

**MEASURE TT BOND BUILDING FUND OF
PASADENA UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Table of Contents
June 30, 2018**

	<u>Page</u>
Introduction and Citizens’ Bond Oversight Committee Member Listing	1
Independent Auditors’ Report	2

FINANCIAL SECTION

Balance Sheet.....	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Notes to Financial Statements.....	6

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 <i>Government Auditing Standards</i>	13
Independent Auditors’ Report on Performance.....	15

FINDINGS AND RESPONSES SECTION

Schedule of Findings and Recommendations	20
--	----

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2018**

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. Measure TT is a Proposition 39 bond. 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, ABl 908 (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 Measure TT Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2018:

Name	Title	Representation
Quincy Hocutt	Chairperson	At-large Community Member
James. V. Vitale	Vice Chairperson	Active in Senior Citizens' Organization
Vacant*	Member	Member of Bona Fide Taxpayers Association
Amelia Bradford	Member	Parent/Guardian of Child in District
Chip Ossman	Member	Member of Business Organization
Diana Verdugo	Member	Active in Senior Citizens' Organization
Francis Boland	Member	Parent/Guardian of Child in District/Active in PTA
Daniel Stuart	Member	Parent/Guardian of Child in District
Jen Wang	Member	Parent/Guardian of Child in District
Mikala Rahn	Member	Business Representative/Parent/Guardian of Child in District
Raphael Henderson	Member	At-large Community Member
Robin Salzer	Member	Business Representative/Parent/Guardian of Child in District
Stephen Aquino	Member	Business Representative/Parent/Guardian of Child in District
Willie Ordonez	Member	Parent/Guardian of Child in District

*Vacant as of June 30, 2018, however the District is working to fill this position during the 2018-19 fiscal year.

INDEPENDENT AUDITORS' REPORT

Measure TT Citizens' Bond Oversight Committee and
Governing Board Members of the
Pasadena Unified School District
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure TT Bond Building Fund of Pasadena Unified School District (the "District"), as of and for the year ended June 30, 2018, 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 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*. 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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure TT Bond Building Fund of Pasadena Unified School District, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

We did not audit the Measure TT Bond Building Fund's 2017 financial statements, which expressed an unmodified opinion on the respective financial position and changes in financial position in the report dated December 11, 2017.

Emphasis of Matter

As discussed in Note 1A, the financial statements present only the Measure TT 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, 2018, the changes in its financial position 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 October 23, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters specific to the Measure TT Bond Building Fund. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Measure TT Bond Building Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report of Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have issued our performance audit dated October 23, 2018, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure TT Bond Building Fund. That report is an integral part of our audit of the Measure TT Bond Building Fund of Pasadena Unified School District, as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.



San Diego, California
October 23, 2018

FINANCIAL SECTION

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2018 (With Comparative Data for June 30, 2017)**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and investments	\$ 65,895,057	\$ 114,828,138
Accounts receivable	419,006	627,941
Total Assets	<u>\$ 66,314,063</u>	<u>\$ 115,456,079</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 4,264,658	\$ 3,480,945
Total Liabilities	<u>4,264,658</u>	<u>3,480,945</u>
Fund Balance		
Restricted for capital projects	<u>62,049,405</u>	<u>111,975,134</u>
Total Liabilities and Fund Balance	<u>\$ 66,314,063</u>	<u>\$ 115,456,079</u>

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

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018 (With Comparative Data for the Year Ended June 30, 2017)**

	<u>2018</u>	<u>2017</u>
REVENUES		
Other local revenue	\$ 1,424,510	\$ 1,441,652
Total Revenues	<u>1,424,510</u>	<u>1,441,652</u>
 EXPENDITURES		
Facilities acquisition and construction	<u>51,350,239</u>	<u>31,973,424</u>
 Total Expenditures	<u>51,350,239</u>	<u>31,973,424</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 (49,925,729)	 (30,531,772)
 Beginning Fund Balance	 <u>111,975,134</u>	 <u>142,506,906</u>
 Ending Fund Balance	 <u>\$ 62,049,405</u>	 <u>\$ 111,975,134</u>

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

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018**

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 Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

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

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

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.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Los Angeles County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

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

G. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. 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.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in the Measure TT bond fund is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as cash in county treasury in the amount of \$65,895,057.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting financial statements at amounts based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Treasury Investment Pool. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$65,012,355 and an amortized book value of \$65,895,057 at June 30, 2018. The average weighted maturity for this pool is 609 days.

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 investment in the Los Angeles County Investment Pool is rated at least A by Standard & Poor’s.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of a counterparty to an investment, some or all of the investment amount may not be recovered by the holder of the investment. The District's investments as of June 30, 2018 were not subject to custodial credit risk because the investments were in the county investment pool.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Los Angeles County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

As of June 30, 2018, the District held uncategorized investments in the Los Angeles County Treasury with a fair value of \$65,012,355 in relation to the Measure TT Bond Building Fund.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable of the Measure TT Bond Building Fund as of June 30, 2018 consisted of the following:

Local sources - interest earned	\$ 419,006
Total	<u>\$ 419,006</u>

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.

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.

**MEASURE TT BOND BUILDING FUND
PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 4 – MEASURE TT GENERAL OBLIGATION BONDS (continued)

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2017	Additions	Deductions	Outstanding June 30, 2018
Election 2008, Series 2009A-1	9/17/2009	8/1/2022	2.50% - 5.00%	\$ 40,320,000	\$ 7,605,000	\$ -	\$ 2,235,000	\$ 5,370,000
Election 2008, Series 2012	7/3/2012	5/1/2037	0.40% - 5.00%	125,000,000	107,200,000	-	3,555,000	103,645,000
Election 2008, Series 2016	5/25/2016	8/1/2036	2.00% - 5.00%	100,000,000	100,000,000	-	1,620,000	98,380,000
2016 Refunding, Series A	5/25/2016	8/1/2022	1.25% - 4.00%	11,025,000	10,830,000	-	155,000	10,675,000
2016 Refunding, Series B	5/25/2016	8/1/2034	4.00% - 5.00%	78,470,000	78,470,000	-	-	78,470,000
					<u>\$ 304,105,000</u>	<u>\$ -</u>	<u>\$ 7,565,000</u>	<u>\$ 296,540,000</u>

General obligation bonds are paid from the Bond Interest and Redemption Fund with property taxes levied for that purpose.

The annual requirements to amortize all Measure TT outstanding general obligation bonds as of June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 8,540,000	\$ 19,421,004	\$ 27,961,004
2020	8,455,000	19,090,004	27,545,004
2021	6,845,000	12,297,094	19,142,094
2022	7,305,000	12,067,032	19,372,032
2023	7,870,000	11,757,469	19,627,469
2024 - 2028	56,425,000	51,270,594	107,695,594
2029 - 2033	94,245,000	33,596,394	127,841,394
2034 - 2037	106,855,000	9,835,091	116,690,091
	<u>\$ 296,540,000</u>	<u>\$ 169,334,682</u>	<u>\$ 465,874,682</u>

NOTE 5 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation 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, 2018.

B. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished Measure TT capital projects in the amount of \$34,210,433.

OTHER INDEPENDENT AUDITORS' REPORTS

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Independent Auditors' Report

Measure TT Citizens' Bond Oversight Committee and
Governing Board Members of the
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 Bond Building Fund of Pasadena Unified School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Pasadena Unified School District's basic financial statements of the Measure TT Bond Building Fund, and have issued our report thereon dated October 23, 2018.

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 of the Measure TT Bond Building Fund, but not for the purpose of expressing an opinion on the effectiveness of Pasadena Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Internal Control over Financial Reporting (continued)

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 of the Measure TT Bond Building Fund 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
October 23, 2018

REPORT ON PERFORMANCE

Independent Auditors' Report

Measure TT Citizens' Bond Oversight Committee and
Governing Board Members of the
Pasadena Unified School District
Pasadena, California

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Report on Performance

We have audited Pasadena Unified School District's compliance with the performance audit procedures described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on Pasadena Unified School District's Measure TT Bond Building Fund for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to local school construction bonds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of Pasadena Unified School District's Measure TT Bond Building Fund based on our performance audit of the types of compliance requirements referred to above. We conducted our performance audit in accordance with generally accepted government auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about Pasadena Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the evidence obtained in our performance audit provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our audit does not provide a legal determination of Pasadena Unified School District's compliance with those requirements.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion on Performance

In our opinion, Pasadena Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Measure TT Bond Building Fund noted below for the year ended June 30, 2018.

Procedures Performed

In connection with the performance audit referred to above, we selected and tested transactions and records to determine Pasadena Unified School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Measure TT Bond Building Fund. Additional agreed upon procedures relating the Measure TT Bond Building Fund may also be included.

The results of the procedures performed and the related results are further described in the accompanying performance audit results following this Report on Performance.

Christy White Associates

San Diego, California
October 23, 2018

**MEASURE TT BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – FINANCIAL AUDIT PROCEDURES AND RESULTS

Financial Statements

As mentioned in the Report on Financial Statements, we have issued an unmodified opinion over the financial statements of the Measure TT Bond Building Fund as of and for the fiscal year ended June 30, 2018.

Internal Control Evaluation

We tested internal controls over financial reporting and compliance with laws, regulations, or provisions of contracts or agreements and have determined through our inquiry of management and our evaluation of District processes that no significant deficiencies were noted.

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS

Facility Project Expenditures

We selected a representative sample of expenditures charged to the Measure TT Bond Building Fund and reviewed supporting documentation to ensure funds were properly expended on specific project(s) listed in the text of the Measure TT ballot.

We tested approximately \$30.3 million of non-personnel expenditures or 60% of total 2017-2018 Measure TT Bond Building Fund expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure TT ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

We reviewed salaries and benefits charged to the Measure TT Bond Building Fund to verify that the personnel expenditures were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General, which concluded that “a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure.”

We reviewed a listing of all employees charged to the Measure TT Bond Building Fund and found that all employees held positions applicable to the local school construction bond. Further, we interviewed three (3) of the nine (9) employees charged to document their basic job functions and how they pertain to the Measure TT Bond. Based on our testing, salary transactions were not used for general administration operations. Personnel costs charged to the Measure TT Bond Building Fund appeared allowable.

The previous Report on Performance is an integral part of the above performance audit results.

**MEASURE TT BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Facilities Site Walk

We verified that funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects by review of supporting documentation as previously noted under Facility Project Expenditures but also through performance of a facilities site walks.

Facilities site walks were performed for projects at Blair High School and Norma Coombs Elementary. We toured the school site of Blair High School and physically observed the modernization taking place on the high school building, including a new roof, HVAC and electrical throughout the building, framing and drywall, plumbing and classroom windows. Additionally, we physically observed the construction of two buildings at Norma Coombs Elementary School, which contain the administration building and multiple classrooms. Auditor was also able to view fire alarms, security cameras, and IT equipment installed in classrooms. Based on our site walks, the projects for the school sites appear to be expended for authorized bond projects.

Contract and Bid Procedures

We reviewed a listing of contracts awarded during the fiscal year ended June 30, 2018 and selected a sample to ensure that contracts for public projects followed appropriate bidding procedures per applicable Public Contract Code and provisions of the California Uniform Construction Cost Accounting Commission (CUPCAA) policies. Additionally, we reviewed overall expenditures by vendor in order to determine if multiple projects under the applicable bidding threshold were identified to suggest any possible bid-splitting.

We selected the only two (2) construction contracts awarded during the year in which applicable bidding procedures were followed and that contracts were appropriately awarded to the lowest responsible bidder for the Norma Coombs Elementary project and Jackson Elementary School projects.

Based on our review of overall expenditures and projects by vendor, no instances or possible indications of bid-splitting were identified. The District appears to be properly reviewing projects and applying appropriate procedures over contract and bidding procedures.

**MEASURE TT BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Contracts and Change Orders

We reviewed a listing of contracts and change orders during the fiscal year ended June 30, 2018 and selected a sample to ensure that change orders were properly approved and in accordance with District policies. Additionally, cumulative change orders for any given contract were reviewed to ensure that total change orders did not exceed ten percent of the total original contract. Additionally, change orders were reviewed to ensure that the total of each change order did not exceed ten percent of the total original contract.

We reviewed a total of five (5) change orders and verified that the total of each change order did not exceed ten percent of the total contract. All change orders were properly reviewed and approved by management and the governing board in accordance with District policy.

Citizens' Bond Oversight Committee (CBOC)

In accordance with Assembly Bill (AB) 1908 and Education Code (Ed Code) Section 15278, the District is required to establish a bond oversight committee for Proposition 39 bonds to include one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers' association, parent/guardian of a child enrolled in the District and a parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. Additionally, no employee or official of the District shall be appointed to the citizens' oversight committee.

We found that the District successfully compiled a CBOC with an active member from each of the required representations with the exception of having a member of a Bona Fide Taxpayer Association, however the District is currently working to fill this position. No members of the CBOC are also an employee, official, vendor or consultant of the District. Refer to the Introduction and CBOC Member Listing for a listing of current members as of June 30, 2018.

**MEASURE TT BOND BUILDING FUND
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 FOR THE YEAR ENDED JUNE 30, 2018**

PART I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Non-compliance material to the financial statements?	No

PERFORMANCE AUDIT

Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on performance for local school construction bonds:	Unmodified

PART II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements in 2017-18.

PART III – PERFORMANCE AUDIT FINDINGS

There were no findings or recommendations related to local school construction bonds in 2017-18

PART IV – PRIOR AUDIT FINDINGS

There were no findings and recommendations during the year ended June 30, 2017