

**PASADENA UNIFIED SCHOOL DISTRICT
LOS ANGELES COUNTY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2018**

PASADENA UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Education
Pasadena Unified School District
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 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 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

INDEPENDENT AUDITORS' REPORT

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
General Fund	Unmodified
Building Fund	Unmodified
Bond Interest and Redemption Fund	Unmodified
Debt Service Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Aggregate Remaining Fund Information

As discussed in Note 16 to the financial statements, the District sponsored a Part-Time Employees' Retirement Plan (PTERP) from January 1, 1992 through June 30, 2000. The plan was a single-employer defined-benefit pension plan. The plan was formally terminated on April 27, 2010. However, the plan had been inactive since 2000. Management of the District has determined that there is not sufficient plan data available to allow for the implementation of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Accounting principles generally accepted in the United States of America require that employers recognize a liability for the total pension liability as defined in GASB Statement 73. Because there is not sufficient plan data available, the total pension liability could not be calculated and District management elected to omit the Pension Trust Fund and the related disclosures from the financial statements. The amount by which this departure would affect the assets, fund balances and revenues of the pension trust fund has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

INDEPENDENT AUDITORS' REPORT

Emphasis of Matter

During the fiscal year ended June 30, 2018, the District reported a restatement for a prior period adjustment (see Note 20). Our auditors' opinion was not modified with respect to the restatement.

In addition, during the fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 21). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, the other supplementary schedules and the combining non-major fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Average Daily Attendance (ADA), Schedule of Instructional Time, Schedule of Expenditures of Federal Awards, Reconciliation of the Annual Financial and Budget Report with the Audited Financial Statements, the Notes to the Supplementary Information and the combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic

INDEPENDENT AUDITORS' REPORT

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, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section, History and Organization, Schedule of Financial Trends and Analysis and Schedule of Charter Schools have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of the effectiveness 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 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CLIFTONLARSONALLEN LLP
Glendora, California
December 14, 2018

PASADENA UNIFIED SCHOOL DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2018

Introduction

Founded in 1874, the Pasadena Unified School District (PUSD, District) now serves more than 17,000 students at 29 sites in the Altadena, Pasadena, and Sierra Madre areas located just 15 minutes from downtown Los Angeles.

The District has 19 elementary schools that serves approximately 8,256 students in transitional kindergarten-fifth grade. These Elementary schools have strong visual and performing arts programs and offer an array of educational choices with themed instruction in International Baccalaureate, Dual Language Immersion, Science, Technology, Engineering and Math Programs (STEM).

At the secondary level, PUSD's five middle school programs serves 3,795 students in grades six through eight and are designed for the developing adolescent, with campuses equipped with science, performing arts, athletic facilities, and themed programs in Science, Technology, Engineering, Arts and Math (STEAM). Faculty and staff are trained to deliver curriculum that keeps young minds and bodies engaged and active. The visual and performing arts and International Baccalaureate are available at three campuses.

PUSD's five high schools prepared 4,830 students for both college and careers with a range of advanced placement, sports, and extracurricular activities. Students can select from general education, International Baccalaureate or College and Career Pathway Academy Programs that link classroom learning with internships and other professional learning experiences.

At the Pasadena Unified School District, we challenge our diverse student body to collaborate and think critically, inspired by a rigorous curriculum informed by the creativity and innovation of the vibrant economy and culture of the greater Pasadena area. The result is that PUSD graduates are attractive to colleges and employers and are equipped for a rapidly changing world.

Overview

The following discussion and analysis provides an overview of the financial position and activities of the Pasadena Unified School District for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Fiscal year 2017-18 was the fifth year of the implementation of the Local Control Funding Formula (LCFF). The LCFF is a major change to how California has supported Local Educational Agencies. Through the Local Control Funding Formula, the state is providing for the decision making power to be at the local educational agencies' level so they can effectively respond to the needs they see for students. In addition, this shifts California from treating funding as an input to support students to a resource that is linked to performance expectations.

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Complementing the changes to state funding made by the Local Control Funding Formula is a required Local Control and Accountability Plan (LCAP). The LCAP is LCFF's vehicle for transparency and engagement. It is the way that LEAs are expected to share performance data, needs, actions, and anticipated outcomes that guide the use of available LCFF funding. LCAPs are three-year plans, but may be updated annually.

The LCAP serves as the plan that operationalizes the goals, priorities and instructional and socio-emotional supports for the students and staff of our District. During the 2015-16 school year the District led a concerted effort to ensure an increased alignment with our values, priorities, strategic directives and LCAP goals adding even more support for the targeted student sub-groups. This has resulted in a more focused and responsive LCAP. The LCAP had 10 goals during the 2015-16 school year, these have been further refined and combined into five goals beginning in the 2016-17 school year.

The ongoing process of the development, review, assessment and update of the LCAP, spending and action plan continues to include different stakeholder groups which include, certificated, classified, administration, employees, parents, community partners and students.

Several construction projects were completed in fiscal year 2017-18 from our bond fund Measure TT. Facilities are built with flexibility and adaptability as instructional, physical, academics and social development spaces. Additionally, they are equipped with infrastructure to support the latest technology and design elements that are created to maximize sustainability, conserve energy and natural resources. The District continues with its internal collaboration to ensure that facilities, technology, academics and instructional needs are tied to support twenty-first century learning.

The District's management team, in collaboration with outside partners, continues to pursue other funding opportunities through gifts, donations, and competitive grants to augment the funds for a variety of local initiatives to promote safety, mental health, environmental awareness, life science application, healthy start, art and music appreciation and team sports. Our mission is to ultimately provide a balanced and well-rounded learning experience for all Pasadena Unified School District students.

Noteworthy 2017-18 Awards & Accomplishments

- Eugene Field Elementary and Alexander Hamilton Elementary were named 2018 California Distinguished Schools by the California Department of Education (CDE). The schools were honored for making exceptional gains in implementing academic content and performance standards.
- Marshall Fundamental Secondary School and Pasadena High School were awarded U.S. News & World Report silver medals as part of the magazine's 2018 Best High Schools annual ranking that highlights the country's top public schools. Rankings are based on

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student achievement and college readiness data, including Advanced Placement test participation and passage rates.

- Don Benito Fundamental, Hamilton Elementary, Pasadena High, and Willard Elementary were named California Honor Roll Schools by the Educational Results Partnership (ERP) and its Campaign for Business and Education Excellence (CBEE), an alliance of California business and academic leaders. Schools receiving the honor roll distinction have demonstrated consistently high levels of student academic achievement, improvement in achievement levels over time, and reduction in achievement gaps among student populations. For high schools, the honor roll recognition also includes measures of college readiness.
- In 2018, Marshall Fundamental Secondary School was the only high school to earn the “Award of Excellence,” the highest honor in the annual Civic Learning Awards program sponsored by California Supreme Court Chief Justice Tani G. Cantil-Sakauye and State Superintendent of Public Instruction Tom Torlakson. The award honors Marshall’s annual civic education program that has focused on drought, transportation, and waste management. The award included a visit by the Chief Justice.
- Washington STEAM Multilingual Academy was the first school in California to earn the National Certificate for STEM Excellence from the National Institute for STEM Education (NISE). The National Certificate for STEM Excellence recognizes individual school campuses for their commitment to and growth in teacher’s implementation of 21st century and STEM strategies. The middle school magnet began offering Spanish dual language immersion and an early college focus in 2018-2019.
- Members of the Class of 2018 were accepted to public and private colleges and universities across the country and abroad, including Brown University, Caltech, Dartmouth, Georgetown, Harvard, Julliard, MIT, Occidental College, Princeton University, UCLA and UC Berkeley, USC, Stanford, Cal Poly San Luis Obispo, and the American University of Paris. Graduates will attend college, and enter apprenticeships and the armed forces.
 - The Class of 2018 won more than \$16.9 million in scholarships and grants. Among the Class of 2018 are National Merit Scholars, International Baccalaureate Diploma and Certificate candidates, National Honor Society members, California Scholarship Federation sealbearers, Golden State Seal Merit Diplomas, athletes, and more.
 - 102 graduates earned California’s Seal of Biliteracy, which recognizes high school graduates who have attained a high level of proficiency in speaking, reading, and writing one or more languages in addition to English.

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- With projects on plant development, physics, and engineering, Pasadena Unified School District (PUSD) ten 6-12th grade students won awards at the 2018 Los Angeles County Science Fair.
- In 2018, a new student-run credit union opened on the campus of John Muir High School, an Early College Magnet. The credit union opened to give students real-world work experience while providing banking and financial services for the surrounding community. The new Pasadena Service Federal Credit Union branch employs and trains students in John Muir's Business & Entrepreneurship Academy.
- In 2017, PUSD'S Math Academy was awarded a \$300,000 grant through the Pasadena Educational Foundation (PEF). The Math Academy that is rapidly accelerating the advanced math skills of Pasadena Unified middle and high school students. The grant funds the development expansion of the Math Academy, which operates at McKinley K-8 School, Sierra Madre Middle School, and Washington STEAM Multilingual Magnet Academy. Seventh grade students Math Academy students took -- and passed --- the Advanced Placement Calculus test last year.
- PUSD implemented the first year of the \$14.5 million Magnet School Assistance Program (MSAP) grant awarded by the U.S. Department of Education to support programs that promote diversity and increase student achievement at three schools in the district's Northwest neighborhoods: Altadena Elementary, Washington STEAM Magnet, and John Muir High School. The new federal grant funds, awarded over the next five years, enables Altadena Elementary to focus on visual and performing arts; Washington STEAM Magnet, a middle school, adds Spanish dual language immersion classes to its STEAM-themed program (Science, Technology, Engineering, Arts, and Mathematics); and John Muir High School strengthens each of the three academy offerings (Engineering and Environmental Science; Arts, Media and Entertainment; and Business and Entrepreneurship) with state-of-the-art equipment and training and expands its Early College offerings in partnership with Pasadena City College.
- Over the past three summers, as a collaboration between the Pasadena Unified School District (PUSD) and the Pasadena Chamber of Commerce and Civic Association, juniors and seniors in high school have interned with local companies, such as Kaiser Permanente, Vroman's Bookstore, Ronald McDonald House, Pasadena Service Federal Credit Union, Huntington Hospital, The Law Offices of Donald P. Schweitzer and Health Advantage Physical Medicine. Some student interns have gone on to employment with their host company. Dozens of local business people and entrepreneurs have spent time with students in PUSD career academy classrooms discussing careers, assisting with resume writing, practicing interview skills and supporting classroom education. The Pasadena Chamber Workforce Development efforts support the Health Careers Academy at Blair High School, the Law and Public Service and APP Academy at Pasadena High School, the Engineering and Environmental Science Academy and

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Business and Entrepreneurship Academy at Muir High School. The Chamber also works with the CEO Academy at Rose City High School.

- Award-winning School Gardens program has built school gardens at 20 campuses, providing outdoor learning, seeding innovation, and promoting health and nutrition.

Final Introductory Thoughts

- The annual budget was adopted with careful planning and cautious optimism. The budget was developed in support of the Board's strategic directives and focus areas: Dynamic Instruction, High Performance and Accountable Organization, Quality Learning Environment, Excellent Customer Service, Recruiting and Retaining Outstanding Staff and Meaningful collaboration and partnerships with students, families, and our communities on our shared values and vision. The District has entered the new fiscal year with even greater understanding of the basic principles of the LCFF and their impact on the District's general revenues for years to come. The District has embraced LCAP and ensuring within its implementation, continuous input from all stakeholders throughout the District and community.
- We look forward to working within the commitment and guidance provided by the LCAP and the District annual budget for a year of opportunities, excitement, and success in 2018-19.
- In the years to come, the District will continue to focus on efficiency and accountability during its declining enrollment, creating and refining new process and procedures implementing best practices while addressing needs and increased mandates with unique and innovative responses. The District will continue to make a concerted effort to be fiscally responsible, build its reserve for future needs and plan ahead for the inevitable downturn in the economy.
- The Board of Education and District Leadership have developed strategic directions to make bold shifts necessary to achieve our Core Beliefs. This aligned framework is designed to inform policies, decisions, budget development, and the overall operation of the District to drive towards results. Embedded in the framework is the routine measurement of progress and self-assessment to ensure continuous improvements and accountability by all levels of the organization. It embraces a new way of doing business by moving into a systematic approach that will drive Pasadena Unified School District towards excellence.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Financial Highlights

This section provides some highlights of the major financial occurrences or events at the District during 2017-18.

- FY 2017-18 marked the fourth year the District maintained an enrollment better than was projected in the adopted budget assumptions. The budget was initially based on greater declining numbers.
- The District's 2017-18 beginning net position, as restated due to GASB 75 implementation, is \$103.6 million. However, the District's 2017-18 ending net position increased by \$8.6 million. The 2016-17 year ended with a net position of \$123.3 million before restatement and 2017-18 year ended with a net position of \$111.7 million.
- The Local Control Funding Formula (LCFF) provided \$155.7 million in state revenue compared to \$153.8 million in 2016-17, an increase of about \$1.9 million dollars. The LCFF is partially funded by some components of the old revenue limits and formerly restricted categorical program funding, now made a part of LCFF. Most of the additional funding comes from cost of living adjustments, class size reduction augmentation and supplemental and concentration grants.
- The District continues its partnership with the Self-Insured School of California (SISC), a JPA, after joining in April of 2014 to stabilize the health insurance premium fluctuation. Because of this change, the District, on an ongoing basis, continues to take advantage of lower fixed administrative cost and lower claim risk factor due to SISC benefits pool purchases.
- The major program that operated at a deficit in 2017-18 whose excess expenditures are covered by General Fund, is Special Education with a contribution of \$27,224,444. Additionally, the District contributes \$4,366,592 to Routine Restricted Maintenance which is higher than the minimum required contribution.
- In 2017-18, Food and Nutritional Services Fund ended the year with an ending fund balance of \$2.28 million compared to \$3.16 million in 2016-17, a decrease of approximately \$1 million dollars. The decline is attributable to decline in enrollment; 1,394 less students served in 17-18 than was served in 16-17.
- The District added about \$45.3 million to capital assets and completed building projects, net of depreciation and asset retirements. Total amount of capitalized assets at year end was \$571 million compared to \$525.7 million in 2016-2017.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
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- Major grants or entitlements received in 2017-18 were:

	Resource	Description	17-18 Award
a.	41240.0	21st Cent. Title IV Blair	874,888.00
b.	42010.0	TITLE III	54,045.00
c.	42030.0	TITLE III	209,929.00
d.	58131.1	MSAP	3,263,637.00
e.	58135.0	PUSD Positive School Climate	318,126.00
f.	60100.0	ASES: After School Ed & Safety	3,782,271.00
g.	63870.0	CAREER TECHNICAL EDU. INCENTIVE	570,683.00
h.	90811.0	AEBG-Adult Ed. Block Grant	640,000.00
i.	30100.0	TITLE I	4,291,578.00
j.	70850.0	CALIFORNIA LEARNING	586,667.00
k.	90400.0	Mental Health Services	3,500,000.00

Enrollment and Average Daily Attendance (ADA)

For the year ended in June 2018, the District, served 16,813 pupils (P-2) from kindergarten through twelfth grade by offering Regular Education, Special Education, Continuation Education, Non-Public School and Independent Study Programs. The majority of those students reside within the District boundary in the communities of Pasadena, Altadena and Sierra Madre. The District’s P-2 ADA was 17,618.41. This number includes students who were enrolled in the five local charter schools sponsored by the District. Being a declining enrollment district, prior year ADA along with other variables, help establish the basis for state apportionment, providing funding for staffing and other student needs, and facilities planning.

The District maintained its ADA to enrollment ratio of 95 percent. The District submitted the P-2 Attendance report with 16,093 ADA and Enrollment of 16,881 (excluding Charter Schools). However, the 2017-18 Apportionment was based on the higher 2016-17 ADA, as the District was held harmless for one year due to our status as a declining enrollment District. The funding formula calls for the use of greater of current and prior years’ ADA.

Local Control Funding Formula (LCFF) and Unduplicated Count

The LCFF includes the following components applicable to the District:

- Until the LCFF is fully implemented, the state budget provides annual increases in LCFF funding to close the gap between the LCFF target entitlements and the funding that a district receives in a given year. This is referred to as gap closure. Annual progress is proportional to the statewide funding provided to implement the LCFF and move districts toward their

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MANAGEMENT’S DISCUSSION AND ANALYSIS
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individual targets which is the annual percentage of gap closure. With the 2018-19 budget, the gap closure is now funded at 100 percent and this means that future funding increases will depend on cost of living adjustments (COLA) if appropriated and/or any legislative action to change the funding formula.

- Provides a base grant for each school district per average daily attendance (ADA). The base grants would vary based on grade span.
- Provides percentage grade span augmentation adjustment on the base grant amount for kindergarten through grade three (K–3). As a condition of receiving these funds, the LEA shall progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade three, unless the LEA has collectively bargained an annual alternative average class enrollment in those grades for each school site. Now that the LCFF is fully implemented, districts without a collectively bargained alternative must maintain the school site enrollment average of 24 to continue to receive the K-3 grade span adjustment allocation.
- Provides a supplemental grant equal to 20 percent of the adjusted base grant for targeted disadvantaged students. Targeted students are those classified as English learners (EL), eligible to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these factors (unduplicated count).
- Provides a concentration grant equal to 50 percent of the adjusted base grant for targeted students exceeding 55 percent of an LEA’s enrollment.
- The District’s 2017-18 P-2 Unduplicated Count was 10,740 at 65 percent, however, the state uses a three-year average for the calculation above.
- The budget maintains Home-to-School Transportation and Targeted Instructional Improvement Block Grant funding as add-ons to the LCFF. The budget requires LEAs to maintain 2012–13 expenditure levels on transportation out of funds received for this purpose.

Staffing

The District allocated staff to sites and programs based on pre-approved staffing ratio.

Additional support was provided to certain “Signature” programs such as Dual Immersion, International Baccalaureate, and Junior Reserve Officers’ Training Corps., and sites based on identified needs.

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The LCFF has a statutory requirement for the school districts that receive the Grade Span Adjustment (GSA) to make progress toward a maximum average class size of 24 pupils in grades K-3 at each school site.

As for the non-teaching staff, each school has one principal; middle and high schools have at least one or more assistant principals depending on grade level student population. The counselor ratio is 400:1 for the Grades 7-12 students with minor adjustment as determined by Human Resources and appropriate logistically.

Each of the four comprehensive high schools is staffed with one librarian and part-time athletic director. Nurses, security officers, and custodians are assigned to schools on an as needed basis. Other student support personnel, such as psychologists, speech and language pathologists and physical therapists, are mostly staffed as needed or based on caseload.

Child Development Fund

The Child Development Fund earned approximately 83 percent of the contract amount from California State Pre-school Program. The remaining 17 percent of the program cost was supplemented by the fees collected in some of the full-priced local programs. The Mandarin pre-school program continues to be well received in the community. The Child Development Fund ended 2017-18 with \$1.4 million in fund balance.

Food Services Fund

The number of students who qualify for “Free or Reduced Price Meals” (FRPM) and who participated in the National Lunch Program, plays an important part in calculating the supplemental and concentration grants the District receives under the LCFF funding formula. The FRPM data collected in the Food Services point-of-sales system is uploaded to the Aeries Student Information System then submitted to the California Longitudinal Pupil Achievement Data System (CALPADS) during a reporting window annually. It is crucial now more than ever to process and approve the FRPM application accurately and in a timely manner. An online application system was launched in 2014-15 for an easy and fast application process. In the first year, over 10 percent of families utilized the online services. 43.5 percent used the system in the second year, 40 percent in 16-17, and in 17-18 51 percent of families utilized the online system.

Per guidance from US Department of Agriculture and California Department of Education the Food & Nutrition Services Fund should not maintain a reserve in excess of three months operating costs. The Food & Nutrition Services Department is committed to continuously improving services to support students by providing appetizing, attractive, and nutritious meals in a positive and safe environment. The department has increased student engagement in the menu development, to increase participation.

PASADENA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The Food & Nutritional Services Fund is largely funded from Federal resources which accounts for 87.7 percent of its total revenue. The remaining 12.3 percent is split between state at 5.4 percent and local sources at 6.9 percent. Total revenue for 2017-18 was \$7.8 million and \$8.7 million in expenses and the fund had an overall ending balance of \$2.3 million including prior year carryover.

Building Fund

The Building Fund was established to track most major construction projects in the District. Two bond proceeds – Measure Y and Measure TT have been used to finance the construction of facilities within Pasadena Unified School District. Measure TT projects are most active to support the existing modernization and new construction projects. In 2015-16, the District sold the \$100 million remaining (3rd issuance) of the \$350 million, Measure TT Bond Authorization. Additionally, the District refunded existing bonds for an additional \$11 million and also added Premium on Bond for \$13.2 million.

The District expended \$51.1 million in the Building Fund in fiscal year 2017-18 and ended the year with over \$150 million total costs under construction in progress and has budgeted \$62 million for modernization and new construction in fiscal year 2017-18.

The Board Facilities Sub-committee continues to meet monthly to review and plan existing and future projects being proposed by staff and the construction team. The Facilities Sub-committee submits their recommendations to the Board of Education for approval on a regular basis depending on the current and future needs of the District. This information is also shared with the Citizen's Oversight Committee that meets regularly throughout the fiscal year. The 2016-2017 bond audit resulted in no findings or recommendations.

Capital Facilities Fund

Capital Facilities Fund was set up to track developer fees. In 2017-18, the receipts totaled \$888.8 thousand with an ending fund balance of \$725 thousand. With the economy and housing market stable but projected to slow down in the near future, the flow of developer's fees in the coming years to fund the projects that will be needed from the new development in the area, may slow down as well.

Special Reserve Fund for Capital Outlay Projects

The District issued Certificates of Participation/Qualified Zone Academy Bond (QZAB program) in 2008 to improve the District's infrastructure. The \$1.3 million ending balance in this fund is mainly reserved for the repayment of the QZAB lease payments. The principal amount due each year is \$166,667.

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Self-Insurance Fund

For years the District was self-insured in the workers' compensation and medical prescription programs. To better manage the skyrocketing medical insurance premium, the District joined SISC, a JPA, in 2013-14 and no longer offers a stand-alone prescription plan as in the past. Due to the recent upward trend in the workers' compensation claims and the benefit payouts the District is still unable to set aside more reserve toward the unpaid loss calculated at a higher confidence level. The District changed Third-Party Administrators (TPA) for the Workers' Compensation program. Hazelrigg Claims Management Services (HCMS) was hired on January 1, 2014 as the TPA. The District continues to experience high level of workers' compensation claims. The estimated liability for open claims and incurred but not reported was \$14.7 million. York was hired at the beginning of 2017-18 fiscal as the new TPA with the expectation of changing the claims liability trajectory.

Fiduciary Funds

The District reconciles and clears on an on-going basis and at the end of the year, the Payroll Clearance Fund as has been done in the past. Any balances left in the fund at the close of the 2017-2018 year are for the tax liability or vendor payments due at the beginning of 2018-19.

Fund Financial Statements

More detailed information about the District's most significant funds, not the District as a whole, are provided in the fund financial statements. Funds are accounting formats the District uses to keep track of specific sources of funding and expenditures in particular programs. Some funds are required by bond covenants and by state law and other funds are established by the District to control and manage a variety of activities for particular purposes (such as repaying its long-term debts and setting aside funds for retiree benefits).

The District maintains two classes of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on how cash and other financial assets can readily be converted to cash flow (in and out) and the balances left at year-end that are available for expenditure in subsequent years. A detailed short-term view is provided by the governmental fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information is provided in the reconciliations provided after the governmental fund statements that explain the differences (or relationships).

Fiduciary funds: The District has Associated Student Body Funds maintained individually by each school with Associated Student Body activities using commercial bank account process

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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and a Warrant Pass-through Fund for which it acts as the trustee, or fiduciary for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are only used for their intended purpose and by those to whom the assets belong. A separate statement of fiduciary net position and a statement of changes in fiduciary net position report the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used to finance other District operations.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Position is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Position presents end-of-year data concerning assets (current and non-current), deferred outflows of resources, liabilities (current and non-current), deferred inflows of resources, and net position (assets plus deferred outflows of resources minus liabilities and deferred inflows of resources).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine the amount owed by the District to vendors and employees. Finally, the Statement of Net Position provides a picture of the net position and the availability of those assets for expenditure. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources (net position) is one indicator of the current financial condition of the District, and the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The Net Position is normally presented in three major categories. The first category, net investment in capital assets, provides information in regards to equity amounts in property, plant, and equipment owned by the District. The second category is expendable restricted net position. This type of net position is available for expenditure by the District but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category provides information on unrestricted net position that are available for obligations as may be approved by the Board of Education.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The Statements of Net Position as of June 30, 2018 and 2017 are summarized below:

Statement of Net Position

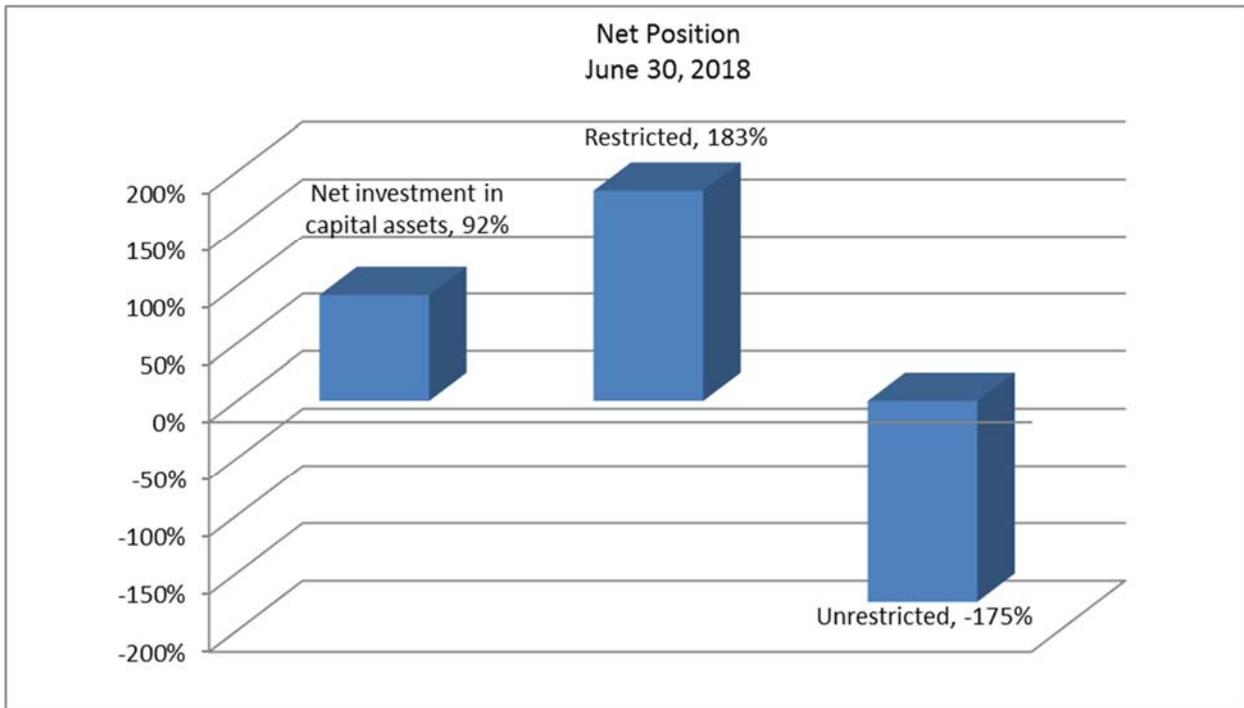
	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 174,152,295	\$ 225,584,626
Accounts receivable	13,057,075	12,207,863
Inventories	243,181	269,920
Prepaid expenditures	45,632	55,193
Investments	87,116,300	90,278,864
Capital assets, net	<u>571,057,299</u>	<u>525,103,306</u>
Total Assets	<u>845,671,782</u>	<u>853,499,772</u>
 Deferred Outflow of Resources		
Deferred charge on refunding	4,142,712	6,182,468
Deferred outflow of resources - pensions	<u>65,737,573</u>	<u>41,279,785</u>
Total Deferred Outflow of Resources	<u>69,880,285</u>	<u>47,462,253</u>
 Liabilities		
Accounts payable and other current liabilities	37,966,172	68,455,143
Unearned revenue	1,249,563	4,287,854
Long-term liabilities	<u>746,975,674</u>	<u>687,714,130</u>
Total Liabilities	<u>786,191,409</u>	<u>760,457,127</u>
 Deferred Inflows of Resources		
Deferred inflows of resources - pensions	<u>17,708,656</u>	<u>17,226,915</u>
 Net Position		
Net investment in capital assets	102,488,816	23,936,990
Restricted	204,837,694	264,203,529
Unrestricted	<u>(195,674,508)</u>	<u>(164,862,536)</u>
Total Net Position	<u>\$ 111,652,002</u>	<u>\$ 123,277,983</u>

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Statement of Net Position (continued):

- This is the fourth year the District has recognized the liability as a result of implementing GASB Statements No. 68 and No. 71 and the first year of implementation of GASB Statement No. 75 to recognize the full liability for other postemployment benefits other than pensions. The net pension liability increased in 2017-18 by \$31.9 million. The recognition along with the bond refinancing liabilities and impact of restatement for cumulative effect of change in accounting principle - to reflect GASB 75 implementation, resulted in a negative Unrestricted net position of \$195.7 million as of June 30, 2018, \$19.6 million of it, is as a result of the GASB 75 restatement. The total net ending position of the government wide statement is \$111.7 million mainly due to the continued operation of the District's Measure TT bond program.
- Accounts receivable are mainly amounts due from local sources and State and Federal governments. Of the \$13 million accounts receivable, \$10.3 million is due from the federal and state governments and \$2.7 million from other sources. Any revenues received in excess of expenditures are categorized as unearned revenues.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2018, including amounts owed to employees.
- Unearned revenues consist mainly of categorical program grant revenues received during the year but not earned/expended and deferred to the next fiscal year.
- Changes in Deferred outflow of resources - pensions, Deferred inflows of resources-pensions, and Unrestricted Net Position are a direct result of GASB 68.
- Material changes in long term liabilities are primarily as a result of the restated OPEB liability per GASB 75 implementation – was \$11.2 million in 2017 and now restated to \$30.8 million – and the new PARS supplementary retirement plan – was \$2.4 million in 2017 but increased to \$5.5 million in 2018 – and some increase in the Net pension liability from \$185 million in 2017 to \$216.9 million in 2018.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018



Statement of Activities

Changes in total net position, as presented on the Statement of Net Position, are based on the activity presented in the Statement of Activities. The purpose of this statement is to present the revenues earned, whether received or not, by the District, and the expenses incurred, whether paid or not, by the District. Thus, this statement presents the District's results of operations.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The Statement of Activities for the year ended June 30, 2018 and 2017 are summarized as follows:

Statement of Activities

	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 3,307,068	\$ 3,313,909
Operating grants and contributions	70,379,433	64,154,300
Capital grants and contributions		359,905
General revenues:		
Property taxes	129,122,740	129,783,594
Grants, subsidies and unrestricted contributions	77,750,389	73,391,531
Interest and investment earnings	951,219	39,490
Miscellaneous	5,908,906	5,137,058
Total revenues	287,419,755	276,179,787
Expenses		
Instruction	141,315,958	130,546,851
Instruction related services	35,458,906	32,922,395
Pupil services	31,789,504	30,377,370
General administration	13,836,637	15,998,024
Plant services	23,141,201	22,219,372
Ancillary services	761,631	728,668
Community services	149,128	206,832
Other outgo	1,199,430	472,453
Debt service - interest	19,155,317	19,160,506
Depreciation (unallocated)	11,987,879	11,751,613
Total expenses	278,795,591	264,384,084
Increase in Net Position	8,624,164	11,795,703
Net Position - Beginning of Year, as restated	103,027,838	111,482,280
Net Position - End of Year	\$ 111,652,002	\$ 123,277,983

Overall, revenues increased approximately \$11.2 million from 2016-17 and with \$10.6 million of it coming from two categories – “Operating grants and contributions” and “Grants, subsidies, and unrestricted contributions”. The District’s Local Control Funding Formula (LCFF) is calculated using various data such as Average Daily Attendance, Supplemental and Concentration percentages, prior year and current year enrollment, class size reduction, augmentation, etc. The calculation determines the District’s allocation. The allocation is then funded by two components, state resources and property taxes. As the property tax component increases, the state allocation decreases and vice versa to fund the total calculated revenue due to the District.

PASADENA UNIFIED SCHOOL DISTRICT
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Expenses in this table are categorized by specific functions as required by GASB Statement No. 34. The year ended with a total increase in expenses of \$14.4 million dollars over 2016-17. There were material increases in Instruction, Instruction related services and Pupil services, accounting for \$14.7 million of the total \$16.6 million-dollar increase. In line with the superintendent and board goals and objectives, of the total reduction in expenses of \$2.22 million, all were away from the classroom and specifically \$2.16 million was from General Administration.

The expense category of “general administration” refers to agency-wide administrative activities that are accounted for in the general fund. Examples of the administrative activities are establishing and administering policies for operating the District, budgeting and disbursements, financial accounting, payroll, recruitment and placement of personnel, purchasing, receiving, storing, and distributing supplies, materials, and mail. The reduction can be partially attributed to board approved fiscal stabilization plan.

The information in the following table shows the District’s largest functions and each program’s net cost (total cost less revenues generated by the activities). This table also provides information on the net cost offset by unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

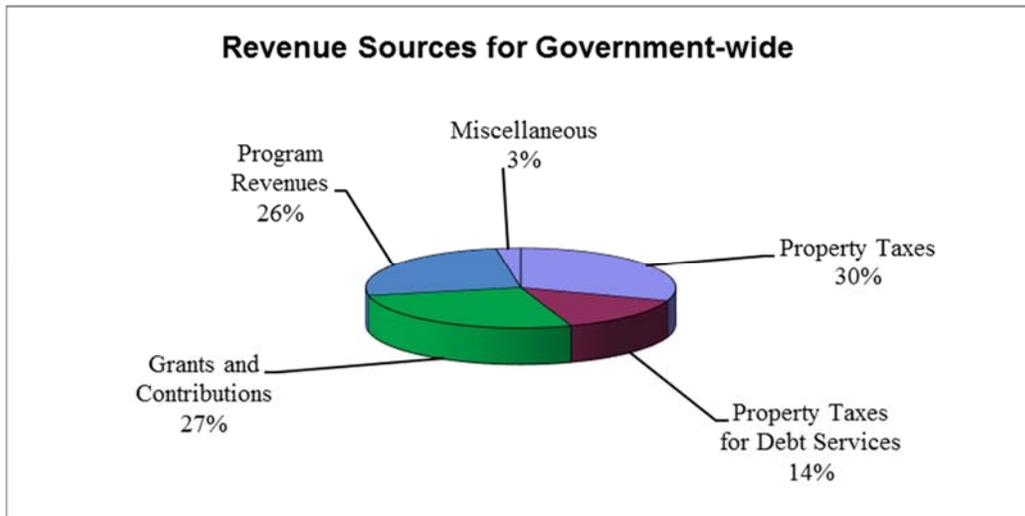
PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018

A schedule of Governmental Activities for June 30, 2018 and 2017 is shown as follows:

<u>Functions/Programs</u>	<u>Fiscal Year ended June 30, 2018</u>		<u>Fiscal Year ended June 30, 2017</u>	
	<u>Total cost of Services</u>	<u>Net cost of Services</u>	<u>Total cost of Services</u>	<u>Net cost of Services</u>
Governmental activities:				
Instruction	\$ 141,315,958	\$ (104,497,547)	\$ 130,546,851	\$ (96,206,567)
Instruction - related services	35,458,906	(23,815,392)	32,922,395	(20,707,854)
Pupil services	31,789,504	(12,766,067)	30,377,370	(12,786,037)
General administration	13,836,637	(10,914,617)	15,998,024	(13,069,699)
Plant services	23,141,201	(22,583,156)	22,219,372	(21,802,029)
Ancillary services	761,631	(727,655)	728,668	(719,433)
Community services	149,128	(149,128)	206,832	(206,832)
Other outgo and debt service	20,354,747	(17,667,649)	19,632,959	(16,911,164)
Depreciation (unallocated)	11,987,879	(11,987,879)	11,751,613	(11,751,613)
Total governmental activities	<u>\$ 278,795,591</u>	<u>\$ (205,109,090)</u>	<u>\$ 264,384,084</u>	<u>\$ (194,161,228)</u>

- The District’s Governmental Funds include Debt Service Funds, Special Revenue Funds, Capital Projects Funds and most importantly, the General Fund. Figures 1 and 2 summarize the District’s Governmental Funds’ revenues and expenditures.

Figure 1

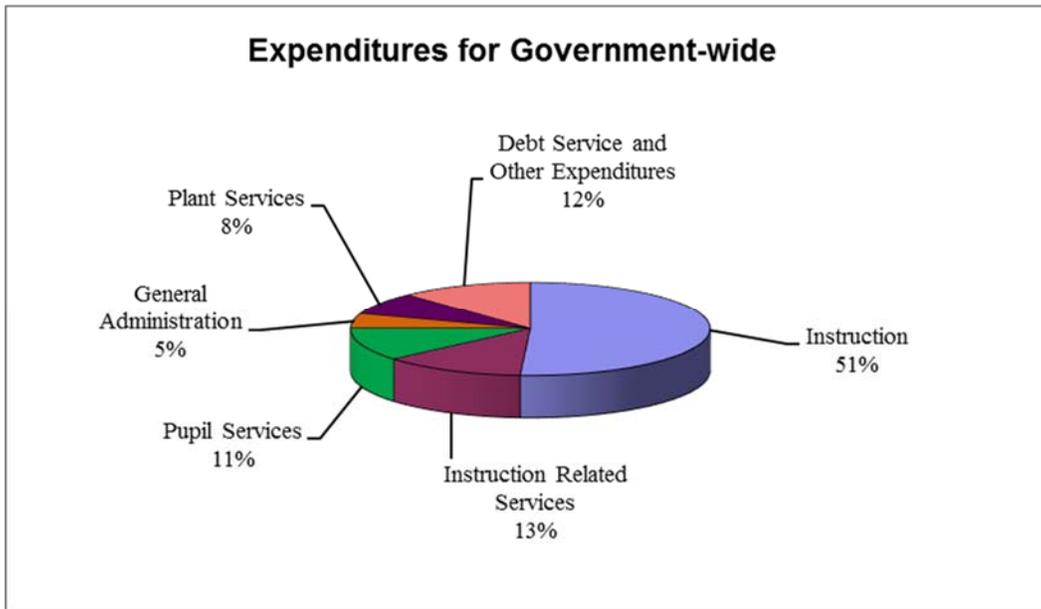


- The District’s core instructional programs are mainly funded by Property Taxes (for general purposes) and Program Revenues, adding up to 56 percent of the government-wide

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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revenues. The remaining revenues are 27 percent Grants and Contributions, the next 17 percent is made up 3 percent Miscellaneous, and 14 percent Property Taxes (for debt service). A total of 41 percent (Property Taxes for Debt Services & Grants) of revenues fund specific programs or purposes, such as paying off bond and loans, child nutrition programs, preschool programs, and constructing capital facilities.

Figure 2



The District's largest operating expenses are primarily for Instruction and Instruction Related Services, totaling 64 percent of the government-wide expenditures. Salaries and benefits are the major components of these two spending categories. The District expended approximately 11 percent of total expenditures on Pupil Services which includes but not limited to physical and mental health services, testing and assessment, nutrition services, and transportation. The General Administration and Plant Services combined makes up 13 percent of the expenses paying for central administration, technology services, audit and legal services, security, routine maintenance, gardening, janitorial services, utilities, etc. Debt Services and Other Expenditures make up the final 12 percent.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Capital Asset and Debt Administration

Capital Assets

The Governmental Accounting Standards Board Statement No. 34 requires that governmental agencies account for fixed assets in the same way that private and public corporations do. This involves recognizing the value of the agency's fixed assets, such as, land, building and equipment in the fixed asset section of the balance sheet. Districts must now track depreciation on major assets.

In November 2008, the voters approved Measure TT authorizing the District to issue \$350 million in general obligation bonds to repair and upgrade aging facilities. The District has issued \$125 million of these bonds in early September 2009 and another \$125 million, the 2012 series was issued in July 2012. The final \$100 million was issued in May 2016.

During the fiscal year of 2017-18, the District increased its capital assets position by \$45.3 million after deducting the depreciation and asset retirements. Building and Building Improvements increased by \$1.2 million and Construction in Progress increased by \$43 million. The District will continue its modernization and construction projects with the remainder of bond funds to support twenty first century learning. A schedule of capital assets for June 30, 2018 and 2017 is shown as follows:

	2018	2017
Land	\$ 4,458,821	\$ 4,458,821
Land improvements	5,372,555	5,836,346
Buildings and improvements	406,530,459	405,310,145
Machinery, equipment and vehicles	4,372,021	2,779,148
Construction in progress*	150,323,443	107,325,307
Net capital assets	\$ 571,057,299	\$ 525,709,767

* The July 1, 2017 balance of construction in progress has been restated by an increase of \$606,461 as a result of a prior period restatement. See Note 20.

Debt

Notes to the financial statements provide additional information on outstanding debt. Debt proceeds have been spent in prior years in modernization and the District is in repayment phase of its obligation.

PASADENA UNIFIED SCHOOL DISTRICT
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A schedule of long term debt for June 30, 2018 and 2017 is shown as follows:

Long Term Debt

	<u>2018</u>	<u>2017</u>
COPS/QZAB	\$1,000,002	\$1,166,664
General obligation bonds	468,920,504	503,273,868
PARS supplementary retirement plan	5,483,690	2,354,685
Total OPEB liability	33,421,358	30,822,948
Net pension liability	216,895,602	184,955,257
Compensated absences	<u>2,294,417</u>	<u>2,408,371</u>
 Total long-term debt	 <u>\$ 728,015,573</u>	 <u>\$ 724,981,793</u>

General Fund Budget Information

The District's budget is prepared in accordance with California law and is based on generally accepted accounting principles, utilizing historical data, economical forecast, projections for revenues, expenses, average daily attendance, program adjustments, cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. Total General Fund Budget consists of General Fund Unrestricted and Restricted categories. The Unrestricted portion of the budget is the general operating revenues whereas Restricted funding comes to the District with restrictions for specific purposes, projects and programs.

The District begins the budget process in January of each year, to be completed by June 30. The assumptions are updated based on the Governor's January budget information as well as the May revision and board guidelines. The budget is based on staffing projections depending on projected enrollment for core curriculum as well as special funded programs. The school site and department budgets are reviewed periodically to ensure management becomes aware of any significant variations during the year.

During the fiscal year, the Board of Education authorized revisions to the original budget. The revisions allow for adjustments in the budget that are required to best meet the operating needs of the District as well as adding new program funding and resources or any changes to the original budget.

Variations between final budget amounts and the revised budgets were direct results of actions taken by the Board of Education to increase or reduce/defer expenditures and increase or decrease income during the fiscal year.

Variations between the original and final budget amounts were primarily created by the addition of carryover of funds from the prior year, revisions to revenue projections, adding new funding for categorical programs, adjustments to categorical programs based on actual grants/entitlements and

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018

adjustments to salaries and benefits based on actual full-time equivalents or other operating needs. These amounts were unknown at the time the original budget was adopted.

The Special Education Program is still the largest deficit-spending program in the Restricted General Fund. The 2013-14 contribution was \$18.6 million, in 2014-15, it required a \$21.6 million contribution from the Unrestricted General Fund to make the program whole. In 2015-16, the contribution was \$22.8 million and 2016-2017 contribution was \$23.2 million. At the end of 2017-18 fiscal year, the contribution was \$27.2 million.

2018-2019 PUSD Adopted Budget

The 2018-2019 is the sixth year of implementation of the Local Control Funding Formula. The budget conforms to Local Control and Accountability Plan (LCAP) requirements and was reviewed and approved by Los Angeles County Office of Education.

The LCAP is LCFF’s vehicle for transparency and engagement. It is the way that the District is expected to share identified goals and objectives, performance data, needs, actions, and anticipated outcomes that guide the use of available LCFF funding.

The LCAP identifies eight priority areas -

1. **Basic Necessities:** teachers, instructional materials, facilities
2. **Common Core State Standards**
3. **Parental Involvement**
4. **Student Achievement:** State assessments, API, EL reclassification rates, college preparedness, etc.
5. **Student Engagement:** attendance, dropout and graduation rates
6. **School Climate:** suspension and expulsion, parent surveys
7. **Access to Courses**
8. **Other:** student outcomes in subject areas

The LCAP budget planning requires the engagement of all the stakeholders. After a series of meetings through community forums, parent advisory committees, and work groups, the District held a hearing in late June for public comments and the board formally adopted the LCAP which was included in the District’s final approved budget for 2018-19.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The following are the assumptions used for the 2018-19 Adopted Budget:

1. Local Control Funding Formula (LCFF)
 - Projected Enrollment – 16,438
 - Due to declining enrollment, Average Daily Attendance (ADA) funded in 2018-19 is estimated at 16,041 and 17-18 P-2 came in at 16,041
 - 3-year average - Unduplicated Pupil Count for English Learners, Free or Reduced-Price Meal and Foster Youth is projected at 63.9% - 10,771 students
 - Cost of Living Adjustment (COLA) – 2.71%
 - Augmented Base Grant amounts are \$8,180 (K-3), \$7,520 (Grade 4-6), \$7,744 (Grade 7-8), and \$9,206 (Grade 9-12).
 - LCFF current year funding is projected at \$160,610,684

2. Other State Revenues
 - Lottery is budgeted at \$146 per ADA for base and \$48 for Prop 20 instructional supplies and materials.
 - Mandated Reimbursement Block Grant totaling \$627,862. One time 344 per ADA discretionary funding of \$5,518,100 is budgeted.
 - Local Control and Accountability Plan (LCAP) spending is budgeted at \$23,253,986.
 - All the one-time revenues in 2017-18, such as carryover and sunset grants, have been removed in 2018-19 budget.

3. Ongoing grants or entitlements are adjusted for the actual allocation if the information is available.

4. Federal Revenues
 - All the one-time revenue in 2017-18, such as deferred revenue, carryover and sunset grants, have been removed in 2018-19 budget.
 - Ongoing grants or entitlements are adjusted for the actual allocation if the information is available.

5. Local Revenues
 - Gifts and Donations are budgeted only from the pledge and commitment.

6. Salary and Benefits
 - No bargaining agreements settlements were included in the 2018-19
 - Statutory benefit rates are: STRS (16.28%), PERS (18.062%), OASDI (6.2%), Medicare (1.45%), SUI (0.05%), OPEB (1.5%), and Workers' Comp (4.5%).

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

7. Books, Supplies, & Services
 - Any possible program carryover from 2017-18 is neither estimated nor budgeted.
 - Ongoing or new expenses are budgeted based on most recent information.

Facts Known After the Adopted Budget

On November 6, Pasadena residents invested in the future of our schools with the passage of Measures I and J. Measure J, the advisory measure that supports Pasadena Unified schools with a portion of a sales tax increase, was approved by 70% of voters. Funding from Measure J will assure our schools of a local revenue source to support innovation and enhancements to our already-strong academic programs. Measure J will bring millions of dollars in investment capital to build on the excellence that gives our graduates a competitive edge for college, careers, and active citizenship.

Contacting the District's Financial Management

This financial report is designed to provide the community, investors, creditors, and other interested parties, with a general overview of the District's financial condition and to show the District's accountability for the funding it receives. If you have questions regarding this report or need additional financial information, contact:

Pasadena Unified School District
Chief Business Officer
351 South Hudson Avenue
Pasadena, CA 91101
626-396-3600

FINANCIAL SECTION

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
June 30, 2018**

	Governmental Activities
<u>Assets</u>	
Cash in county treasury	\$ 172,827,326
Cash in revolving fund	475,000
Cash in banks	749,969
Cash with fiscal agent-revolving	100,000
Accounts receivable	13,057,075
Inventories	243,181
Prepaid expenditures	45,632
Investments with escrow agent	87,116,300
Land	4,458,821
Construction in progress	150,323,443
Depreciable assets, net	416,275,035
Total Assets	845,671,782
 <u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	4,142,712
Deferred outflows - pensions	65,737,573
Total Deferred Outflows of Resources	69,880,285
 <u>Liabilities</u>	
Accounts payable and other current liabilities	35,175,483
Accrued interest payable	2,790,689
Unearned revenue	1,249,563
Current portion of long-term liabilities	
Certificates of participation (QZAB program)	166,667
General obligation bonds	33,805,000
PARS supplementary retirement plan	1,567,675
Non-current portion of long-term liabilities	
Certificates of participation (QZAB program)	833,335
General obligation bonds	435,115,504
PARS supplementary retirement plan	3,916,015
Other postemployment benefits other than pensions	33,421,358
Net pension liability	216,895,602
Compensated absences	2,294,417
Estimated liability for open claims and IBNR's	18,960,101
Total Liabilities	786,191,409
 <u>Deferred Inflows of Resources</u>	
Deferred inflows - pensions	17,708,656
 <u>Net Position</u>	
Net investment in capital assets	102,488,816
Restricted for:	
Debt service	132,373,084
Educational programs	4,466,161
Capital programs	64,398,369
Other programs	3,600,080
Unrestricted	(195,674,508)
Total Net Position	\$ 111,652,002

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 141,315,958	\$ 1,252,650	\$ 35,565,761	\$ (104,497,547)
Instruction - related services	35,458,906	332,533	11,310,981	(23,815,392)
Pupil services	31,789,504	1,516,236	17,507,201	(12,766,067)
Ancillary services	761,631	2,761	31,215	(727,655)
Community services	149,128			(149,128)
General administration	13,836,637	122,440	2,799,580	(10,914,617)
Plant services	23,141,201	62,910	495,135	(22,583,156)
Other outgo	1,199,430	17,538	2,669,560	1,487,668
Debt service - interest	19,155,317			(19,155,317)
Depreciation (unallocated)	11,987,879			(11,987,879)
Total Governmental Activities	<u>\$ 278,795,591</u>	<u>\$ 3,307,068</u>	<u>\$ 70,379,433</u>	<u>(205,109,090)</u>
 General Revenues				
Property taxes levied for				
General purposes				87,206,044
Debt service				41,385,358
Other specific purposes				531,338
Federal and state aid not restricted to specific purposes				77,750,389
Interest and investment earnings				951,219
Miscellaneous				<u>5,908,906</u>
Total General Revenues				<u>213,733,254</u>
				Change in net position 8,624,164
Net Position - Beginning of Year, as originally stated				<u>123,277,983</u>
Adjustment for restatement (see Note 20)				(606,461)
Cumulative effect of change in accounting principle (see Note 21)				<u>(19,643,684)</u>
Net Position - Beginning of Year, as restated				<u>103,027,838</u>
Net Position - End of Year				<u>\$ 111,652,002</u>

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Cash in county treasury	\$ 43,287,048	\$ 66,139,989	\$ 45,256,784	\$	\$ 4,123,225	\$158,807,046
Cash in revolving fund	150,000					150,000
Cash in bank					749,969	749,969
Cash with fiscal agent-revolving	100,000					100,000
Accounts receivable	10,951,795	420,468			1,614,455	12,986,718
Due from other funds	70,199					70,199
Inventories	161,712				81,469	243,181
Prepaid expenditures	45,632					45,632
Investments with escrow agent				87,116,300		87,116,300
Total Assets	\$ 54,766,386	\$ 66,560,457	\$ 45,256,784	\$ 87,116,300	\$ 6,569,118	\$260,269,045
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 29,978,622	\$ 4,264,688	\$	\$	\$ 685,475	\$ 34,928,785
Unearned revenue	1,220,268				29,295	1,249,563
Due to other funds					70,199	70,199
Total Liabilities	31,198,890	4,264,688	-	-	784,969	36,248,547
Fund Balances						
Nonspendable	457,344				81,469	538,813
Restricted	4,466,161	62,295,769	45,256,784	87,116,300	5,686,466	204,821,480
Assigned					16,214	16,214
Unassigned	18,643,991					18,643,991
Total Fund Balances	23,567,496	62,295,769	45,256,784	87,116,300	5,784,149	224,020,498
Total Liabilities and Fund Balances	\$ 54,766,386	\$ 66,560,457	\$ 45,256,784	\$ 87,116,300	\$ 6,569,118	\$260,269,045

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total fund balances - governmental funds \$ 224,020,498

Amounts reported for governmental funds are different than the statement of net position because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:

Land	\$ 4,458,821	
Construction in progress	150,323,443	
Depreciable assets, net	<u>416,275,035</u>	571,057,299

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated absences	(2,294,417)	
PARS supplementary retirement plan	(5,483,690)	
Certificates of Participation (COPS)	(1,000,002)	
General obligation bonds	(468,920,504)	
Net Other postemployment benefits other than pensions (OPEB)	(33,421,358)	
Net pension liability	<u>(216,895,602)</u>	(728,015,573)

In governmental funds, deferred outflows and inflows of resources are not reported because they are applicable to future periods. Deferred outflows and inflows of resources at year-end consist of:

Deferred charge on refunding	4,142,712	
Deferred outflows - pensions	65,737,573	
Deferred inflows - pensions	<u>(17,708,656)</u>	52,171,629

An internal service funds is used by the District to cover the costs of worker's compensation and medical insurance programs. The assets and liabilities should be included with governmental activities. The fund consists of:

Assets	14,415,637	
Less: Liabilities	<u>(19,206,799)</u>	(4,791,162)

Interest expense related to general obligation bonds payable was incurred but not accrued through June 30, 2018. (2,790,689)

Total net position - governmental activities \$ 111,652,002

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Local control funding formula sources:						
State apportionments	\$ 74,153,985	\$	\$	\$	\$	\$ 74,153,985
Local sources	81,501,225					81,501,225
Total local control funding formula sources	155,655,210	-	-	-	-	155,655,210
Federal sources	16,668,637		1,936,859		7,063,722	25,669,218
Other state sources	38,933,057		224,292		6,695,133	45,852,482
Other local sources	12,422,692	1,430,756	43,808,994	341,936	2,778,263	60,782,641
Total Revenues	<u>223,679,596</u>	<u>1,430,756</u>	<u>45,970,145</u>	<u>341,936</u>	<u>16,537,118</u>	<u>287,959,551</u>
Expenditures						
Instruction	127,388,587				3,442,304	130,830,891
Instruction - related services	31,694,492				1,004,934	32,699,426
Pupil services	21,937,045				8,450,064	30,387,109
Ancillary services	721,538					721,538
Community services	141,225					141,225
General administration	12,656,725				710,071	13,366,796
Plant services	24,086,089	51,103,553			3,973,446	79,163,088
Other outgo	1,197,780					1,197,780
Debt service			48,373,919	3,504,500	218,317	52,096,736
Total Expenditures	<u>219,823,481</u>	<u>51,103,553</u>	<u>48,373,919</u>	<u>3,504,500</u>	<u>17,799,136</u>	<u>340,604,589</u>
Excess (deficiency) of revenues over expenditures	<u>3,856,115</u>	<u>(49,672,797)</u>	<u>(2,403,774)</u>	<u>(3,162,564)</u>	<u>(1,262,018)</u>	<u>(52,645,038)</u>
Other Financing Sources (Uses)						
Interfund transfers in	2,418,025					2,418,025
Interfund transfers out					(2,418,025)	(2,418,025)
Total Other Financing Sources (Uses)	<u>2,418,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,418,025)</u>	<u>-</u>
Net changes in fund balance	<u>6,274,140</u>	<u>(49,672,797)</u>	<u>(2,403,774)</u>	<u>(3,162,564)</u>	<u>(3,680,043)</u>	<u>(52,645,038)</u>
Fund Balances at Beginning of Year, as originally stated	17,293,356	112,575,027	47,660,558	90,278,864	9,464,192	277,271,997
Adjustment for restatement (see Note 20)		(606,461)				(606,461)
Fund Balances at Beginning of Year, as restated	<u>17,293,356</u>	<u>111,968,566</u>	<u>47,660,558</u>	<u>90,278,864</u>	<u>9,464,192</u>	<u>276,665,536</u>
Fund Balances at End of Year	<u>\$ 23,567,496</u>	<u>\$ 62,295,769</u>	<u>\$ 45,256,784</u>	<u>\$ 87,116,300</u>	<u>\$ 5,784,149</u>	<u>\$224,020,498</u>

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
June 30, 2018**

Net change in fund balances - total governmental funds \$ (52,645,038)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$57,941,873	
Depreciation expense	<u>(11,987,879)</u>	
Excess (deficiency) of capital outlay over depreciation expense		45,953,994

Property taxes are recorded on a cash basis as they are not considered "available" revenues in the governmental funds. The net change in the receivable related to the property taxes levied for repayment of debt is: (1,480,275)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Certificates of participation (QZAB) program	166,662	
General obligation bond principal payments	<u>31,430,000</u>	31,596,662

In governmental funds, pension costs are recognized when the employer contribution is made, but in the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual basis pension costs and actual employer contribution was: (7,964,298)

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Net decrease in accrued interest	117,563	
Net increase in other postemployment benefits other than pensions (OPEB)	(2,598,410)	
Net decrease in compensated absences	113,954	
Net decrease in premium on general obligation bonds	2,923,364	
Net increase in PARS supplementary retirement plan	(3,129,005)	
Net decrease in deferred charge on refunding bonds	<u>(2,039,757)</u>	(4,612,291)

An internal service fund is used by the District to charge the costs of the health and welfare and worker's compensation insurance program to the individual funds. The net income of the internal service funds are reported with governmental activities. (2,224,590)

Change in net position of governmental activities \$ 8,624,164

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2018

	Governmental Activities: Internal Service Fund <hr/> Self-Insurance Fund <hr/>
<u>Assets</u>	
Cash in county treasury	\$ 14,020,280
Cash in revolving fund	325,000
Accounts receivable	<hr/> 70,357
Total Assets	<hr/> 14,415,637
<u>Liabilities</u>	
Accounts payable	246,698
Estimated liability for open claims incurred but not recorded	<hr/> 18,960,101
Total Liabilities	<hr/> 19,206,799
<u>Net Position</u>	
Restricted	<hr/> (4,791,162)
Total Net Position	<hr/> <hr/> \$ (4,791,162)

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 For the Fiscal Year Ended June 30, 2018**

	Governmental Activities: Internal Service Fund <hr/> Self-Insurance Fund <hr/>
Operating Revenues	
Self-insurance premiums	\$ 9,662,447
Other operating revenue	303,346
Total Operating Revenues	<hr/> <u>9,965,793</u>
 Operating Expenditures	
Classified salaries	50,809
Employee benefits	35,314
Payment for claims, premiums and administrative costs	12,289,076
Total Operating Expenditures	<hr/> <u>12,375,199</u>
Net operating loss	<hr/> <u>(2,409,406)</u>
 Non-Operating Revenues	
Interest income	184,816
Total Non-Operating Revenues	<hr/> <u>184,816</u>
Net loss	(2,224,590)
 Net Position at Beginning of Year	<hr/> <u>(2,566,572)</u>
 Net Position at End of Year	 <u><u>\$ (4,791,162)</u></u>

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
June 30, 2018**

	Governmental Activities: Internal Service Fund <hr/> Self-Insurance Fund <hr/>
Cash Flows from Operating Activities	
Cash received from self-insurance premiums	\$ 9,662,447
Cash received from premiums and other revenues	303,346
Cash paid for claims	(7,905,508)
Cash paid to employees	<u>(86,123)</u>
Net cash provided by operating activities	<u>1,974,162</u>
 Cash Flows from Investing Activities	
Interest income	<u>168,860</u>
Net cash provided by investing activities	<u>168,860</u>
 Net increase in cash	 2,143,022
 Cash - July 1, 2017	 <u>12,202,258</u>
Cash - June 30, 2018	<u>\$ 14,345,280</u>

**Reconciliation of operating loss to
net cash provided by operating activities**

Operating Loss	\$ (2,409,406)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts payable	181,050
Estimated liability for open claims incurred but not recorded	<u>4,202,518</u>
Total adjustments	<u>4,383,568</u>
 Net cash provided by operating activities	 <u>\$ 1,974,162</u>
 Cash balances at June 30, 2018 consisted of the following:	
Cash in county treasury	\$ 14,020,280
Cash in revolving fund	325,000
Total	<u>\$ 14,345,280</u>

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

	Agency Funds
	Associated
	Student Body
	Funds
<u>Assets</u>	
Cash and cash equivalents	\$ 800,498
Accounts receivable	537
Inventories	30,852
Total Assets	831,887
<u>Liabilities</u>	
Accounts payable	1,502
Funds held in trust	830,385
Total Liabilities	\$ 831,887

See accompanying notes to the financial statements

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*, updated to conform to the most current financial and reporting requirements promulgated by the California Department of Education. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The significant accounting policies applicable to the District are described below.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with GAAP as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective enhances the fund-group perspective previously required. Fiduciary activities are excluded from the basic financial statements and are reported separately in the fiduciary fund statements.

The District's basic financial statements consist of government-wide statements, including a Statement of Net Position, a Statement of Activities, and fund financial statements.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the District as a whole. These statements include the financial activities of the primary government, including governmental activities of proprietary funds. Fiduciary funds are excluded.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District. Depreciation and interest expense have not been allocated to specific functions.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary and proprietary funds are reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

Instruction: includes the activities directly dealing with the interaction between teachers and students.

Instruction-Related Services: includes supervision of instruction, instructional library, media and technology, and school site administration.

Pupil Services: includes home to school transportation, food services, and other pupil services.

Ancillary Services: includes activities that are generally designed to provide students with experiences outside the regular school day.

Community Services: includes activities that provide services to community participants other than students.

General Administration: includes data processing services and all other general administration services.

Plant Services: includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

Other Outgo: includes transfers to other agencies.

Debt Service: includes principal and interest payments for long term debt.

The proprietary and fiduciary fund expenses are presented by natural classification.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations, and equities.

The Statement of Revenues, Expenditures and Changes in Fund Balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

Governmental Funds – Major

General Fund: used to account for all financial resources except those required to be accounted for in another fund.

Building Fund: used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Bond Interest and Redemption Fund: used to account for the payment of principal and interest on general obligation bonds.

Debt Service Fund: used to account for the proceeds of the 2016 Refunding Bond, Series B (2019 Crossover) held in escrow and the activity maintained by the escrow agent until the crossover date. See additional information in Note 11.

Governmental Funds – Non-Major

Special Revenue Funds: used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

Adult Education Fund: used to account for resources restricted or committed to adult education programs.

Child Development Fund: used to account for resources restricted or committed to child development programs.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cafeteria Fund: used to account for revenues received and expenditures made to operate the District's cafeterias.

Capital Projects Funds: used to account for the financial resources that are restricted, committed or assigned for the acquisition and/or construction of major governmental general fixed assets.

Capital Facilities Fund: used to account for resources received from residential and commercial developer impact fees.

County School Facilities Fund: used to account for the School Facility Program grants award for modernization and new construction of various school sites.

Special Reserve Fund: used to account for specific board-approved capital expenditures.

Proprietary Funds

Self-Insurance Fund

Internal Service Fund: used to account for services rendered on a cost-reimbursement basis within the District. The Internal Service Fund consists of two sub-funds as follows:

Workers' Compensation Fund: used to account for resources committed to the District's self-insurance program for workers' compensation.

Medical Fund: used to account for resources committed to the District's medical insurance program.

Fiduciary Funds

Associated Student Body Fund: used to account for raising and expending money to promote the general welfare, morale, and educational experiences of the student body. The District operates seven Associated Student Body funds.

Agency Activities

The District operates a warrant pass-through fund as a holding account for amounts collected from employees for federal taxes, state taxes, and other contributions. The District had cash in the county treasury amounting to \$(870,044) on June 30, 2018, which represents prepayment of withholdings payable.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses 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. Revenues in governmental fund financial statements are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

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 in the county treasury is recorded at cost, which approximates fair value.

Receivables

Receivables are generally recorded when the amount is earned and can be estimated. All material receivables are considered fully collectible.

Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable supplies held for consumption. At June 30, 2018, the inventory for supplies is \$161,712. The inventory for food is \$81,469.

Prepaid Expenses/Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the year in which goods or services are consumed.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Statement of Net Position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined by GASB. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

Depreciation expense reported on the government-wide statement of activities excludes direct depreciation expense recorded to functions where applicable.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position by the District that is applicable to a future reporting period.

Deferred Charge on Refunding: A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred Outflows – Pensions: The deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans and the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 14 to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave, therefore, accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken. However, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. General obligation bonds are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Pension Liability

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 Plan' fiduciary net position have been determined on the same basis as they are reported by CalSTRS

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position by the District that is applicable to a future reporting period. The deferred inflows of resources related to pensions resulted from the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 14 to the financial statements.

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on use through external restrictions imposed by donors, grantors, laws or regulations of other governments or by enabling legislation adopted by the District.

Fund Balance Classification

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Board of Education. These amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same formal action (vote or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

resources have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned: Amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. The Board of Education, through a formal action has given authority to the Chief Financial Officer to assign amounts for a specific purpose that is neither restricted nor committed.

Unassigned: The residual fund balance for the General Fund and all other spendable amounts.

Spending Order Policy

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted net position or fund balance is available.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District's policy considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment functions.

Minimum Fund Balance Policy

The District has adopted a minimum fund balance policy in order to protect against revenue shortfalls and unexpected one-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts which represent the minimum recommended reserve consistent with the criteria and standards for fiscal solvency adopted by the State Board of Education. The minimum recommended reserve for a district this size is 3% of budgeted General Fund expenditures and other financing uses.

State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. Second period to annual corrections for local control funding formula and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in two installments on November 1st and February 1st. Unsecured property taxes are payable in one installment on or before August 31st.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the California Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the state for local control funding formula purposes. Property taxes for debt service purposes have not been accrued in the Government-wide financial statements as the amount is not material.

On-Behalf Payments

GAAP requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all school districts in California. The amount of on-behalf payments made for the District has been recorded in the fund financial statements.

Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the District receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the District based on the above guidelines. In addition, the District receives donations of immaterial equipment and supplies which are not recorded upon receipt.

Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from non-operating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as, self-insurance premiums. Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
- The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity:

The Pasadena Foundation: The Foundation is a separate not-for-profit corporation. The Foundation is not included as a Component Unit because the third criterion was not met; the economic resources received and held by the Foundation are not significant to the District. Separate financial statements for the Foundation may be obtained through the Foundation.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Various PTA, PTO and Booster Clubs: Each of these types of organizations at each of the school sites within the District were evaluated using the three criteria listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO and the Booster Club individually are not significant to the District.

NOTE 2: BUDGETS

By state law, the District's Governing Board must approve a budget no later than July 1, using the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the General Fund is presented in a budgetary comparison schedule in the required supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2018, \$1,848,589 of the District's bank balance of \$2,945,572 was exposed to credit risk.

Cash in County

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. The District is considered an involuntary participant in the investment pool. These pooled funds are carried at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2018 is measured at 98.6604% of amortized cost. The District's deposits in the fund are considered to be highly liquid.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS

The county is authorized to deposit cash and invest excess funds by California Government Code Sections 53534, 53601, 53635, and 53648. The county is restricted to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county are either secured by federal depository insurance or are collateralized. The county investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statues and the County Board of Supervisors set forth the various investment policies that the Country Treasurer follow. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from the Los Angeles County Public Affairs Office, Kenneth Hahn Hall of Administration, 500 W. Temple St, Room 358, Los Angeles, CA 90012.

Investments with Refunding Escrow Agent

The District's investment activity managed by the debt refunding escrow agent are governed by the Escrow Deposit and Trust Agreement (the Agreement). The Agreement defines the types of securities authorized, including term to manage interest rate risk, and credit quality and concentration to manage credit risk. Investments are selected to provide adequate earnings to pay interest due on the refunding bonds through and including the redemption date.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS

As of June 30, 2018, the District's had the following investments held by the refunding escrow agent:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:				
Cash (Level 1)	n/a	n/a	\$ 82	\$ 82
Total cash and cash equivalents			<u>82</u>	<u>82</u>
Debt securities:				
U.S. Treasury bonds (Level 1)	n/a	1-2 years	89,779,953	87,116,218
Total debt securities			<u>89,779,953</u>	<u>87,116,218</u>
Total investments with escrow agent			<u>\$ 89,780,035</u>	<u>\$ 87,116,300</u>

NOTE 4: ACCOUNTS RECEIVABLE

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

<u>Accounts Receivable</u>	<u>General Fund</u>	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Proprietary Fund:</u>	
					<u>Self-Insurance Fund</u>	<u>Governmental Activities</u>
Federal and state	\$ 8,793,552	\$	\$ 1,554,865	\$10,348,417	\$	\$10,348,417
Miscellaneous	2,158,243	420,468	59,590	2,638,301	70,357	2,708,658
Total accounts receivable	<u>\$10,951,795</u>	<u>\$ 420,468</u>	<u>\$ 1,614,455</u>	<u>\$12,986,718</u>	<u>\$ 70,357</u>	<u>\$13,057,075</u>

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 5: INTERFUND TRANSACTIONS

Interfund activity has been eliminated in the Government-wide statements. The following balances and transactions are reported in the fund financial statements.

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2018 are temporary loans and are detailed as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 70,199	\$ -
Non-Major Governmental Funds:		
Adult Education Fund	-	70,199
Total	\$ 70,199	\$ 70,199

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2017-18 year are as follows:

Transfer from the Special Reserve Fund for Capital Outlay to the General Fund for Office of Public School Construction (OPSC) projects.	\$ 2,418,025
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PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 6: FUND BALANCES

The following amounts were nonspendable, restricted, or unassigned as shown below:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Cash in revolving fund	\$ 150,000					\$ 150,000
Cash with fiscal agent	100,000					100,000
Inventories	161,712				81,469	243,181
Prepaid expenditures	45,632					45,632
Total nonspendable	<u>457,344</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,469</u>	<u>538,813</u>
Restricted:						
Educational programs	4,466,161					4,466,161
Nutrition services					2,199,550	2,199,550
Capital projects		62,295,769			2,086,386	64,382,155
Other programs					1,400,530	1,400,530
Debt service			45,256,784	87,116,300		132,373,084
Total restricted	<u>4,466,161</u>	<u>62,295,769</u>	<u>45,256,784</u>	<u>87,116,300</u>	<u>5,686,466</u>	<u>204,821,480</u>
Assigned:						
Capital projects					16,214	16,214
Total assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,214</u>	<u>16,214</u>
Unassigned:						
Economic uncertainties	13,099,776					13,099,776
Unassigned	5,544,215					5,544,215
Total unassigned	<u>18,643,991</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,643,991</u>
Total fund balance	<u>\$ 23,567,496</u>	<u>\$ 62,295,769</u>	<u>\$ 45,256,784</u>	<u>\$ 87,116,300</u>	<u>\$ 5,784,149</u>	<u>\$ 224,020,498</u>

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 7: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

Capital asset activity for the year ended June 30, 2018 is shown below.

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 4,458,821	\$	\$	\$ 4,458,821
Construction in progress*	107,325,307	54,435,413	(11,437,277)	150,323,443
Total capital assets not being depreciated	<u>111,784,128</u>	<u>54,435,413</u>	<u>(11,437,277)</u>	<u>154,782,264</u>
Capital assets being depreciated:				
Site improvements	13,588,629			13,588,629
Buildings	551,272,821	12,014,959		563,287,780
Equipment	23,069,953	2,322,316	(187,050)	25,205,219
Total capital assets being depreciated	<u>587,931,403</u>	<u>14,337,275</u>	<u>(187,050)</u>	<u>602,081,628</u>
Less accumulated depreciation for:				
Site improvements	(7,752,283)	(463,791)		(8,216,074)
Buildings	(145,962,676)	(10,794,645)		(156,757,321)
Equipment	(20,290,805)	(729,443)	(187,050)	(20,833,198)
Total accumulated depreciation	<u>(174,005,764)</u>	<u>(11,987,879)</u>	<u>(187,050)</u>	<u>(185,806,593)</u>
Depreciable assets, net	<u>413,925,639</u>	<u>2,349,396</u>	<u>-</u>	<u>416,275,035</u>
Governmental activities capital assets, net	<u>\$ 525,709,767</u>	<u>\$ 56,784,809</u>	<u>\$ (11,437,277)</u>	<u>\$ 571,057,299</u>

* The July 1, 2017 balance of construction in progress has been restated by an increase of \$606,461 as a result of a prior period restatement. See Note 20.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 8: LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2018 is shown below.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount Due in One Year
COPs/QZAB	\$ 1,166,664	\$	\$ 166,662	\$ 1,000,002	\$ 166,667
General Obligation Bonds					
2009 Building America Bond	92,285,000		2,235,000	90,050,000	2,530,000
2012 Prop 39 Bond	107,200,000		3,555,000	103,645,000	4,180,000
Series 2016 GO Bond	100,000,000		1,620,000	98,380,000	1,670,000
2014 Refunding Series A	4,560,000		1,440,000	3,120,000	1,575,000
2014 Refunding Series B	68,715,000		22,425,000	46,290,000	23,690,000
2016 Refunding Series A	10,830,000		155,000	10,675,000	160,000
2016 Refunding Series B	78,470,000			78,470,000	
Premium on Bonds - 2009 Bond	2,578,667		151,675	2,426,992	
Premium on Bonds - 2012 Bond	11,757,229		587,851	11,169,378	
Premium on Bonds - 2014 Bond	455,689		165,704	289,985	
Premium on Bonds - 2016 Bond	26,422,283		2,018,134	24,404,149	
Subtotal GO Bonds	503,273,868	-	34,353,364	468,920,504	33,805,000
PARS Supplementary Retirement Plan	2,354,685	3,913,900	784,895	5,483,690	1,567,675
Total OPEB Liability*	30,822,948	2,598,410		33,421,358	
Net Pension Liability	184,955,257	31,940,345		216,895,602	
Compensated absences	2,408,371		113,954	2,294,417	
Total	<u>\$ 724,981,793</u>	<u>\$ 38,452,655</u>	<u>\$ 35,304,921</u>	<u>\$ 728,015,573</u>	<u>\$ 35,539,342</u>

The July 1, 2017 balance has been restated by \$19,643,684 for the cumulative effect of the adoption of Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. See Note 21.

Liabilities are liquidated by the General Fund for governmental activities, including certificates of participation, compensated absences, early retirement incentive, postemployment healthcare benefits, and net pension liability. General obligation bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Bond Interest and Redemption Fund.

NOTE 9: LEASES

The District has entered into an operating leases for Chromebooks with a lease term in excess of one year. The agreement does not contain a bargain purchase option. Future minimum lease payments under the agreement are as follows:

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: LEASES

Year Ending June 30,	Lease Payment
2019	\$ 2,276,356
2020	2,276,356
2021	2,276,356
Total	<u>\$ 6,829,068</u>

There were no current year expenditures related to the lease. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 10: CERTIFICATES OF PARTICIPATION

The agreement dated July 1, 2008, is between the District as the "lessee" and the Public Property Financing Corporation of California (the Corporation) as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of acquiring equipment and capital outlay and then leasing such items to public entities. The District spent the proceeds on a capital project that qualifies for funding under the Qualified Zone Academy Bond (QZAB) program.

The Corporation's funds for acquiring these items were generated by the issuance of \$2,500,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease payments are required to be made by the District under the lease agreement on July 31 each year for use and possession of the equipment for the period commencing July 31, 2009 and terminating July 31, 2023. Lease payments will be funded in part from the proceeds of the Certificates. The interest rate is 2% for the length of the issuance.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments as follows:

Year Ending June 30,	Principal	Interest
2019	\$ 166,667	\$ 50,000
2020	166,667	50,000
2021	166,667	50,000
2022	166,667	50,000
2023	166,667	50,000
2024	166,667	50,000
Total	<u>\$ 1,000,002</u>	<u>\$ 300,000</u>

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 11: GENERAL OBLIGATION BONDS

1997 General Obligation Bond

On November 4, 1997, \$240 million in general obligation bonds were authorized by an election held within the District. The bonds were authorized to finance improving the safety and the quality of education in schools, by repairing and rehabilitating aging schools, upgrading electrical, plumbing, sewer, heating and ventilation systems, renovating restrooms, replacing roofs, removing hazards from asbestos and earthquakes, modernizing science labs and libraries.

Between 1998 and 2003, the District issued bonds totaling \$240 million. Between 2004 and 2005, the District issued refunding bonds to advance refund all outstanding issues. In 2014, the District issued refunding bonds (Series A and B) totaling \$102,030,000 to advance refund portions of the 2005 refunding bonds.

The balance of the bonds refunded was \$10,710,180 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net position and amortized to interest expense over the life of the new debt. Amortization of \$1,785,030 was recognized during the year ended June 30, 2018.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The 2014 Series A and B refunding bonds included a premium of \$994,233. This amount is amortized using the straight-line method and amortization of \$165,704 was recognized during the year ended June 30, 2018.

Measure TT

On November 4, 2008, \$350 million in general obligation bonds were authorized by an election held within the District. The bonds were authorized to finance acquisition, construction and modernization of school facilities and pay related bond issuance costs. Between 2009 and 2016, the District issued bonds, Series 2009, Series 2012 and Series 2016, totaling \$350 million.

Approximately \$85 million of the Series 2009 were issued in Federally taxable Build America Bonds. 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. State and local governments then receive a direct federal subsidy payment for a portion of their borrowing costs on the Build America Bonds.

During 2015-16, the District issued 2016 Refunding Bond Series A and B, the proceeds of which are to be used to redeem certain maturities of the 2009 Bonds. The proceeds of the 2016 Refunding Bond Series A were placed into an irrevocable escrow account and will be used to fund the future

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 11: GENERAL OBLIGATION BONDS

required principal and interest payables of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased and are not recorded on the financial statements. The net carrying value of the bonds refunded was \$1,528,363 less than the amount paid into the escrow account. This amount has been deferred and amortized over the life of the new debt which is the same as the life of the old debt and amortization of \$254,726 was recognized during the year ended June 30, 2018. The amount of debt that remains outstanding at June 30, 2018 for the original Series 2009 issues is \$10,600,000.

The proceeds of 2016 Refunding Bond Series B are used to redeem certain maturities of the 2009 Bonds, on a crossover refunding basis. The 2009 Bonds to be redeemed will remain outstanding until August 1, 2019 (the 2016 Refunding Bond Series B Crossover Date), upon which time proceeds of the 2016 Refunding Bond Series B will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$84,680,000 of the 2009 Bonds is expected to be redeemed on August 1, 2019. For additional details on the crossover refunding and the 2016 Refunding Bond Series B, see below.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The 2009, 2012 and 2016 bonds and refunding bonds included a collective premium of \$31,675,949. This amount is amortized using the straight-line method and amortization of \$2,757,660 was recognized during the year ended June 30, 2018.

The outstanding general obligation bonded debt of the District at June 30, 2018 is:

<u>General Obligation Bonds</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue</u>	<u>Outstanding June 30, 2018</u>
2009 Build America Bonds	9/1/2009	8/1/2034	2.5-6.176%	\$ 125,000,000	\$ 90,050,000
2012 Prop 39 Bond	7/3/2012	5/1/2037	2.00-5.00%	125,000,000	103,645,000
2014 Refunding Series A	3/6/2014	11/1/2019	2.00-5.00%	5,985,000	3,120,000
2014 Refunding Series B	3/6/2014	11/1/2019	0.34-2.31%	96,045,000	46,290,000
2016 Prop 39 Bond	5/10/2016	8/1/2036	2.00-5.00%	100,000,000	98,380,000
2016 Refunding Series A	5/10/2016	8/1/2022	1.25-4.00%	11,025,000	10,675,000
2016 Refunding Series B	5/10/2016	8/1/2034	1.32%-2.69%	78,470,000	78,470,000
Total				<u>\$ 541,525,000</u>	<u>\$ 430,630,000</u>

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 11: GENERAL OBLIGATION BONDS

The annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 33,805,000	\$ 19,921,287
2020	32,600,000	19,078,841
2021	6,845,000	18,111,305
2022	5,605,000	17,835,242
2023	9,745,000	17,521,054
2024-2028	88,115,000	76,508,005
2029-2033	135,825,000	47,421,126
2034-2037	<u>118,090,000</u>	<u>10,506,646</u>
Total	<u>\$ 430,630,000</u>	<u>\$ 226,903,506</u>

Crossover Refunding Bonds

During the 2015-16 fiscal year, the District issued the 2016 Refunding Bonds Series B in the amount of \$78,470,000 with a crossover date of August 1, 2019. The net proceeds of the refunding bonds were deposited into an escrow fund. Proceeds deposited into the escrow funds will be used to pay debt service on the refunding series until the respective crossover date, at which point the amounts on deposit in the escrow fund (including investment earnings thereon) will be applied to the redemption in full of certain maturities of the corresponding refunded series. The escrow fund has been invested at rates sufficient to pay interest on related series of refunding bonds through the crossover date.

During the period when both the refunded bond and the related refunding bonds are outstanding, the escrow fund containing the proceeds of the 2016 Refunding Bond Series B, will pay interest on the refunding bonds and is the sole source of payment for the bonds. Then, on the designated crossover date, the escrow fund will pay the principal and premium, if any, on the maturities of the 2009 Series bonds to be redeemed. The 2016 Refunding Bond Series B shall pay on a parity with the District's outstanding general obligation bonds only following such respective redemption and conditional on there being sufficient funds in the respective escrow fund to successfully redeem the specified maturities of the refunded bonds to be redeemed. The refunded portions of the District's outstanding bonds are considered to have been economically defeased and therefore will remain recorded on the financial statements until they are successfully redeemed.

The difference in gross cash flow requirements related to the refunding is a savings of total cash outflow of approximately \$11,770,000. At the time of refunding, the net present value of the economic gain to the District was approximately \$8,860,000.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 12: PARS SUPPLEMENTARY RETIREMENT PLAN

On May 7, 2015, the Board of Education adopted a resolution for the implementation of an early retirement incentive known as the PARS Supplementary Retirement Plan for full-time certificated non-management, certificated and classified management, and classified non-management.

A total of 74 employees are participating. The District will pay benefits from 2016 through 2020 totaling \$3,924,475. \$784,895 is due annually.

On February 1, 2018, the Board of Education adopted a resolution for the implementation of an additional early retirement incentive known as the PARS Supplementary Retirement Plan for full-time certificated non-management and classified non-management.

A total of 66 employees are participating. The District will pay benefits from 2019 through 2023 totaling \$3,913,900. \$782,780 is due annually beginning July 10, 2018.

The total remaining liability of \$5,483,690 has been reflected in these financial statements.

NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides medical, dental and prescription drug benefits to all full-time Certificated, Management and Classified employees between the ages of 55 and 65 and retiring with at least 15 years of service. Part-time employees working at 75% of a full-time assignment also receive full benefits. Benefit provisions are established through negotiations between the District and the bargaining unions representing employees and are renegotiated periodically. The Retiree Health Plan does not issue a separate financial report.

Participant Type:	Number of Participants
Inactive plan members or beneficiaries currently receiving benefit payments	54
Active plan members	2,143
Total	2,197

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. District contributions range from 50-80% of the cost of current year premiums depending on the age of the retiree as applicable. For fiscal year ended June 30, 2018, the District contributed \$436,396 to the plan, which includes an implicit subsidy of \$176,482. Total member contributions were approximately \$303,346.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

Total OPEB Liability

	Balance June 30, 2018
Total OPEB Liability	June 30, 2018
Retiree Health Plan	\$ 33,421,358

Actuarial Methods and Assumptions

Actuarial Assumptions

The total OPEB liability was determined based on an actuarial valuation as of June 30, 2018. The following actuarial assumptions used in the June 30, 2018 measurement applied to all periods included in the measurement, unless otherwise specified.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age, Level Percent of Pay
Salary Increases	3.00%
Inflation	3.00%
Healthcare Costs Trend Rate	5.00%

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Discount Rate

The discount rate used to measure the OPEB liability was 3.62%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the expected benefit payments. Because the plan is unfunded, the discount rate reflects the required use of the Fidelity GO Bond 20-Year High Grade Rate Index.

Changes in Assumptions

Since the most recent GASB 45 valuation, the following change has been made:

- The discount rate changed from 4.00% to 3.62%.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 30,822,948
Changes for the year:	
Service cost	1,926,844
Interest	1,107,962
Benefit payments	(436,396)
Net changes	2,598,410
 Balance at June 30, 2018	 \$ 33,421,358

Sensitivity

The following presents the District's OPEB liability calculated using the discount rate of 3.62%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.62%) or 1 percentage-point higher (4.62%) than the current rate:

Discount rate	Total OPEB Liability
1% decrease (2.62%)	\$ 36,663,766
Current discount rate (3.62%)	33,421,358
1% increase (4.62%)	30,485,128

The following presents the District's OPEB liability calculated using the healthcare costs trend rate of 5.00%, as well as what the OPEB liability would be if it were calculated using a healthcare costs trend rate that is 1 percentage-point lower (4.00%) or 1 percentage-point higher (6.00%) than the current rate:

Healthcare trend rate	Total OPEB Liability
1% decrease (4.0%)	\$ 29,662,063
Current healthcare trend rate (5.0%)	33,421,358
1% increase (6.0%)	37,832,635

OPEB Expense

For the fiscal year ended June 30, 2018, the District's actuarially-determined OPEB expense is \$3,034,806.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

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).

As of June 30, 2018, the District's net pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense for each of the retirement plans are as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS (STRP)	\$ 143,344,000	\$ 43,638,243	\$ 14,767,742	\$ 13,799,901
CalPERS (Schools Pool Plan)	73,551,602	22,099,330	2,940,914	11,798,302
	<u>\$ 216,895,602</u>	<u>\$ 65,737,573</u>	<u>\$ 17,708,656</u>	<u>\$ 25,598,203</u>

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.

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.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

The District contributes to the STRP Defined Benefit Program and STRP Defined Benefit Supplement Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

<u>Provisions and Benefits</u>	<u>STRP Defined Benefit Program and Supplement Program</u>	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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. The contribution rates for each plan for the year ended June 30, 2018 are presented above and the total District contributions were \$11,434,815.

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

At June 30, 2018, 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:

<u>Proportionate Share of Net Pension Liability</u>	<u>Balance June 30, 2018</u>
District proportionate share of net pension liability	\$ 143,344,000
State's proportionate share of the net pension liability associated with the District	84,801,790
Total	<u>\$ 228,145,790</u>

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

The net pension liability was measured as of June 30, 2017. 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, 2017, the District’s proportion was 0.1550%.

For the year ended June 30, 2018, the District recognized pension expense of \$13,799,901. In addition, the District recognized revenue and corresponding expense of \$8,536,114 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Deferred Outflows and Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 11,434,815	\$ -
Differences between expected and actual experience	530,100	2,500,150
Changes of assumptions	26,556,150	-
Changes in proportion	5,117,178	8,449,942
Net differences between projected and actual earnings on pension plan investments	-	3,817,650
Total	\$ 43,638,243	\$ 14,767,742

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the STRP for the June 30, 2017 measurement date is seven years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed six years.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 14: EMPLOYEE RETIREMENT PLANS

The remaining amount will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2019	\$ 153,416
2020	5,728,766
2021	3,673,467
2022	(64,612)
2023	2,993,568
2024	4,951,081
Total	<u>\$ 17,435,686</u>

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

<u>Actuarial Methods and Assumptions</u>	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.10%
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant and adopted by the CalSTRS Board in February 2017. The assumed asset allocation is based on board policy for target asset allocation in effect on

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

February 2017, the date the current experience study was approved by the board. Best estimates of 20-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%	6.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Fixed income	12%	0.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.10%)	\$ 210,474,500
Current discount rate (7.10%)	143,344,000
1% increase (8.10%)	88,863,050

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, CalSTRS completed an experience study for the period starting July 1, 2010 and ending June 30, 2015. The experience

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

study was adopted by the CalSTRS Board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability of the STRP changed, including the discount rate, price inflation, wage growth, mortality assumptions and the mortality tables used in the actuarial valuation of the net pension liability. The changes to the assumptions as a result of the experience study follow:

<u>Assumptions:</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Investment Rate of Return	7.10%	7.60%
Consumer Price Inflation	2.75%	3.00%
Wage Growth	3.50%	3.75%

Plan Fiduciary Net Position

Detailed information about the STRP’s plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Law.

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 5 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 5 years of

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

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, 2018, are summarized as follows:

<u>Provisions and Benefits</u>	<u>Schools Pool Plan (CalPERS)</u>	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined 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, 2018 are as presented above and the total District contributions were \$5,982,930.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$73,551,602. The net pension liability was measured as of June 30, 2017. 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, 2017, the District's proportion was 0.3081%.

For the year ended June 30, 2018, the District recognized pension expense of \$11,798,302. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 14: EMPLOYEE RETIREMENT PLANS

Pension Deferred Outflows and Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,982,930	\$ -
Differences between expected and actual experience	2,635,051	-
Changes of assumptions	10,743,368	865,979
Changes in proportion	193,599	2,074,935
Net differences between projected and actual earnings on pension plan investments	2,544,382	-
Total	\$ 22,099,330	\$ 2,940,914

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARS�) of the plan participants. The EARS� for the CalPERS Schools Pool Plan for the June 30, 2017 measurement date is 4.0 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 3.0 years.

The remaining amount will be recognized in pension expense as follows:

Year Ending June 30,	Amortization
2019	\$ 3,516,766
2020	6,401,006
2021	4,651,017
2022	(1,393,303)
Total	\$ 13,175,486

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service

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 20 years of mortality improvements using Scale BB 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 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target 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%	5.38%
Fixed income	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and forestland	3%	5.39%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Schools Pool Plan net of investment expenses and without reduction

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 14: EMPLOYEE RETIREMENT PLANS

for administrative expenses. 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 Schools Pool Plan fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 108,217,976
Current discount rate (7.15%)	73,551,602
1% increase (8.15%)	44,792,941

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, the financial reporting discount rate for the Schools Pool Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represents the unamortized portion of this assumption change.

Plan Fiduciary Net Position

Detailed information about CalPERS Schools Pool Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE 15: ALTERNATIVE RETIREMENT PLANS:

Self-Insured Schools of California

Plan Description

The District is a participant of the Self-Insured Schools of California (SISC) pool offering a defined benefit plan to the eligible part-time, temporary, and seasonal employees as an alternative to Social Security coverage. An independent actuarial study is completed each year to determine the required funding rate. To be in compliance with the newly effective California Public Employees' Pension Reform Act (PEPRA), an employee hired after January 1, 2013 is required to

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 15: ALTERNATIVE RETIREMENT PLANS:

pay 50% of the normal cost rate. The District continues to make 100% contribution for those employees who are already participant of the SISC plan.

Plan Funding

Based on the annual actuarial valuation, the District contribution rates for the calendar year 2016 are 1.6% for the new entrants into the plan and 3.7% for the grandfathered-in plan participants. The total cost for the District for the year ended June 30, 2018 was \$62,414 and covered payroll was \$2,589,193. The District's proportionate share of the net pension liability for the SISC plan was not material and therefore is not recorded in these financial statements.

NOTE 16: PART-TIME EMPLOYEES' RETIREMENT PLAN

The District sponsored a Part-Time Employees' Retirement Plan (PTERP) from January 1, 1992 through June 30, 2000. The plan was a single-employer defined-benefit pension plan and the assets related to the plan are not segregated in an irrevocable trust, but are recorded by the District in the Pension Trust Fund with assets maintained in the county treasury. The plan was formally terminated on April 27, 2010. However, the plan had been inactive since 2000.

Management of the District has determined that there is not sufficient plan data available to allow for the implementation of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Accounting principles generally accepted in the United States of America require that employers recognize a liability for the total pension liability and other related disclosures for each pension plan. Because there is not sufficient plan data available, the total pension liability could not be calculated and District management elected to omit the Pension Trust Fund and the related disclosures from the financial statements. The District is currently in the process of determining the appropriate steps needed to distribute the remaining assets of the plan.

NOTE 17: SELF INSURANCE FUND

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established a Self-Insurance Fund to account for and finance its uninsured risk of loss and certain other employee benefits.

The following provides a brief description of each coverage provided through the Self-Insurance Fund:

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 17: SELF INSURANCE FUND

Insurance

Premiums for COBRA and retiree health plans were paid through the Self-Insurance Fund. The District's liability is limited by the premiums paid.

Workers' Compensation

Under this program, the Self-Insurance Fund provides coverage for up to a maximum of \$500,000 for each workers' compensation claim. The District purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Funding of the Self-Insurance Fund is based on estimates of the amounts needed to pay prior and current year claims. Workers' compensation claims are charged to the respective funds which generate the liability.

At June 30, 2018, the District accrued the claims liability in accordance with GASB, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of liability is estimated at \$18,960,101. Changes in the reported liability are shown below:

Reported Liability	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Worker's compensation	\$ 14,757,583	\$ 12,976,751	\$ 8,774,233	\$ 18,960,101

NOTE 18: JOINT POWERS AGREEMENTS

The District participates in two joint powers agreements (JPAs): CSAC Excess Insurance Authority (EIA), which arranges for and provides property and liability insurance for its members, and Self-Insured Schools of California (SISC), which arranges for and provides medical insurance for its members.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the District beyond the District's representation on the governing board.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing board. Member districts share surpluses and

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 18: JOINT POWERS AGREEMENTS

deficits proportionately to their participation in the JPA. Separate financial statements for the JPA may be obtained from the respective entity.

The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

Condensed financial information is as follows:

	EIA (Audited)	SISC (Audited)
<u>JPA Condensed Financial Information</u>	<u>June 30, 2017</u>	<u>September 31, 2017</u>
Total assets and deferred outflows	\$ 792,900,586	\$ 540,842,328
Total liabilities and deferred inflows	<u>652,379,324</u>	<u>173,862,442</u>
Net position	<u>\$ 140,521,262</u>	<u>\$ 366,979,886</u>
Total revenues	\$ 771,379,563	\$ 2,089,274,509
Total expenditures	\$ 768,530,918	\$ 1,984,882,354

NOTE 19: DEFICIT FUND BALANCE

The Self-Insurance Fund has ending net position for the fiscal year ended June 30, 2018 of \$(4,791,162).

NOTE 20: RESTATEMENT

The beginning net position of the basic financial statements has been restated by a reduction of \$606,461 in the Statement of Activities to recognize expenses related to a prior period. This has also resulted in a reduction to the beginning fund balance of the Building Fund of \$606,461 in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

NOTE 21: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The beginning net position of the basic financial statements has been restated by a reduction of \$19,643,684 in the Statement of Activities to recognize the beginning balance of the OPEB liability resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 22: COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters are not estimable or probable to require disclosure in the District's financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

County School Facilities Funds

The District is currently involved in several construction and modernization projects funded through the Office of Public School Construction. These projects are subject to future audits by the State, which may result in other adjustments to the fund.

Purchase Commitments

As of June 30, 2018, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$37 million. Projects will be funded through bond proceeds, capital facilities funds, and general funds.

NOTE 23: SUBSEQUENT EVENT

On August 23, 2018 the Board approved a lease purchase agreement for network equipment. The lease was entered into in September 2018 and is a five year lease term with payments of approximately \$250,000 due annually to be paid out of the General Fund, for a total of approximately \$1,250,000. Payments commenced in October 2018.

**NOTE 24: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2018, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

**NOTE 24: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

Statement No. 83 – *Certain Asset Retirement Obligations*

This statement was issued in November 2016 and addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. The statement is effective for the fiscal year 2018-19.

Statement No. 84 – *Fiduciary Activities*

This statement was issued in January 2017 and establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activities and (2) the beneficiary with whom a fiduciary relationship exists. The statement is effective for the fiscal year 2019-20.

Statement No. 87 – *Leases*

This statement was issued in June 2017 and addresses accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The statement is effective for the fiscal year 2020-21.

Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements*

The statement defines debt for purposes of disclosure in the notes to the financial statements. The statement requires additional disclosures related to debt obligations, including direct borrowings and direct placements. Amounts of unused lines of credit, assets pledged as collateral for debt and terms specified in debt agreements related to significant 1) events or default with finance-related consequences; 2) termination events with finance-related consequences and 3) subjective acceleration clauses are also required to be disclosed. The statement is effective for the fiscal year 2018-19.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

**NOTE 24: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the fiscal year 2019-20.

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2018**

	Budgetary Amounts		Actual Amounts
	Original	Final	GAAP Basis
Revenues			
Local control funding formula sources:			
State apportionments	\$ 78,659,189	\$ 79,670,395	\$ 74,153,985
Local sources	<u>76,968,107</u>	<u>75,949,906</u>	<u>81,501,225</u>
Total local control funding formula sources	155,627,296	155,620,301	155,655,210
Federal sources	17,582,442	27,770,089	16,668,637
Other state sources	27,799,697	34,595,306	38,933,057
Other local sources	<u>5,196,195</u>	<u>8,147,276</u>	<u>12,422,692</u>
Total Revenues	<u>206,205,630</u>	<u>226,132,972</u>	<u>223,679,596</u>
Expenditures			
Certificated salaries	79,766,309	85,323,148	81,643,406
Classified salaries	37,467,312	38,173,540	35,114,399
Employee benefits	52,835,140	60,325,245	58,932,497
Books and supplies	7,027,538	8,540,213	5,917,291
Services and other operating expenditures	35,127,307	37,541,045	34,427,940
Capital outlay	105,000	4,192,626	3,300,239
Other outgo	397,456	1,198,790	1,197,780
Direct support - indirect cost	<u>(750,390)</u>	<u>(711,081)</u>	<u>(710,071)</u>
Total Expenditures	<u>211,975,672</u>	<u>234,583,526</u>	<u>219,823,481</u>
Excess (deficiency) of revenues over expenditures	<u>(5,770,042)</u>	<u>(8,450,554)</u>	<u>3,856,115</u>
Other Financing Sources			
Interfund transfers in	<u>-</u>	<u>2,418,026</u>	<u>2,418,025</u>
Total Other Financing Sources	<u>-</u>	<u>2,418,026</u>	<u>2,418,025</u>
Net change in fund balances	<u>\$ (5,770,042)</u>	<u>\$ (6,032,528)</u>	6,274,140
Fund Balance - Beginning of Year			<u>17,293,356</u>
Fund Balance - End of Year			<u>\$ 23,567,496</u>

See the accompanying notes to the required supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS – RETIREE HEALTH PLAN
For the Fiscal Year Ended June 30, 2018**

Total OPEB Liability - Postemployment Medical Benefits Plan	2018
Service Cost	\$ 1,926,844
Interest	1,107,962
Benefit Payments	<u>(436,396)</u>
Net Change in Total OPEB Liability	2,598,410
Total OPEB Liability - beginning	<u>30,822,948</u>
Total OPEB Liability - ending	<u>\$ 33,421,358</u>
Covered-employee payroll	\$ 114,500,000
Total OPEB liability (asset) as a percentage of covered-employee payroll	29%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2018**

State Teachers' Retirement Plan	2015	2016	2017	2018
District's proportion of the net pension liability	0.1610%	0.1670%	0.1510%	0.1550%
District's proportionate share of the net pension liability	\$ 94,083,570	\$ 112,431,080	\$ 122,130,310	\$ 143,344,000
State's proportionate share of the net pension liability associated with the District	<u>56,812,292</u>	<u>59,463,488</u>	<u>69,536,843</u>	<u>84,801,790</u>
Total	<u>\$ 150,895,862</u>	<u>\$ 171,894,568</u>	<u>\$ 191,667,153</u>	<u>\$ 228,145,790</u>
District's covered payroll	\$ 72,940,000	\$ 75,800,000	\$ 78,100,000	\$ 80,600,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	129%	148%	156%	178%
Plan fiduciary net position as a percentage of the total pension liability	77%	74%	70%	69%
California Public Employees' Retirement Plan	2015	2016	2017	2018
District's proportion of the net pension liability	0.3239%	0.3294%	0.3181%	0.3081%
District's proportionate share of the net pension liability	<u>\$ 36,770,536</u>	<u>\$ 48,553,885</u>	<u>\$ 62,824,947</u>	<u>\$ 73,551,602</u>
District's covered payroll	\$ 34,620,000	\$ 36,500,000	\$ 37,300,000	\$ 39,300,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	106%	133%	168%	187%
Plan fiduciary net position as a percentage of the total pension liability	83%	79%	74%	72%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

See the accompanying notes to the required supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2018

State Teachers' Retirement Plan	2015	2016	2017	2018
Contractually required contribution	\$ 6,730,163	\$ 8,376,235	\$ 10,133,838	\$ 11,434,815
Contributions in relation to the contractually required contributions	<u>6,730,163</u>	<u>8,376,235</u>	<u>10,133,838</u>	<u>11,434,815</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 75,800,000	\$ 78,100,000	\$ 80,600,000	\$ 79,200,000
Contributions as a percentage of its covered payroll	8.88%	10.73%	12.58%	14.43%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not presented retroactively. Years will be added to this schedule as future data becomes available.

California Public Employees' Retirement Plan	2015	2016	2017	2018
Contractually required contribution	\$ 4,291,778	\$ 4,413,765	\$ 5,456,293	\$ 5,982,930
Contributions in relation to the contractually required contributions	<u>4,291,778</u>	<u>4,413,765</u>	<u>5,456,293</u>	<u>5,982,930</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 36,500,000	\$ 37,300,000	\$ 39,300,000	\$ 38,500,000
Contributions as a percentage of its covered payroll	11.77%	11.85%	13.89%	15.53%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Budgetary Comparison For The General Fund

A budgetary comparison is presented for the general fund. This schedule presents the budget as originally adopted, the revised budget as of the fiscal yearend, actual amounts at fiscal yearend, and any adjustments needed to present the amounts in accordance with generally accepted accounting principles (GAAP).

Schedule of Changes in the Total OPEB Liability and Related Ratios – Retiree Health Plan

The schedule is intended to show trends about the changes in the District's actuarially determined liability for postemployment benefits other than pensions.

Benefit Changes – None.

Changes of Assumptions – The discount rate was changed from 4.00% to 3.62%.

Schedules of District's Proportionate Share of the Net Pension Liability – CalSTRS (STRP) and CalPERS (Schools Pool Plan)

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedules of District Contributions – CalSTRS (STRP) and CalPERS (Schools Pool Plan)

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of expenditures over appropriations in the General Fund.

SUPPLEMENTARY INFORMATION

PASADENA UNIFIED SCHOOL DISTRICT

**HISTORY AND ORGANIZATION
For the Fiscal Year Ended June 30, 2018**

The Pasadena Unified School District became a reality when the Los Angeles County Board of Supervisors created the San Pasqual School District in September 1874. The name Pasadena School District was first used on January 1878, by a seceding group of residents living west of Fair Oaks Avenue and south of California Street extending to the north line of Los Angeles.

Currently, the Pasadena Unified School District consists of eighteen elementary schools, four middle schools, four high schools and two alternative schools. The District offers high-quality educational choices for all Kindergarten-12th grade students in Altadena, Pasadena and Sierra Madre. All of our schools offer rigorous academic programs and high-quality instruction aligned to the California content standards, as well as enrichment opportunities that prepare students for the college or career of their choice.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2018 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Lawrence Torres	President	November 2020
Mr. Patrick Cahalan	Vice President	November 2020
Mr. Scott Phelps	Clerk	November 2022
Dr. Elizabeth Pomeroy	Member	November 2022
Mr. Roy Boulghourjian	Member	November 2020
Ms. Kim Kenne	Member	November 2022
Ms. Michelle Richardson Bailey	Member	November 2022

DISTRICT ADMINISTRATORS

Dr. Brian McDonald	Superintendent/Secretary of the Board of Education
Ms. Eva R. Lueck	Fiscal Management Consultant
Dr. Steve Miller	Chief Human Resources Officer
Dr. Elizabeth Blanco	Chief of Specialized Instructional Services

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2018**

The requirements governing ADA, admission of pupils, types of schools, recording and reporting of pupil attendance, and similar matters are controlled by provisions of the Education Code and by regulations of the California Department of Education.

ADA statistics reported to the state for the fiscal year ended June 30, 2018 are as follows:

	Revised Second Period	Annual
Grades Transitional Kindergarten through third:		
Regular ADA	5,213	5,221
Extended year special education	10	11
Extended year special education-nonpublic, nonsectarian schools	4	4
Total grades transitional kindergarten through third ADA	5,227	5,236
Grades four through six:		
Regular ADA	3,867	3,859
Extended year special education	10	10
Special education - nonpublic, nonsectarian schools	21	21
Extended year special education - nonpublic, nonsectarian schools	1	1
Total grades four through six ADA	3,899	3,891
Grades seven and eight:		
Regular ADA	2,372	2,368
Extended year special education	5	5
Special education - nonpublic, nonsectarian schools	29	22
Extended year special education - nonpublic, nonsectarian schools	1	1
Total grades seven and eight ADA	2,407	2,396
Grades nine through twelve:		
Regular ADA	4,445	4,411
Extended year special education	19	19
Special education - nonpublic, nonsectarian schools	42	45
Extended year special education - nonpublic, nonsectarian schools	5	5
Total grades nine through twelve ADA	4,511	4,480
Total ADA	16,044	16,003

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2018**

Grade Level	Minute Requirement	Actual Minutes	Number of Days	
			Traditional Calendar	Status
Kindergarten	36,000	57,260	180	In Compliance
Grade 1	50,400	54,585	180	In Compliance
Grade 2	50,400	54,585	180	In Compliance
Grade 3	50,400	54,585	180	In Compliance
Grade 4	54,000	54,585	180	In Compliance
Grade 5	54,000	54,585	180	In Compliance
Grade 6	54,000	54,585	180	In Compliance
Grade 7	54,000	54,585	180	In Compliance
Grade 8	54,000	54,585	180	In Compliance
Grade 9	64,800	65,482	180	In Compliance
Grade 10	64,800	65,482	180	In Compliance
Grade 11	64,800	65,482	180	In Compliance
Grade 12	64,800	65,482	180	In Compliance

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018**

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Agriculture			
Farm to School Planning Grant	10.575	(1)	\$ 45,547
Subtotal: Direct Programs			<u>45,547</u>
Pass-Through Program From California Department of Education:			
Child Nutrition Cluster:			
Child Nutrition Program-Especially Needy Breakfast	10.553	13526	1,244,751
Child Nutrition Program-Lunch	10.555	13396	3,919,313
Child Nutrition Program-Commodities	10.555	13396	348,333
Child Nutrition Program-Meal Supplements	10.555	13396	8,366
Total: Child Nutrition Cluster			<u>5,520,763</u>
Child and Adult Care Food Program	10.558	13393	1,331,687
Total: United States Department of Agriculture			<u>6,897,997</u>
United States Department of Defense			
Reserve Officer Training Corp (ROTC)	12.000	(1)	69,104
Total: United States Department of Defense			<u>69,104</u>
United States Department of Education			
PUSD Positive School Climate	84.184G	(1)	358,014
Subtotal: Direct Programs			<u>358,014</u>
Pass-Through Program From California Department of Education:			
Special Education Cluster:			
Grants to States (IDEA, Part B)	84.027	13379	3,847,574
Grants to States (IDEA, Part B) - Private Schools	84.027	10115	89,479
Federal Preschool Grant	84.173	13430	251,897
Preschool Local Entitlement	84.027A	13682	734,695
Preschool Staff Development	84.173A	13431	1,211
Alternate Dispute Resolution	84.173A	13007	25,554
Mental Health Services, Part B	84.027A	15197	193,181
Total: Special Education Cluster			<u>5,143,591</u>
Every Student Succeeds Act:			
Title III - English Language Acquisition Grants			
Title III - Immigrant Education Program	84.365	15146	12,017
Title III - Limited English Proficiency	84.365	14346	170,959
Subtotal: Title III - English Language Acquisition Grants			<u>182,976</u>
Title I, Part A - Low Income and Neglected	84.010	14329	5,501,416
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.330B	14831	46,098
Title II, Part A - Improving Teacher Quality	84.367	14341	1,055,600
Title IV, Part B, 21st Century Community Learning Centers -			
Elementary & Middle School	84.287	14349	874,888
Title IX, McKinney-Vento Homeless Assistance Grants	84.196	14332	70,109

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018**

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Adult Education Basic Grants to States:			
Adult Basic Education & ELA	84.002A	14508	16,971
Adult Education: Adult Secondary Education, Section 231	84.002	13978	16,021
English Literacy and Civics Education	84.002A	14109	<u>37,173</u>
Total: Adult Education Basic Grants to States			70,165
Career and Technical Education - Secondary	84.048	14894	168,104
Magnet Schools Assistance Program	84.165A	(1)	1,760,483
Early Intervention Grants	84.181	23761	<u>84,746</u>
Subtotal: Pass-Through Programs			<u>14,958,176</u>
Total: United States Department of Education			<u>15,316,190</u>
 United States Department of Health and Human Services			
PUSD Positive Project Aware	93.243	(1)	<u>37,202</u>
Subtotal: Direct Programs			<u>37,202</u>
 Pass-Through Program From California Department of Education:			
Child Care Development Fund Cluster			
Child Care and Development Block Grant	93.575	15136	<u>141,107</u>
Total: Child Care Development Fund Cluster			141,107
Medicaid Cluster			
Medi-Cal	93.778	10013	<u>491,311</u>
Total: Medicaid Cluster			<u>491,311</u>
Total: United States Department of Health and Human Services			<u>669,620</u>
 United States Department of Housing and Urban Development			
Pass-Through Program From City of Pasadena			
Community Development Block Grant - Young and Healthy	14.218	(1)	<u>97,567</u>
Total: United States Department of Housing and Urban Development			<u>97,567</u>
 Total Federal Programs			 <u><u>\$ 23,050,478</u></u>
 Reconciliation to Federal Revenue			
Total Federal Program Expenditures			\$ 23,050,478
Revenues in excess of expenditures related to Federal Entitlements:			
MAA Reimbursement	93.778	10060	713,429
Expenditures in excess of revenues related to Federal Entitlements:			
AP Test Federal Reimbursement	84.330B	14831	(31,548)
Build America Bonds			<u>1,936,859</u>
Total Federal Program Revenue			<u><u>\$ 25,669,218</u></u>

(1) Pass-Through Entity Identifying Number not readily available or not applicable

The District is the recipient of a federal program that does not result in cash receipts or disbursements. The District was granted \$348,333 of commodities under the National School Lunch Program (CFDA 10.555).

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2018**

<u>Charter School</u>	<u>Included in District Audit Report</u>
Aveson Global Leadership Academy	No
Aveson School of Leaders	No
Pasadena Rosebud Academy	No
Learning Works	No
Pasadena Rosebud Academy Middle	No
Odyssey Charter School - South	No

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE ANNUAL FINANCIAL AND BUDGET REPORT
WITH THE AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

	General Fund	Self-Insurance Fund
June 30, 2018 Annual Financial and Budget Report Fund Balance	\$ 25,061,381	\$ (913,644)
Reconciling items:		
Accounts payable	(1,493,885)	
Cash in revolving fund		325,000
Estimated liability for open claims incurred but not recorded		(4,202,518)
June 30, 2018 Audited Financial Statement Fund Balance	\$ 23,567,496	\$ (4,791,162)

NOTE: The financial data for the 2016 Refunding Bond, Series B (2019 Crossover) held with the refunding escrow agent, is presented within the Debt Service fund of these financial statements. The activity is not reported in the Annual Financial and Budget Report. A reconciliation is as follows:

		Debt Service Fund
June 30, 2018 Annual Financial and Budget Report Fund Balance	\$	-
Reconciling item:		
Investments with escrow agent		87,116,300
June 30, 2018 Audited Financial Statement Fund Balance	\$	87,116,300

See the accompanying notes to the supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has not met or exceeded its target funding and has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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.

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District did not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Financial Trends and Analysis

The *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule be prepared showing financial trends of the general fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

Schedule of Charter Schools

The *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule list all charter schools chartered by the District and inform the users whether or not the charter school information is included in the District's financial statements.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the annual Financial and Budget Report form to the audited financial statements.

OPTIONAL SUPPLEMENTARY INFORMATION

PASADENA UNIFIED SCHOOL DISTRICT

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2018

	Adult Education	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County Schools Facilities Fund	Special Reserve- Capital Outlay Fund	Total Non- Major Governmental Funds
<u>Assets</u>							
Cash in county treasury	\$ 10,817	\$ 1,331,838	\$ 655,939	\$ 754,966	\$ 19,986	\$ 1,349,679	\$ 4,123,225
Cash in bank			749,969				749,969
Accounts receivable	70,165	351,269	1,133,432	52,049	80	7,460	1,614,455
Inventories			81,469				81,469
Total Assets	<u>\$ 80,982</u>	<u>\$ 1,683,107</u>	<u>\$ 2,620,809</u>	<u>\$ 807,015</u>	<u>\$ 20,066</u>	<u>\$ 1,357,139</u>	<u>\$ 6,569,118</u>
<u>Liabilities and Fund Balances</u>							
Liabilities							
Accounts payable	\$ 10,783	\$ 253,282	\$ 339,790	\$ 81,620			\$ 685,475
Unearned revenue		29,295					29,295
Due to other funds	70,199						70,199
Total Liabilities	<u>80,982</u>	<u>282,577</u>	<u>339,790</u>	<u>81,620</u>	<u>-</u>	<u>-</u>	<u>784,969</u>
Fund Balances							
Nonspendable			81,469				81,469
Restricted		1,400,530	2,199,550	725,395	20,066	1,340,925	5,686,466
Assigned						16,214	16,214
Total Fund Balances	<u>-</u>	<u>1,400,530</u>	<u>2,281,019</u>	<u>725,395</u>	<u>20,066</u>	<u>1,357,139</u>	<u>5,784,149</u>
Total Liabilities and Fund Balances	<u>\$ 80,982</u>	<u>\$ 1,683,107</u>	<u>\$ 2,620,809</u>	<u>\$ 807,015</u>	<u>\$ 20,066</u>	<u>\$ 1,357,139</u>	<u>\$ 6,569,118</u>

PASADENA UNIFIED SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County Schools Facilities Fund	Special Reserve- Capital Outlay Fund	Total Non- Major Governmental Funds
Revenues							
Federal sources	\$ 70,165	\$ 141,107	\$ 6,852,450	\$	\$	\$	\$ 7,063,722
Other state sources	2,747	3,847,753	421,087			2,423,546	6,695,133
Other local sources		1,315,911	541,600	888,844	309	31,599	2,778,263
Total Revenues	<u>72,912</u>	<u>5,304,771</u>	<u>7,815,137</u>	<u>888,844</u>	<u>309</u>	<u>2,455,145</u>	<u>16,537,118</u>
Expenditures							
Instruction	41,206	3,401,098					3,442,304
Instruction - related services	31,706	973,228					1,004,934
Pupil services		162,019	8,288,045				8,450,064
General administration		308,776	401,295				710,071
Plant services		106,402		3,867,044			3,973,446
Debt service						218,317	218,317
Total Expenditures	<u>72,912</u>	<u>4,951,523</u>	<u>8,689,340</u>	<u>3,867,044</u>	<u>-</u>	<u>218,317</u>	<u>17,799,136</u>
Excess (deficiency) of revenues over expenditures	-	353,248	(874,203)	(2,978,200)	309	2,236,828	(1,262,018)
Other Financing Uses							
Interfund transfers out						(2,418,025)	(2,418,025)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,418,025)</u>	<u>(2,418,025)</u>
Net change in fund balance	-	353,248	(874,203)	(2,978,200)	309	(181,197)	(3,680,043)
Fund Balances at Beginning of Year	<u></u>	<u>1,047,282</u>	<u>3,155,222</u>	<u>3,703,595</u>	<u>19,757</u>	<u>1,538,336</u>	<u>9,464,192</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 1,400,530</u>	<u>\$ 2,281,019</u>	<u>\$ 725,395</u>	<u>\$ 20,066</u>	<u>\$ 1,357,139</u>	<u>\$ 5,784,149</u>

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO THE OPTIONAL SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018**

NOTE 1: PURPOSE OF SCHEDULES

Combining Fund Financial Statements

Combining fund balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to the financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS



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**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**

Board of Education
Pasadena Unified School District
Pasadena, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 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 District's basic financial statements, and have issued our report thereon dated December 14, 2018. Our report includes a qualified opinion on the aggregate remaining fund information due to the omission of the Pension Trust Fund financial and disclosure information.

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 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.

**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***

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, which we consider to be material weaknesses.

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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



CliftonLarsonAllen LLP
Glendora, California
December 14, 2018



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Board of Education
Pasadena Unified School District
Pasadena, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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, 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
December 14, 2018

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Pasadena Unified School District
Pasadena, California

We have audited the Pasadena Unified School District's (the District) compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2018. The District's state compliance requirements are identified in the table provided.

Management's Responsibility

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

Auditors' Responsibility

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

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

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

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Charter Schools:	
Attendance	No ¹
Mode of Instruction	No ¹
Nonclassroom Based Instruction/Independent Study	No ¹
Determination of Funding for Nonclassroom Based Instruction	No ¹
Annual Instructional Minutes – Classroom Based	No ¹
Charter School Facility Grant Program	No ¹

¹The testing for Charter Schools was done by each school's respective auditor.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Opinion on State Compliance

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP
Glendora, California
December 14, 2018

FINDINGS AND QUESTIONED COSTS

PASADENA UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2018

SECTION I – SUMMARY OF AUDITOR RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Qualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X 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 2 CFR 200.516(a)?

Yes X No

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.165A	Magnet School Assistance Program
84.367	Title II, Part A, Improving Teacher Quality
10.553 and 10.555	Child Nutrition Cluster
10.558	Child and Adult Care Food Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee? Yes X No

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2018

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINANCIAL STATEMENT FINDINGS

2018-001 WORKERS' COMPENSATION FUND 60000

Criteria: Self-Insurance Funds should be self-supporting.

Condition: The workers' compensation subfund (67.1) ended the fiscal year with a net loss of \$3,385,545 and a deficit net position of \$9,944,031.

Context: Not applicable

Effect: The workers' compensation subfund is underfunded and rising costs and increased claim activity could have an impact on the General Fund if not monitored.

Cause: The District has not consistently charged enough to cover the costs of the Workers' Compensation Fund. The fund is significantly under-funded. The fund ended the 2017-18 fiscal year with a negative net position of \$9,944,031 and has been in a deficit position since the 2014-15 fiscal year when the deficit net position was \$5,792,484. Additionally, the most recent actuarial report for the program indicates that the loss development has been considerably worse than expected over the past few years. This resulted in increased levels of loss reserves needed. The District has maintained a positive cash position by increasing the funding rate attributable to current costs, and has been able to pay current expenses, but is not accounting for the estimate for unpaid claims. Since the District is self-funding for this obligation, governmental accounting standards require that self-insurance funds be self-supporting and that the fund be accounted for using the full accrual basis of accounting, which is how these financial statements are prepared.

PASADENA UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS

June 30, 2018

2018-001 WORKERS' COMPENSATION FUND 60000

Recommendation: It is extremely important that the District closely examine its budget and the impact that workers' compensation costs may have on the future solvency of the District. The workers' compensation rate charged should account for not only current costs but for unpaid claims as well. The District should also develop and implement formal policies and procedures relating to internal tracking of workers' compensation claims.

District Response: The District will take immediate steps to transfer \$4 million into the Workers' Compensation Fund to be set aside to address the unfunded liability. Additionally, the District will address the unfunded liability in the development of the rates for 2019-20 and future years; this will be a multi-year approach. The District has also changed its third party administrator and is implementing improvements to the workers' compensation program. It is expected that these changes will have a positive impact.

2018-002 CLOSING PROCEDURES 30000

Finding: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. We noted the following errors:

1. Estimates should be based on the most current information available to management. Fiscal Services has established closing procedures to contact vendors when invoices have not yet been received to ensure that expenses are properly accrued. One vendor was unresponsive and follow-up was not made to obtain information; this resulted in an adjusting entry to correct the error. The General Fund and Building Fund incurred expenses related to repairs to be paid from the Prop 39 California Clean Energy Grant and Measure TT funds prior to June 30, 2018. The amount related to the 2017-18 year appears to be probable and estimable at the time of closing; however, it was not accrued as the District's management was awaiting one signature from the inspector. This resulted in an adjustment of \$1,493,885 to the General Fund and a passed adjustment of \$253,661 to the Building Fund.
2. Additionally, the District changed Third-Party Administrators (TPA) for the Self-Insurance Fund during the year resulting in a closure of one revolving cash account. The District did not record the revolving cash account retained with the new TPA. This resulted in an adjustment of \$325,000.

Recommendation: Established procedures related to the closing process should be followed. Cross training employees and/or documenting responsibilities of specific functions and key responsibilities should be done to ensure that tasks are followed even in the absence of key personnel. Review by individuals not immediately involved in the closing process should be done to identify errors or omissions.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2018

2018-002 CLOSING PROCEDURES 30000

District Response: This was an isolated case and the Division of Business Services will work with applicable Division of Facilities and Maintenance staff to implement a review and monitoring protocol that will ensure non-repeat occurrence. Additionally, we will include the Self-Insurance Fund revolving cash account in the Second Interim.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2018

FEDERAL AWARDS FINDINGS

There were no findings and questioned costs related to federal awards for the year ended June 30, 2018.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2018

STATE AWARD FINDINGS

There were no findings and questioned costs related to state awards for the year ended June 30, 2018.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2018

**2017-001 HUMAN RESOURCES SALARY/PAY RATE DOCUMENTATION 50000
30000**

Federal Program: Child Nutrition Cluster, Child and Adult Care Food Program and Title II

CFDA Number: 10.553, 10.555, 10.558, and 84.367

Federal Award Number & Year: Information not readily available

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education

Name of Pass-Through Agency: California Department of Education

Criteria: Allowable Costs/Costs Principals (B) indicates that expenditures of federal funds must be necessary, reasonable and allocable (2CFR 200.403) and adequately documented (2CFR 200.403).

Condition: Human Resources' personnel files did not contain accurate supporting documentation for approved pay rates. Alternative procedures were required in order to verify the authorized pay rates.

Context: For the collective programs noted above, a total of 32 payroll expenditures were selected. From this sample, 28 were found to not have current documentation in their personnel files to adequately support the employees' authorized salary or pay rate.

Effect: Authorized pay rates are not adequately documented.

Cause: Employee files were outdated and did not contain recent personnel assignment and/or salary rate/placement authorization documentation.

Total Program Expenditures:

Child Nutrition Cluster	\$ 5,846,632
Child and Adult Care Food Program	1,468,061
Title II	1,242,004

Questioned Costs and Units: None reported, alternative procedures performed to verify salaries charged are necessary, reasonable and allocable.

Recommendation: Implement procedures to update and maintain employee records that are adequate and complete to support their personnel assigned and salary rate/placement authorization. Perform periodic review of files to ensure they reflect the appropriate and approved pay rate information.

Corrective Action Plan: The Division of Human Resources is committed to continuous improvement and accountability. As such the division will immediately implement a protocol as a means of monitoring and updating personnel files with current salary rate/placement.

Current Year Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2018

2017-002 TEACHER MISASSIGNMENTS 71000

Criteria: Per Education Code Section 46300, a teacher providing instruction to pupils must have a valid certification document on file.

Condition: During our testing of teachers selected from attendance compliance work, we noted that one substitute teacher was not properly authorized for the duration of interaction with pupils.

Context: The sample was selected based on the requirements as specified in the *2016-17 Guide for annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The condition appears to be isolated on the Effect and Cause as described below.

Effect: One teacher was missassigned to a class; the teacher was not reassigned prior to exceeding the 30-day limit their credential stated.

Cause: Human Resources assignment monitoring was not performed.

Questioned Costs and Units: No penalty assessed.

Recommendation: Perform periodic reviews over teachers' credentials to ensure that valid credentials are in place. Maintain a listing of expiring credentials to ensure that they are renewed timely to mitigate a lapse in service by placed teacher.

District Response: The Division of Human Resources is committed to continuous improvement and accountability. As such a new protocol and process has been implemented effective spring 2017. This protocol includes a tracking/monitoring tool as well as an update and status review procedure.

Current Year Status: Implemented.



Pasadena Unified School District

CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2018

December 17, 2018

Department of Education

Pasadena Unified School District respectfully submits the following corrective action plan for the year ended June 30, 2018.

Audit period: July 1, 2017 to June 30, 2018

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2018-001 WORKERS' COMPENSATION FUND

Recommendation: It is extremely important that the District closely examine its budget and the impact that workers' compensation costs may have on the future solvency of the District. The workers' compensation rate charged should account for not only current costs but for unpaid claims as well. The District should also develop and implement formal policies and procedures relating to internal tracking of workers' compensation claims.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The District will take immediate steps to transfer \$4 million into the Workers Compensation Fund to be set aside to address the unfunded liability. Additionally, the District will address the unfunded liability in the development of the rates for 2019-20 and future years; this will be a multi-year approach. The District has also changed its third party administrator and is implementing improvements to the workers' compensation program. It is expected that these changes will have a positive impact.

Name(s) of the contact person(s) responsible for corrective action: Dr. Leslie Barnes, Chief Business Officer.

Planned completion date for corrective action plan: Second Interim Financial Report – February, 2018



Pasadena Unified School District

CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2018

2018-002 CLOSING PROCEDURES

Recommendation: Established procedures related to the closing process should be followed. Cross training employees and/or documenting responsibilities of specific functions and key responsibilities should be done to ensure that tasks are followed even in the absence of key personnel. Review by individuals not immediately involved in the closing process should be done to identify errors or omissions.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: This was an isolated case and the Division of Business Services will work with applicable Division of Facilities and Maintenance staff to implement a review and monitoring protocol that will ensure non-repeat occurrence. Additionally, we will include the Self-Insurance fund revolving cash account in the Second Interim.

Name(s) of the contact person(s) responsible for corrective action: Facilities: Nelson Cayabyab; Chief of Facilities and Business Services: Kingsley Udo; Business Services Director.

Planned completion date for corrective action plan: June 30, 2019.

If the Department of Education has questions regarding this plan, please call Dr. Leslie Barnes at (626)396-3600.