

**MEASURE "TT" GENERAL OBLIGATION
BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2017**

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2017

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Financial Section

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Introduction and Citizens' Oversight Committee Member Listing
June 30, 2017*

Pasadena Unified School District (the "District") consists of four high schools, one continuation school, three middle schools, twenty elementary schools, and three charter schools supported by a District Office and a service center facility. The District serves approximately 20,000 students.

On November 4, 2008, the voters of the Pasadena Unified School District approved by more than 55% Measure "TT", authorizing the issuance and sale of \$350,000,000 of general obligation bonds. On September 17, 2009, the District issued Series 2009A of the Election of 2008 General Obligation bonds in the amount of \$125,000,000. On July 3, 2012, the District issued Series 2012 in the amount of \$125,000,000. On May 25, 2016, the District issued Series 2016 in the amount of \$100,000,000. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2017:

Name	Title	Representation
Clifton Cates, III	Chairperson	Member of Bona Fide Taxpayers Association
Diana Verdugo	Member	Active in Senior Citizens' Organization
Camile Dudley	Member	Active in Senior Citizens' Organization
Gretchen Vance	Member	Parent/Guardian of Child in District/Active in PTA
Mikala Rahn	Member	Business Representative/ Parent/ Guardian of Child in District/ Active in PTA
Quincy Hocutt	Member	At-large community member
Steven Cole	Member	Parent/ Guardian of Child in District/ Active in PTA
Willie Ordonez	Member	Parent/ Guardian of Child in District
Glen De Veer	Member	Parent/ Guardian of Child in District/ Active in PTA
Francis Boland	Member	Parent/ Guardian of Child in District/ Active in PTA
Jen Wang	Member	Parent/ Guardian of Child in District
Mike Mohit	Member	Business Representative/ Parent/ Guardian of Child in District
James V. Vitale	Member	Active in Senior Citizens' Organization



INDEPENDENT AUDITORS' REPORT

The Board of Education and the
Citizens' Bond Oversight Committee
Pasadena Unified School District
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure "TT" General Obligation Bond Building Fund of Pasadena Unified School District, as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure "TT" General Obligation Bond Building Fund of Pasadena Unified School District, as of June 30, 2017 and 2016, and the changes in financial position thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure "TT" General Obligation Bond Building Fund and do not purport to, and do not, present fairly the financial position of the Pasadena Unified School District, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, 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.



Murrieta, California
December 11, 2017

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

Balance Sheet

June 30, 2017 and 2016

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 114,828,138	\$ 147,113,565
Accounts receivable	<u>627,941</u>	<u>255,522</u>
Total assets	<u>\$ 115,456,079</u>	<u>\$ 147,369,087</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,480,945	\$ 4,862,181
 Fund Balance		
Restricted for capital projects	<u>111,975,134</u>	<u>142,506,906</u>
Total liabilities and fund balance	<u>\$ 115,456,079</u>	<u>\$ 147,369,087</u>

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2017 and 2016*

	June 30,	
	2017	2016
REVENUES		
Interest earnings	\$ 1,437,167	\$ 585,580
Other local revenue	4,485	1,525,000
Total Revenues	<u>1,441,652</u>	<u>2,110,580</u>
EXPENDITURES		
Current:		
Classified salaries	663,558	512,751
Employee benefits	285,746	202,495
Books and supplies		
Materials and supplies	275,770	160,306
Computer, software and peripheral	80	57,881
Food	500	-
Non-capital equipment	111,388	265,513
Services and other operating expenditures		
Mileage and car allowances	1,126	976
Travel and conferences	6,720	9,680
Rentals and leases	358	3,684
Repairs	130,908	77,463
Copier lease and repair	2,000	4,843
Sales & use tax expense	7	-
Contracted services	881,137	57,242
Printing	-	1,427
Legal and audit services	553,218	365,825
Computer/technology related services	4,303	19,732
Consultants	42,000	14,752
Other charges	819	780
Postage	231	224
Capital outlay:		
Surveying costs	59,315	39,907
Hazard waste removal	33,264	56,693
Moving expense	47,521	34,222
Other costs - site	221,358	-
Architect and engineering fees	4,923,255	2,620,335
DSA fees	169,179	65,901
Energy analysis/preliminary tests	340,272	275,436
Other planning costs	486,158	234,187
Owner's representative	813,273	663,967
Main construction contractor	18,792,858	22,107,326
Other construction costs	1,413,171	6,742,587
Hazard waste removal	44,900	-
Interim housing	938,698	420,395
Construction tests	(77,795)	176,081
Inspections	498,859	942,393
Non-capitalized equipment	191,372	546,870
Computers & other computer hardware	117,897	-
Debt Service:		
Bond issuance costs	-	570,000
Total Expenditures	<u>31,973,424</u>	<u>37,251,874</u>

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

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balance (continued)
For the Fiscal Years Ended June 30, 2017 and 2016*

Excess (Deficiency) of Revenues Over (Under) Expenditures	(30,531,772)	(35,141,294)
OTHER FINANCING SOURCES (USES)		
Premium on bond issuance	-	325,000
Proceeds from bond issuance	-	100,000,000
Total Other Financing Sources	-	100,325,000
Net Change in Fund Balance	(30,531,772)	65,183,706
Fund Balance, Beginning of Year	142,506,906	77,323,200
Fund Balance, End of Year	<u>\$ 111,975,134</u>	<u>\$ 142,506,906</u>

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 4, 2008, the District voters authorized \$350,000,000 in General Obligation Bonds (Measure "TT") for the purpose of financing the modernization and construction of school facilities within the District. The measure required a minimum 55% vote for passage. In response, an advisory committee to the District's Governing Board and Superintendent, the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include ensuring compliance with conditions of Measure "TT".

The Bond proceeds are accounted for in the District's Building Fund (21.1), where they are expended for the approved projects. The statements presented are for the individual Measure "TT" General Obligation Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Basis of Accounting

The Measure "TT" General Obligation Bond Building Fund is a governmental fund reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

C. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements
June 30, 2017 and 2016*

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH

Pooled Funds

In accordance with Education Code Section 41001, the District maintains all of its cash from the bond proceeds in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements
June 30, 2017 and 2016*

NOTE 2 – CASH (continued)

Pooled Funds (continued)

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 3 – ACCOUNTS RECEIVABLE

The total accounts receivable at June 30, 2017 and 2016, in the amounts of \$627,941 and \$255,522, respectively, represents amounts due from the Los Angeles County Treasurer for interest earnings.

NOTE 4 – MEASURE "TT" GENERAL OBLIGATION BONDS

Series 2009A

On September 17, 2009, the District issued \$125,000,000 of Series 2009A General Obligation Bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

The bonds were issued as: \$40,320,000 tax-exempt current interest serial bonds with stated interest rates ranging between 2.5% and 5% and fully maturing on August 1, 2022, and \$84,680,000 in Federally taxable Build America Bonds Capital Appreciation Bonds with stated interest rates ranging between 6.076% and 7.193%, and fully maturing on August 1, 2034. The Build America Bonds program was created by the American Recovery and Reinvestment Act to assist state and local governments in financing capital projects at lower borrowing costs and to stimulate the economy and create jobs. It authorizes state and local governments to issue taxable bonds to finance any capital expenditures for which they could otherwise issue tax-exempt governmental bonds. Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. The District is obligated to deposit any cash subsidy payments it receives into the debt service fund for the Bonds.

Series 2012

On July 3, 2012, the District issued \$125,000,000 of Series 2012 General Obligation Bonds. The bonds were issued as current interest serial bonds with stated interest rates ranging between 0.4% and 5.0% and fully maturing on May 1, 2037.

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements
June 30, 2017 and 2016*

NOTE 4 – MEASURE "TT" GENERAL OBLIGATION BONDS (continued)

Series 2016

On May 25, 2016, the District issued \$100,000,000 of Series 2016 General Obligation Bonds. The bonds were issued as current interest serial bonds with stated interest rates ranging between 2.0% and 5.0% and fully maturing on August 1, 2036. These bonds represent the third and final issuance from Measure TT.

2016 Refunding

On May 25, 2016, the District issued Series 2016 A and B refunding bonds in the amounts of \$11,025,000 and \$78,470,000, respectively. The proceeds were used to advance refund certain of the District's 2009 A-1 and 2009 A-2 bonds.

A summary of outstanding general obligation bonds that have been issued to date follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017
2009 A-1	9/17/2009	8/1/2022	2.5%-5.0%	\$ 40,320,000	\$ 9,565,000	\$ -	\$ 1,960,000	\$ 7,605,000
2012	7/3/2012	5/1/2037	0.4%-5.0%	125,000,000	110,205,000	-	3,005,000	107,200,000
2016	5/25/2016	8/1/2036	2.0-5.0%	100,000,000	100,000,000	-	-	100,000,000
2016 Ref. A	5/25/2016	8/1/2022	1.25%-4.0%	11,025,000	11,025,000	-	195,000	10,830,000
2016 Ref. B	5/25/2016	8/1/2034	4.0%-5.0%	78,470,000	78,470,000	-	-	78,470,000
				<u>\$ 439,495,000</u>	<u>\$ 309,265,000</u>	<u>\$ -</u>	<u>\$ 5,160,000</u>	<u>\$ 304,105,000</u>

The requirements to amortize outstanding general obligation bonds are as follows:

Fiscal Year	Principal	Interest	Total
2017-2018	\$ 7,565,000	\$ 25,069,514	\$ 32,634,514
2018-2019	8,540,000	19,800,695	28,340,695
2019-2020	8,455,000	21,446,534	29,901,534
2020-2021	6,845,000	12,176,843	19,021,843
2021-2022	7,305,000	11,900,781	19,205,781
2022-2027	50,365,000	53,334,219	103,699,219
2027-2032	85,795,000	36,998,244	122,793,244
2032-2037	129,235,000	13,877,337	143,112,337
Total	<u>\$ 304,105,000</u>	<u>\$ 194,604,167</u>	<u>\$ 498,709,167</u>

NOTE 5 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in litigation at various stages. In the opinion of legal counsel, the District does not anticipate that the outcome of any of the litigation will have a material impact on the financial statements.

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements
June 30, 2017 and 2016*

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

B. Construction Commitments

At June 30, 2017, the District had commitments with respect to unfinished capital projects of approximately \$70.7 million to be paid from Measure "TT" General Obligation Bonds, detailed as follows:

Measure TT Projects	Remaining Construction Commitment
Altadena Elementary School - Modernization	\$ 17,460
Blair High School - Modernization of Main Building	19,725,958
Burbank Elementary School - Lunch Shelter/Renovation	90,424
Career Technical - Career Technical Projects	25,660
Don Benito Elementary School - New Administration Building	194,338
Don Benito Elementary School - HVAC	90,264
Eliot Middle School - Auditorium/Cafe Modernization	2,760,768
Field Elementary School - Modernization	21,542
Franklin Elementary School - Modernize Café/MPR/Windows	5,273
Hamilton Elementary School - Modernization MPR/Café	13,791
Jackson Elementary School - Modernize of MPR/Cafe/Admin	810,391
Jefferson Elementary School - Modernization	176,441
Jefferson Elementary School - New Child Care Center	66,194
John Muir High School - Building D Accessibility	21,509
John Muir High School - Black Box Theater Project	396,035
John Muir High School - Culinary Arts Project	23,354
John Muir High School - Modernization, Abatement & Kitchen	19,020,409
Linda Vista Elementary School - Modernization	112,461
Longfellow Elementary School - New Kitchen Bldg/Lunch Shelter/Auditorium	469,276
Madison Elementary School - Modernization	217,437
Marshall Fundamental Secondary School - Old Gym Renovation	2,278
Marshall Fundamental Secondary School - Sports Complex	223,372
McKinley Elementary School - Phase I New Construction	1,040
McKinley Elementary School - Phase II Modernization	1,283,472
Norma Coombs Alternative - New CR Wing & Admin Bldg	6,555,809
Pasadena High School - Campus Appearance/Identity	26,071
Pasadena High School - Campus Upgrades/Restrooms Upgrades	251,717
Pasadena High School - ADA Upgrade (DSA)	87,057
Pasadena High School - Modernize Gymnasium Complex	12,756,201
Pasadena High School - Kitchen Project	159,741
Rose City High School - Rose City Modification	238,103
Roosevelt Elementary School - Multi-purpose Facility	135,407
San Rafael Elementary School - Modernization	174,230
Sierra Madre Elementary School (Lower) - Phase II - HVAC Auditorium Upgrades	218,122
Sierra Madre Middle School (Upper) - New MS Campus	90,383
Washington Accelerated Elementary School - New Classroom/MPR Bldg	3,768,692
Washington Accelerated Elementary School - New Child Care Center	97,128
Washington Middle School - New Constr. & Mod.	225,220
Willard Elementary School - Kinder and Pre-K Complex	142,670
Total	\$ 70,695,698

Other Independent Auditors' Reports



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

The Board of Education and the
Citizens' Bond Oversight Committee
Pasadena Unified School District
Pasadena, 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 Measure "TT" General Obligation Bond Building Fund of Pasadena Unified School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pasadena Unified School 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 Pasadena Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pasadena Unified School District's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pasadena Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

Murrieta, California
December 11, 2017



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Education and the
Citizens' Bond Oversight Committee
Pasadena Unified School District
Pasadena, California

We have examined the Pasadena Unified School District's (the "District") compliance with the performance requirements for the Proposition 39 Measure "TT" General Obligation Bond for the fiscal year ended June 30, 2017, under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

Objectives

The objectives of the examination of compliance applicable to the District are to determine with reasonable assurance that:

- The expenditures charged to the Pasadena Unified School District Building Fund (21.1) are documented.
- Expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure "TT".
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Bond Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2016 to June 30, 2017. The expenditures tested included all object and project codes associated with the bond projects. Expenditures incurred subsequent to June 30, 2017, were not reviewed or included within the scope of our audit or in this report.

Procedures Performed

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2017, for the Measure "TT" General Obligation Building Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measure "TT" with regards to the approved bond projects list. We performed the following procedures:

To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We tested approximately \$22.7 million in bond fund invoices paid, which is a combination of 2016-17 expenditures and payments on liabilities accrued as of June 30, 2017, and paid in 2017-18. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included salaries, legal fees, and payments made to subcontractors and other vendors.
- We reviewed the approved project listing as set out in the Measure "TT" election documents.
- We visited construction sites at Washington Elementary and Pasadena High schools to ensure that expenditures made corresponded with the actual work performed at the site.
- We verified that funds from the Building Fund (21.1) were expended for the construction, reconstruction, acquisition, furnishing and equipping of District facilities constituting the authorized bond projects, and we verified that funds held in the Building Fund (21.1) were not used for salaries of school administrators or other operating expenses of the District.
- We verified that salaries paid from Measure "TT" funds are in compliance with Opinion 04-110 issued on November 9, 2004, by the State of California Attorney General.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to Public Contract Code Section 22032.
- We verified whether or not the District exceeded change order limitations in excess of 10% pursuant to Public Contract Code Section 20118.

Our audit of compliance made for the purpose set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Measure "TT" General Obligation Bond proceeds listed and tested above.

This report is intended for the information of the Board of Education, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.



Murrieta, California
December 11, 2017

Findings and Recommendations

**MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

Current Year Audit Findings and Recommendations

June 30, 2017

There were no findings or recommendations in 2016-17.

MEASURE "TT" GENERAL OBLIGATION BOND BUILDING FUND OF

PASADENA UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Recommendation	Current Status
<i>Finding 2016-1: Change Orders</i>	<p>Public Contract Code (PCC) 20118.4 states that the governing board of a school district may approve a change or alteration without the formality of securing bids if the cost so agreed upon does not exceed ten percent of the original contract price.</p> <p>The Board entered into a contract with Mallcraft, Inc. to modernize the multi-purpose room at Field Elementary for \$1,467,000. Subsequently, the Board approved three change orders totaling \$435,782, which is greater than ten percent of the original contract price.</p>	<p>We recommend the Board comply with PCC 20118.4 in seeking bids for change orders in excess of ten percent of the original contract price.</p>	<p>Implemented.</p>