856	$ 21,771,416
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	10.42%	10.71%	8.10%	8.31%
LONG-TERM OBLIGATIONS[6]	$ 470,695,605	$ 503,207,774	$ 551,623,871	$ 325,303,963
K-12 AVERAGE DAILY ATTENDANCE AT P-2[3]	12,160	11,969	12,037	11,921

The General Fund balance increased $735,678 over the previous period, and has increased $316,878 since fiscal year 2012-13. The fiscal year 2015-16 budget projects an increase of $637,464 (1.4 percent) resulting in available reserves of $21,559,807 (10.42 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have increased by $177,903,811 over the past two years substantially due to the implementation of GASB 68.

Average daily attendance has increased by 48 over the preceding two years. An increase of 191 ADA is anticipated during fiscal year 2015-16.

[1] Budget 2016 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances within the General Fund.

[3] Excludes adult education ADA.

[4] General Fund amounts include activity related to the consolidation of the Special Reserve for Other than Capital Outlay Fund, and the Special Reserve for Postemployment Benefits as required by GASB Statement No. 54.

[5] The available reserves include Fund 17, Special Reserve Fund for Other than Capital Outlay Projects ending fund balance.

[6] Long term obligations include Net pension liability of $147,365,220 and $184,358,161 for FY 2015 and 2014 respectively. Net pension liability is not available for FY 2013.

See accompanying note to supplementary information.

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PALO ALTO UNIFIED SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	$ 1,612,095	$ 128,322	$ 393,628	$ 1,325,794
Receivables	130,822	5,140	70,548	1,936
Due from other funds	-	-	5,064	-
Prepaid expenditures	-	-	8,835	-
Stores inventories	35,834	-	40,318	-
Total Assets	$ 1,778,751	$ 133,462	$ 518,393	$ 1,327,730
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 33,360	$ 118,578	$ 30,313	$ 45,508
Due to other funds	15,187	14,884	-	-
Unearned revenue	16,090	-	306,135	-
Total Liabilities	64,637	133,462	336,448	45,508
Fund Balances:				
Nonspendable	35,834	-	49,153	-
Restricted	-	-	130,342	-
Committed	1,678,280	-	-	1,282,222
Assigned	-	-	2,450	-
Total Fund Balances	1,714,114	-	181,945	1,282,222
Total Liabilities and Fund Balances	$ 1,778,751	$ 133,462	$ 518,393	$ 1,327,730

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds
$ 4,646,238	$ 5,436	$ 8,111,513
476,684	51	685,181
-	-	5,064
-	-	8,835
-	-	76,152
$ 5,122,922	$ 5,487	$ 8,886,745
$ 2,490	$ -	$ 230,249
-	-	30,071
-	-	322,225
2,490	-	582,545
-	-	84,987
5,120,432	5,487	5,256,261
-	-	2,960,502
-	-	2,450
5,120,432	5,487	8,304,200
$ 5,122,922	$ 5,487	$ 8,886,745

PALO ALTO UNIFIED SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR JUNE 30, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal sources	$ 216,825	$ -	$ 541,741	$ -
Other State sources	117,335	434,113	37,018	-
Other local sources	768,050	364	1,920,266	6,942
Total Revenues	1,102,210	434,477	2,499,025	6,942
EXPENDITURES				
Current				
Instruction	976,148	419,592	-	-
Instruction-related activities:				
Supervision of instruction	22,617	-	-	-
School site administration	929,848	365	-	-
Pupil services:				
Food services	-	-	2,496,711	-
Administration:				
All other administration	90,537	14,520	-	-
Plant services	94,519	-	-	-
Facility acquisition and construction	40	-	-	315,211
Total Expenditures	2,113,709	434,477	2,496,711	315,211
Excess (Deficiency) of Revenues Over Expenditures	(1,011,499)	-	2,314	(308,269)
Other Financing Sources (Uses)				
Transfers in	1,055,700	-	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	1,055,700	-	-	-
NET CHANGE IN FUND BALANCES	44,201	-	2,314	(308,269)
Fund Balance - Beginning	1,669,913	-	179,631	1,590,491
Fund Balance - Ending	$ 1,714,114	$ -	$ 181,945	$ 1,282,222

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds
$ -	$ -	$ 758,566
-	(84,577)	503,889
2,079,649	345	4,775,616
2,079,649	(84,232)	6,038,071
-	-	1,395,740
-	-	22,617
-	-	930,213
-	-	2,496,711
-	-	105,057
-	-	94,519
216,669	-	531,920
216,669	-	5,576,777
1,862,980	(84,232)	461,294
-	-	1,055,700
(47,742)	-	(47,742)
(47,742)	-	1,007,958
1,815,238	(84,232)	1,469,252
3,305,194	89,719	6,834,948
$ 5,120,432	$ 5,487	$ 8,304,200

PALO ALTO UNIFIED SCHOOL DISTRICT

GENERAL FUND
SCHEDULE OF COMBINING BALANCE SHEET
JUNE 30, 2015

	Non-GAAP General Fund	Special Reserve Noncapital Fund	Retiree Benefits Fund	GAAP General Fund
ASSETS				
Deposits and investments	$ 35,438,777	$ 12,983,527	$ 2,422,574	$ 50,844,878
Receivables	7,434,280	17,930	3,322	7,455,532
Due from other funds	30,071	-	-	30,071
Prepaid expenditures	56,655	-	-	56,655
Stores inventories	166,529	-	-	166,529
Total Assets	$ 43,126,312	$ 13,001,457	$ 2,425,896	$ 58,553,665
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,914,297	$ -	$ -	$ 4,914,297
Due to other funds	447,479	-	-	447,479
Deferred revenue	7,296,776	-	-	7,296,776
Total Liabilities	12,658,552	-	-	12,658,552
Fund Balances:				
Nonspendable	253,184	-	-	253,184
Restricted	3,606,083	-	-	3,606,083
Assigned	18,679,835	-	2,345,896	21,025,731
Unassigned	7,928,658	13,001,457	80,000	21,010,115
Total Fund Balances	30,467,760	13,001,457	2,425,896	45,895,113
Total Liabilities and Fund Balances	$ 43,126,312	$ 13,001,457	$ 2,425,896	$ 58,553,665

See accompanying note to supplementary information.

PALO ALTO UNIFIED SCHOOL DISTRICT

GENERAL FUND
SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR JUNE 30, 2015

	Non-GAAP General Fund	Special Reserve Noncapital Fund	Retiree Benefits Fund	GAAP General Fund
REVENUES				
Local Control Funding Formula	$ 146,755,179	$ -	$ -	$ 146,755,179
Federal sources	3,643,914	-	-	3,643,914
Other State sources	9,306,856	-	-	9,306,856
Other local sources	37,108,667	58,035	11,232	37,177,934
Total Revenues	196,814,616	58,035	11,232	196,883,883
EXPENDITURES				
Current				
Instruction and related activities:	128,503,231	-	-	128,503,231
Supervision of instruction	8,115,830	-	-	8,115,830
Instructional library, media and technolog	3,229,836	-	-	3,229,836
School site administration	12,004,764	-	-	12,004,764
Pupil services:				
Home-to-school transportation	2,383,517	-	-	2,383,517
Food services	49,752	-	-	49,752
All other pupil services	10,680,088	-	-	10,680,088
Administration				
Data processing	3,797,233	-	-	3,797,233
All other administration	7,342,168	-	-	7,342,168
Plant services	17,243,948	-	-	17,243,948
Facility acquisition and construction	393,603	-	-	393,603
Ancillary services	1,232,133	-	-	1,232,133
Community services	160,653	-	-	160,653
Total Expenditures	195,136,756	-	-	195,136,756
Excess (Deficiency) of Revenues Over Expenditures	1,677,860	58,035	11,232	1,747,127
Other Financing Sources (Uses)				
Transfers in	47,742	-	-	47,742
Transfers out	(1,055,700)	-	-	(1,055,700)
Other uses	(3,491)	-	-	(3,491)
Net Financing Sources (Uses)	(1,011,449)	-	-	(1,011,449)
NET CHANGE IN FUND BALANCES	666,411	58,035	11,232	735,678
Fund Balance - Beginning	29,801,349	12,943,422	2,414,664	45,159,435
Fund Balance - Ending	$ 30,467,760	$ 13,001,457	$ 2,425,896	$ 45,895,113

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balance, and the related expenditures reported in the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Federal revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ -
Rebated interest on qualified school construction bonds are not included in the Schedule of Expenditures of Federal Awards, but are included in the financial statements.		(1,236,096)
Noncash Federal expenditures are not recorded on the financial statements, but are included in the Schedule of Expenditures of Federal Awards.	10.555	15,187
Total Schedule of Expenditures of Federal Awards		$ (1,220,909)

Schedule of Average Daily Attendance

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.

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 Instructional Time

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 1986-87 requirements, as required by *Education Code* Section 46201. The District has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has exceeded their target funding.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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.

Combining Nonmajor Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Nonmajor 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 Nonmajor Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Schedule of Combining General Fund - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Schedules of General Fund 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 General Fund on the Governmental Funds Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balances, as a result of GASB No. 54.

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Palo Alto Unified School District
Palo Alto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated December 11, 2015. Our report contains and emphasis of matter regarding adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pension* as of July 1, 2014.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 12 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 11, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2015. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 11, 2015

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 as identified in the 2014-*2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. 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 2014-*2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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~~s~~. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2015.

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

	Procedures Performed
Attendance Accounting:	
Attendance Reporting	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	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, see below
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	Yes
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
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer State funded Independent Study, Continuation Education, Early Retirement Incentive Program, Juvenile Court Schools, Middle of Early College, Transportation Maintenance of Effort, Regional Occupational Centers or Programs or After or Before School Education and Safety Program, and the District do not have Charter Schools therefore; we did not perform procedures related to them.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 11, 2015

Schedule of Findings and Questioned Costs

PALO ALTO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness identified?	No
Significant deficiency 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 .510(a) of OMB Circular A-133?	No

Identification of major progra

CFDA Number	Name of Federal Program or Cluster
84.010	Title I - Basic Grants
84.367	Title II, Part A, Improving Teacher Quality Local Grants
10.553, 10.555	Child Nutrition Clusters

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for all programs:	Unmodified

PALO ALTO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.