

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2009A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Interest on the Series 2009A-2 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$125,000,000

**PASADENA UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
2009 GENERAL OBLIGATION BONDS
(ELECTION OF 2008)**

consisting of:

\$40,320,000

SERIES 2009A-1 (TAX-EXEMPT)

\$84,680,000

**SERIES 2009A-2 (FEDERALLY
TAXABLE BUILD AMERICA BONDS)**

Dated: Date of Delivery

Due: August 1, as shown on inside cover.

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds shown in the caption above are issued by the County of Los Angeles (the "County") on behalf of the Pasadena Unified School District (the "District") (i) to finance specific construction and modernization projects approved by the voters, and (ii) to pay costs of issuance of the Bonds. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

Interest on the Bonds is payable on August 1, 2010, and thereafter on each February 1 and August 1 to maturity. Principal of the Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside cover of this Official Statement. Payments of principal of and interest on the Bonds will be made by the Paying Agent, initially the Treasurer and Tax Collector of the County of Los Angeles, to The Depository Trust Company, New York, New York ("DTC"), for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Payment of Principal and Interest" herein.

The Series 2009A-2 Bonds (Federally Taxable Build America Bonds) are issued as direct payment "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009, the interest on which is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS – Tax Matters relating to the Series 2009A-2 Bonds."

The Bonds will be issued in book-entry form only and will be issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "THE BONDS – Form and Registration" herein.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity. See "THE BONDS — Redemption" herein.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters are being passed upon for the Underwriter by Fulbright & Jaworski LLP, Los Angeles, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about September 17, 2009.

RBC CAPITAL MARKETS

\$125,000,000
PASADENA UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
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\$84,680,000
SERIES 2009A-2 (FEDERALLY
TAXABLE BUILD AMERICA BONDS)

MATURITY SCHEDULE*

\$40,320,000
SERIES 2009A-1 BONDS

Maturity (August 1)	Principal Amount	Interest Rate	Price or Yield**	Maturity (August 1)	Principal Amount	Interest Rate	Price or Yield**
2010	\$4,000,000	2.500%	0.54%	2017	\$2,235,000	5.000%	2.88%
2011	5,640,000	3.000	0.86	2018	2,530,000	5.000	3.10
2012	6,000,000	3.500	1.30	2019	2,840,000	5.000	3.31
2013	1,295,000	4.000	1.69	2020	3,175,000	5.000	3.45 ^(c)
2014	1,495,000	4.000	2.07	2021	3,525,000	5.000	3.58 ^(c)
2015	1,725,000	5.000	2.33	2022	3,900,000	5.000	3.70 ^(c)
2016	1,960,000	5.000	2.61				

\$84,680,000
SERIES 2009A-2 BONDS

Maturity (August 1)	Principal Amount	Interest Rate	Price or Yield**
2023	\$4,295,000	6.076%	100.0%
2024	4,690,000	6.176	100.0

\$30,450,000 6.993% Term Bond due August 1, 2029 Price** 100.0%
\$45,245,000 7.193% Term Bond due August 1, 2034 Price** 100.0%

* See APPENDIX G for CUSIP numbers.

** Prices and Yields certified by the Underwriter. The District takes no responsibility therefor.

^(c) Priced to call on August 1, 2019 at 100%.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption under Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following statement for inclusion in this Official Statement: "The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

COUNTY OF LOS ANGELES, CALIFORNIA
Board of Supervisors

District 1: Gloria Molina
District 2: Mark Ridley-Thomas
District 3: Zev Yaroslavsky
District 4: Don Knabe, *Chairman*
District 5: Michael Antonovich

Mark Saladino
Treasurer and Tax Collector

Wendy L. Watanabe
Auditor-Controller

PASADENA UNIFIED SCHOOL DISTRICT
Board of Education

Tom Selinske
President

Scott Phelps
Vice-President

Ramon Miramontes
Member

Renatta Cooper
Member

Bob Harrison
Member

Elizabeth Pomeroy
Member

Ed Honowitz
Member

District Administration

Edwin Diaz
Superintendent

John Pappalardo, Ed.D.
Chief Finance Officer

**Bond Counsel
and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent

U.S. Bank National Association
as agent of the
Treasurer and Tax Collector of
the County of Los Angeles
Los Angeles, California

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\$125,000,000
PASADENA UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
2009 GENERAL OBLIGATION BONDS
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consisting of:

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SERIES 2009A-2 (FEDERALLY
TAXABLE BUILD AMERICA BONDS)

INTRODUCTION

This Official Statement, which includes the cover page, inside cover and appendices hereto, is provided to furnish information in connection with the above-captioned bonds (the “Bonds”), as described more fully herein.

The Series 2009A-2 Bonds captioned above are issued as direct payment “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009, the interest on which is not excluded from gross income for purposes of federal income taxation. See “TAX MATTERS – Tax Matters Relating to the Series 2009A-2 Bonds.”

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be delivered by the Pasadena Unified School District (the “District”) upon delivery of the Bonds, the District has no obligation to update the information in this Official Statement. See “OTHER LEGAL MATTERS – Continuing Disclosure” herein.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the Underwriter or the owners of any of the Bonds.

Quotations from and summaries and explanations of the Bonds, the resolutions providing for the issuance of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of documents referred to herein and information concerning the Bonds are available from the District through the Office of the Assistant Superintendent-Chief Finance Officer, 351 S. Hudson Avenue, Room 106, Pasadena, CA 91109. The District may impose a charge for copying, mailing and handling.

The District

The District was formed in 1874 and unified in its present form in 1944. The District is a unified school district providing public education for students in kindergarten through grade 12. The District is located within the County of Los Angeles (the “County”), and encompasses a territory of about 76 square miles. The territory of the District includes the cities of Pasadena and Sierra Madre, as well as the communities of Altadena and unincorporated portions of the County. The City of Pasadena hosts the Tournament of Roses and the Rose Bowl each year.

The District operates 20 elementary schools, three middle schools, four comprehensive high schools, one continuation school and one drop-out recovery school. Enrollment in the District for grades K-12 in the 2008-09 school year was 19,755 students. In Fiscal Year 2009-10, the District has budgeted for approximately 1,929 full-time equivalent employees, which includes certificated (credentialed teaching) staff, classified (non-teaching) staff, and management personnel. The District also operates five charter schools with a 2008-09 estimated enrollment of 1,072 students. The District has budgeted general fund expenditures of approximately \$187 million in Fiscal Year 2009-10. Total assessed valuation of taxable property in the District in Fiscal Year 2009-10 is approximately \$28.4 billion. The District operates under the jurisdiction of the Los Angeles County Superintendent of Schools.

The District is governed by a seven-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. The District's day-to-day operations are managed by a board-appointed Superintendent of Schools. Edwin Diaz has served as Superintendent of the District since March, 2007. Prior to joining the District, Mr. Diaz served six years as superintendent of Gilroy Unified School District in Santa Clara County, California.

For additional information about the District's operations and finances, see APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION."

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Chapters 1 and 1.5 of Part 10 of the Education Code of the State and other applicable law, and pursuant to a resolution of the Board of Supervisors of the County of Los Angeles (the "County") adopted on August 18, 2009 (the "Resolution") as requested by a resolution adopted by the Board of Education of the District on July 21, 2009.

The Bonds were authorized to be issued at an election held on November 4, 2008, by more than 55% of the votes cast by eligible voters within the District. The measure (known locally as "Measure TT") authorized the District to issue bonds in an aggregate principal amount not to exceed \$350,000,000 to finance specific construction and modernization projects approved by the voters, summarized as follows: repair or replace deteriorating and outdated plumbing, heating, ventilation and fire alarm systems; replace aging portable classrooms; made disabled access improvements; implement energy and water saving projects; modernize or reconstruct kindergartens, cafeterias, multipurpose facilities and gyms. The Bonds are the first series of the authorized bonds to be issued.

As required by Measure TT, the District has established a Citizens' Oversight Committee to review District expenditures of bond proceeds and progress in completing the projects specified in the measure, and to make periodic reports to the public in order to ensure that bond funds are spent only for authorized purposes. The District makes no representations herein as to the specific application of the proceeds of the Bonds, the estimated completion date of any of the projects, or whether the authorized bonds will provide sufficient funds to complete all of the projects, or any particular project.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, in denominations of \$5,000 principal amount each or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds or any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX F: "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

The Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the inside cover page hereof, payable by check or draft on February 1 and August 1 of each year, commencing on August 1, 2010 (each, an "Interest Payment Date"), until payment of the principal amount thereof, computed using a year of 360 days consisting of twelve 30-day months. The Bonds authenticated and registered on any date prior to the close of business on July 15, 2010, will bear interest from the date of their delivery. The Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (each, a

“Record Date”) and the close of business on that Interest Payment Date will bear interest from that Interest Payment Date. Any other Bond will bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The principal of the Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of the Paying Agent with respect to the Bonds (the “Paying Agent”), initially the Treasurer and Tax Collector of the County (together with all authorized deputies thereof, the “County Treasurer”), at the maturity thereof or upon redemption prior to maturity. Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) will be made to the person appearing on the registration books of the Paying Agent with respect to the Bonds as the registered owner thereof (the “Owner”) as of the preceding Record Date, such interest to be paid by check or draft mailed to such Owner at such Owner’s address as it appears on such registration books or at such other address as the Owner may have filed with the Paying Agent for that purpose on or before the Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of Bonds may request in writing to the Paying Agent that such Owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date.

The interest, principal and premium, if any, on the Bonds will be payable in lawful money of the United States of America from moneys on deposit in the Interest and Sinking Fund of the District within the County treasury (the “Interest and Sinking Fund”), consisting of *ad valorem* taxes collected and held by the County Treasurer, together with any net premium and accrued interest received upon issuance of the Bonds. So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds will be made and given, respectively, to such securities depository or its nominee and not to beneficial owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer. See APPENDIX F: “BOOK-ENTRY ONLY SYSTEM.”

Redemption

Optional Redemption. The Bonds maturing on and after August 1, 2020 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part by lot on any date on or after August 1, 2019, at a redemption price equal to the principal amount of the Bonds called for redemption, plus accrued interest thereon to the date called for redemption, without premium.

Mandatory Sinking Fund Redemption. The \$30,450,000 Term Bond maturing on August 1, 2029, is also subject to mandatory sinking fund redemption on each Mandatory Sinking Fund Redemption Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to Be Redeemed
2025	\$5,100,000
2026	5,570,000
2027	6,060,000
2028	6,585,000
2029†	7,135,000
† Maturity	

The principal amount to be redeemed in each year shown above will be reduced pro rata, in integral multiples of \$5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

The \$45,245,000 Term Bond maturing on August 1, 2034, is also subject to mandatory sinking fund redemption on each Mandatory Sinking Fund Redemption Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to Be Redeemed
2030	\$7,720,000
2031	8,345,000
2032	9,010,000
2033	9,710,000
2034†	10,460,000

† Maturity

The principal amount to be redeemed in each year shown above will be reduced pro rata, in integral multiples of \$5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

Extraordinary Optional Redemption of the Series 2009A-2 Bonds. Upon the occurrence of an Extraordinary Event (as defined below) the Series 2009A-2 Bonds shall be subject to extraordinary optional redemption, in whole or in part, at the option of the District, on any date at a redemption price equal to the greater of (i) the principal amount of the Series 2009A-2 Bonds to be redeemed, plus interest accrued to the redemption date, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009A-2 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2009A-2 Bonds are to be redeemed, discounted to the date on which such Series 2009A-2 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 1.00% plus interest accrued to the redemption date. Such redemption may be made from the moneys deposited therefor in the Interest and Sinking Fund.

“Extraordinary Event” means any event whereby Section 54AA or Section 6431 of the Internal Revenue Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to “Qualified Build America Bonds”) is modified, amended or interpreted in a manner pursuant to which the subsidy payments (the “Subsidy Payments”) are reduced or eliminated.

“Treasury Rate” means, as of any redemption date of any Series 2009A-2 Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to such redemption date (excluding inflation-indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to the maturity date of such Series 2009A-2 Bonds; provided, however, that if the period from such redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

The selection of maturities and the amounts of the Series 2009A-2 Bonds of each maturity to be redeemed shall be on a pro rata basis, as determined by the Paying Agent.

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, such Bonds will be redeemed in inverse order of maturities, or as otherwise directed by the District, and if less than all of the Bonds of any given maturity are called for redemption, the portions of such Bonds of a given maturity to be redeemed will be determined by lot. For purposes of such determination, each Bond will be deemed to consist of individual Bonds in denominations of \$5,000 principal amount each which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Bond is required to be given by the Paying Agent, upon written request of the District, not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective Owners of any Bond designated for redemption at their addresses appearing on the bond

registration books, or as otherwise required by DTC, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate. See APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption is required to contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds to be redeemed; (vi) if less than all of the then-outstanding Bonds are to be called for redemption, the distinctive serial numbers of the Bonds of each maturity to be redeemed; (vii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Owners at the principal office of the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. A certificate of the Paying Agent or the District that notice of call and redemption has been given to Owners and to the appropriate securities depositories and information services as provided in the Resolution will be conclusive against all parties. The actual receipt by the Owner of any Bond or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as provided for in the Resolution, and when the redemption price of the Bonds called for redemption is set aside for the purpose as described in the Resolution, the Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the Interest and Sinking Fund of the District or the escrow fund established for such purpose. All Bonds redeemed will be cancelled forthwith by the Paying Agent and will not be reissued.

Rescission of Notice of Redemption. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Defeasance of Bonds

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient in the opinion of a certified public accountant licensed to practice in the State to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If at any time the District pays or causes to be paid or there is otherwise paid to the Owners of any or all outstanding Bonds all of the principal, interest and premium, if any, represented by such Bonds when due, or as described above, or as otherwise provided by law, then such Owners will cease to be entitled to the obligation of the County to levy and collect taxes to pay the Bonds and such obligation and all agreements and covenants of the District to such Owners under the Resolution will thereupon be satisfied and discharged and will terminate, except only that the District will remain liable for payment of all principal, interest and premium, if any, represented by

such Bonds, but only out of moneys on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment, provided, that the unclaimed moneys provisions described below will apply in all events.

Unclaimed Moneys

Any money held in any fund created pursuant to the Resolution, or by the Paying Agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Bonds and remaining unclaimed for one year after the principal of all of the Bonds has become due and payable (whether by maturity or upon prior redemption) will be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys will be transferred to the general fund of the District as provided and permitted by law.

Application and Investment of Bond Proceeds

The net proceeds from the sale of the Bonds, exclusive of any premium and accrued interest received, will be deposited in the County treasury to the credit of the Building Fund of the District. Any premium or accrued interest received will be deposited in the Interest and Sinking Fund of the District in the County treasury. Earnings on the investment of moneys in either fund will be retained in that fund and used only for the purposes to which that fund may lawfully be applied. Moneys in the Building Fund may only be applied for the purposes for which the Bonds were approved. Moneys in the Interest and Sinking Fund may only be applied to make payments of interest, principal, and premium, if any, on the Bonds and other bonds of the District.

Amounts deposited into the Interest and Sinking Fund, as well as proceeds of taxes and other moneys held therein for payment of the Bonds, will be invested at the County Treasurer's discretion pursuant to law and the investment policy of the County. Amounts deposited into the Building Fund may be invested as follows: (i) at the written request of the District, all or any portion of the Building Fund of the District may be invested on behalf of the District in the Local Agency Investment Fund in the treasury of the State of California and (2) at the written request of the District, all or a portion of the Building fund of the District may be invested on behalf of the District, in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating the Bonds necessary in order to maintain the then-current rating on the Bonds. The investment policy of the County can be downloaded from the County's website at http://ttc.lacounty.gov/Proptax/investor_info.asp. For a description of the current composition of the investment pool, see APPENDIX E: "COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR INVESTMENT POLICY – THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS."

ESTIMATED SOURCES AND USES OF FUNDS

The net proceeds of the Bonds are expected to be applied as follows:

Sources of Funds

Principal Amount of Bonds	\$125,000,000.00
Net Original Issue Premium	<u>3,792,163.05</u>
Total Sources	\$128,792,163.05

Uses of Funds

Deposit to Building Fund	\$125,000,000.00
Deposit to Interest and Sinking Fund	2,811,241.83
Underwriter's Discount	621,354.22
Costs of Issuance ⁽¹⁾	<u>359,567.00</u>
Total Uses	\$128,792,163.05

⁽¹⁾ Includes bond counsel fees, disclosure counsel fees, rating agency fees, paying agent fees, printing fees and other miscellaneous expenses.

SCHEDULED ANNUAL DEBT SERVICE

The scheduled debt service for the Bonds will be as follows:

Pasadena Unified School District General Obligation Bonds Debt Service (Semi-Annual) Series 2009A-1 Bonds and Series 2009A-2 Bonds

Period Ending	Principal	Interest	Total Debt Service	Total Annual Debt Service
8/1/2010	\$4,000,000.00	\$6,646,123.96	\$10,646,123.96	\$10,646,123.96
2/1/2011	--	3,759,879.98	3,759,879.98	--
8/1/2011	5,640,000.00	3,759,879.98	9,399,879.98	13,159,759.96
2/1/2012	--	3,675,279.98	3,675,279.98	--
8/1/2012	6,000,000.00	3,675,279.98	9,675,279.98	13,350,559.96
2/1/2013	--	3,570,279.98	3,570,279.98	--
8/1/2013	1,295,000.00	3,570,279.98	4,865,279.98	8,435,559.96
2/1/2014	--	3,544,379.98	3,544,379.98	--
8/1/2014	1,495,000.00	3,544,379.98	5,039,379.98	8,583,759.96
2/1/2015	--	3,514,479.98	3,514,479.98	--
8/1/2015	1,725,000.00	3,514,479.98	5,239,479.98	8,753,959.96
2/1/2016	--	3,471,354.98	3,471,354.98	--
8/1/2016	1,960,000.00	3,471,354.98	5,431,354.98	8,902,709.96
2/1/2017	--	3,422,354.98	3,422,354.98	--
8/1/2017	2,235,000.00	3,422,354.98	5,657,354.98	9,079,709.96
2/1/2018	--	3,366,479.98	3,366,479.98	--
8/1/2018	2,530,000.00	3,366,479.98	5,896,479.98	9,262,959.96
2/1/2019	--	3,303,229.98	3,303,229.98	--
8/1/2019	2,840,000.00	3,303,229.98	6,143,229.98	9,446,459.96
2/1/2020	--	3,232,229.98	3,232,229.98	--
8/1/2020	3,175,000.00	3,232,229.98	6,407,229.98	9,639,459.96
2/1/2021	--	3,152,854.98	3,152,854.98	--
8/1/2021	3,525,000.00	3,152,854.98	6,677,854.98	9,830,709.96
2/1/2022	--	3,064,729.98	3,064,729.98	--
8/1/2022	3,900,000.00	3,064,729.98	6,964,729.98	10,029,459.96
2/1/2023	--	2,967,229.98	2,967,229.98	--
8/1/2023	4,295,000.00	2,967,229.98	7,262,229.98	10,229,459.96
2/1/2024	--	2,836,747.88	2,836,747.88	--
8/1/2024	4,690,000.00	2,836,747.88	7,526,747.88	10,363,495.76
2/1/2025	--	2,691,920.68	2,691,920.68	--
8/1/2025	5,100,000.00	2,691,920.68	7,791,920.68	10,483,841.36
2/1/2026	--	2,513,599.18	2,513,599.18	--
8/1/2026	5,570,000.00	2,513,599.18	8,083,599.18	10,597,198.36
2/1/2027	--	2,318,844.13	2,318,844.13	--
8/1/2027	6,060,000.00	2,318,844.13	8,378,844.13	10,697,688.26
2/1/2028	--	2,106,956.23	2,106,956.23	--
8/1/2028	6,585,000.00	2,106,956.23	8,691,956.23	10,798,912.46
2/1/2029	--	1,876,711.70	1,876,711.70	--
8/1/2029	7,135,000.00	1,876,711.70	9,011,711.70	10,888,423.40
2/1/2030	--	1,627,236.43	1,627,236.43	--
8/1/2030	7,720,000.00	1,627,236.43	9,347,236.43	10,974,472.86
2/1/2031	--	1,349,586.63	1,349,586.63	--
8/1/2031	8,345,000.00	1,349,586.63	9,694,586.63	11,044,173.26
2/1/2032	--	1,049,458.70	1,049,458.70	--
8/1/2032	9,010,000.00	1,049,458.70	10,059,458.70	11,108,917.40
2/1/2033	--	725,414.05	725,414.05	--
8/1/2033	9,710,000.00	725,414.05	10,435,414.05	11,160,828.10
2/1/2034	--	376,193.90	376,193.90	--
8/1/2034	10,460,000.00	376,193.90	10,836,193.90	11,212,387.80
TOTAL	\$125,000,000.00	\$133,680,992.46	\$258,680,992.46	\$258,680,992.46

Combined Annual Debt Service

The District has previously issued its General Obligation Refunding Bonds, Series 2004 and Series 2005, a portion of which remains outstanding. See APPENDIX A: “DISTRICT FINANCIAL AND OPERATING INFORMATION – FINANCIAL AND DEMOGRAPHIC INFORMATION – District Debt Structure.” Upon issuance of the Bonds, annual debt service obligations for all outstanding bonds of the District (without regard to redemption prior to maturity) will be as follows:

Pasadena Unified School District General Obligation Bonds Outstanding Debt Service

Year Ending August 1	Outstanding Bonds	Series 2009A-1 Bonds	Series 2009A-2 Bonds	Combined Debt Service
2010	\$14,502,368.75	\$5,469,956.11	\$5,176,167.85	\$25,148,492.71
2011	19,794,037.50	7,225,300.00	5,934,459.96	32,953,797.46
2012	20,567,112.50	7,416,100.00	5,934,459.96	33,917,672.46
2013	21,413,112.50	2,501,100.00	5,934,459.96	29,848,672.46
2014	22,265,862.50	2,649,300.00	5,934,459.96	30,849,622.46
2015	23,182,800.00	2,819,500.00	5,934,459.96	31,936,759.96
2016	24,082,625.00	2,968,250.00	5,934,459.96	32,985,334.96
2017	25,048,525.00	3,145,250.00	5,934,459.96	34,128,234.96
2018	26,052,000.00	3,328,500.00	5,934,459.96	35,314,959.96
2019	27,092,750.00	3,512,000.00	5,934,459.96	36,539,209.96
2020	25,415,250.00	3,705,000.00	5,934,459.96	35,054,709.96
2021	--	3,896,250.00	5,934,459.96	9,830,709.96
2022	--	4,095,000.00	5,934,459.96	10,029,459.96
2023	--	--	10,229,459.96	10,229,459.96
2024	--	--	10,363,495.76	10,363,495.76
2025	--	--	10,483,841.36	10,483,841.36
2026	--	--	10,597,198.36	10,597,198.36
2027	--	--	10,697,688.26	10,697,688.26
2028	--	--	10,798,912.46	10,798,912.46
2029	--	--	10,888,423.40	10,888,423.40
2030	--	--	10,974,472.86	10,974,472.86
2031	--	--	11,044,173.26	11,044,173.26
2032	--	--	11,108,917.40	11,108,917.40
2033	--	--	11,160,828.10	11,160,828.10
2034	--	--	<u>11,212,387.80</u>	<u>11,212,387.80</u>
TOTAL	\$249,416,443.75	\$52,731,506.11	\$205,949,486.35	\$508,097,436.21

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the District’s Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District. For a summary of outstanding general obligation bond debt of the District payable from the District’s Interest and Sinking Fund, see “THE BONDS – Scheduled Annual Debt Service” and APPENDIX A: “DISTRICT FINANCIAL AND OPERATING INFORMATION – FINANCIAL AND DEMOGRAPHIC INFORMATION – District Debt Structure.”

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well. The District receives approximately 28% of its total operating revenues from local property taxes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector, as *ex officio* treasurer of each school district located in the county, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

Assessed Valuation of Property Within the District

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the assessed value of all real property in the State was established as the fiscal year 1975-76 value, or, thereafter, as the appraised value of such property when purchased, newly constructed, or a change in ownership occurs. Assessed value of property that has not changed ownership may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction, market forces or other factors. See APPENDIX A: “DISTRICT FINANCIAL AND OPERATING INFORMATION – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS - Article XIII A of the California Constitution.” As a result, property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property, while similar property that has recently been acquired may have a substantially higher assessed value, reflecting the recent acquisition price. Increases in assessed value in a taxing area due to the change in ownership of property may occur even when the rate of inflation or consumer price index do not permit a full 2% increase in assessed valuation of property that does not change ownership. One impact of Proposition 13 has been that assessed valuation does not tend to rise as quickly as market value, but instead gradually changes as older residential properties are transferred and reassessed upon such transfer.

For assessment and tax collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” California law requires that the assessment roll be finalized by August 20 of each year.

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The table below shows recent history of taxable assessed valuation in the District.

**Pasadena Unified School District
Summary of Assessed Valuation**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Redevelopment Increment⁽¹⁾</u>	<u>Total After Redevelopment Increment⁽¹⁾</u>
2005-06	\$20,982,487,556	\$ 13,439	\$650,602,730	\$21,633,103,725	\$19,398,784,101
2006-07	23,305,879,707	125,607	674,445,066	23,980,450,380	21,408,392,412
2007-08	25,467,634,999	114,558	661,933,507	26,129,683,064	23,331,251,711
2008-09	27,801,586,941	114,558	708,736,580	28,510,438,079	25,498,012,284
2009-10	27,726,641,475	114,558	688,262,323	28,415,018,356	25,402,618,318

⁽¹⁾ See APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION – FINANCIAL AND DEMOGRAPHIC INFORMATION – Effect of Redevelopment Project Area."

Source: California Municipal Statistics, Inc. (Fiscal Years 2005-06 through 2008-09); County of Los Angeles, Auditor-Controller's office (Fiscal Year 2009-10).

The District may not issue bonds in excess of 2.5% of the assessed valuation of taxable property within its boundaries. The District's gross bonding capacity is estimated at approximately \$710 million, and its net bonding capacity is approximately \$521 million, not taking into account the proposed Bonds. In accordance with the law which permitted the Bonds to be approved by a 55% popular vote, bonds approved by the District's voters as Measure TT at the November 4, 2008 election may not be issued unless the District projects that repayment of all outstanding bonds approved at the election will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Bonds, the District projects that the maximum tax rate required to repay all outstanding bonds under Measure TT will be within the statutory limit.

Assessed Valuation by Land Use. The following table gives a distribution of taxable real property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**Pasadena Unified School District
Assessed Valuation and Parcels by Land Use**

	2008-09 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Commercial/Office	\$4,923,800,521	17.71%	2,650	4.41%
Government/Social/Institutional	733,911,366	2.64	232	0.39
Industrial	405,832,243	1.46	377	0.63
Recreational	106,106,616	0.38	81	0.13
Vacant Commercial	90,826,775	0.33	284	0.47
Vacant Industrial	44,300,650	0.16	39	0.06
Miscellaneous	<u>6,419,827</u>	<u>0.02</u>	<u>186</u>	<u>0.31</u>
Subtotal Non-Residential	\$6,311,197,998	22.70%	3,849	6.40%
Residential:				
Single Family Residence	\$15,680,906,664	56.40%	41,732	69.42%
Condominium/Townhouse	2,437,703,179	8.77	7,115	11.84
5+ Residential Units/Apartments	1,805,219,969	6.49	1,465	2.44
2 Residential Units	789,601,142	2.84	2,712	4.51
3 Residential Units	313,307,352	1.13	879	1.46
4 Residential Units	247,734,678	0.89	610	1.01
Vacant Residential	214,623,221	0.77	1,747	2.91
Mobile Home Park	909,236	0.00	2	0.00
Mobile Home	<u>383,502</u>	<u>0.00</u>	<u>1</u>	<u>0.00</u>
Subtotal Residential	\$21,490,388,943	77.30%	56,263	93.60%
Total	\$27,801,586,941	100.00%	60,112	100.00%

⁽¹⁾ Local secured assessed valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Residential Properties. The following table focuses on single-family residential properties only, the value of which in 2008-09 comprised approximately 56% of the assessed value of taxable property in the District. The average assessed value was \$375,753 and the median assessed value was \$271,982.

**Pasadena Unified School District
Per Parcel 2008-09 Assessed Valuation of Single Family Homes**

	No. of <u>Parcels</u>	2008-09 <u>Assessed Valuation</u>	Average <u>Assessed Valuation</u>	Median <u>Assessed Valuation</u>		
Single Family Residential	41,732	\$15,680,906,664	\$375,753	\$271,982		
2008-09 <u>Assessed Valuation</u>	No. of <u>Parcels (1)</u>	% of <u>Total</u>	Cumulative <u>% of Total</u>	Total <u>Valuation</u>	% of <u>Total</u>	Cumulative <u>% of Total</u>
\$0 - \$24,999	348	0.834%	0.834%	\$ 5,927,447	0.038%	0.038%
\$25,000 - \$49,999	2,532	6.067	6.901	98,549,534	0.628	0.666
\$50,000 - \$74,999	3,161	7.575	14.476	197,069,785	1.257	1.923
\$75,000 - \$99,999	2,497	5.983	20.459	216,581,899	1.381	3.304
\$100,000 - \$124,999	1,945	4.661	25.120	218,256,343	1.392	4.696
\$125,000 - \$149,999	1,927	4.618	29.737	264,998,671	1.690	6.386
\$150,000 - \$174,999	1,835	4.397	34.134	298,805,223	1.906	8.292
\$175,000 - \$199,999	1,787	4.282	38.417	335,210,216	2.138	10.429
\$200,000 - \$224,999	1,865	4.469	42.886	396,182,855	2.527	12.956
\$225,000 - \$249,999	1,661	3.980	46.866	394,097,754	2.513	15.469
\$250,000 - \$274,999	1,509	3.616	50.482	396,529,580	2.529	17.998
\$275,000 - \$299,999	1,410	3.379	53.860	405,020,040	2.583	20.581
\$300,000 - \$324,999	1,365	3.271	57.131	426,356,854	2.719	23.300
\$325,000 - \$349,999	1,211	2.902	60.033	408,888,530	2.608	25.907
\$350,000 - \$374,999	1,179	2.825	62.858	427,315,572	2.725	28.632
\$375,000 - \$399,999	1,136	2.722	65.580	440,520,874	2.809	31.441
\$400,000 - \$424,999	1,089	2.610	68.190	449,114,189	2.864	34.306
\$425,000 - \$449,999	991	2.375	70.565	433,165,727	2.762	37.068
\$450,000 - \$474,999	930	2.229	72.793	429,702,562	2.740	39.808
\$475,000 - \$499,999	855	2.049	74.842	416,919,123	2.659	42.467
\$500,000 and greater	<u>10,499</u>	<u>25.158</u>	100.000	<u>9,021,693,886</u>	<u>57.533</u>	100.000
Total	41,732	100.000%		\$15,680,906,664	100.000%	

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2008-09 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. In 2008-09, no single taxpayer owned more than 1.37% of the total taxable property in the District. Each taxpayer listed is a unique entity. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

**Pasadena Unified School District
Major Taxpayers 2008-09**

	Property Owner	Primary Land Use	2008-09 Assessed Valuation	% of Total ⁽¹⁾
1.	Leonard M. Marangi	Hospital	\$ 381,183,097	1.37%
2.	Kaiser Foundation Health Plan, Inc.	Office Building	206,177,343	0.74
3.	Equity Office Properties Trust	Office Building	182,580,000	0.66
4.	Paseo Colorado Holdings LLC	Shopping Center	129,939,533	0.47
5.	SPF 888 Walnut Pasadena LLC	Office Building	129,358,440	0.47
6.	Tishman Speyer Archstone Smith Del Mar Station	Apartments	120,608,426	0.43
7.	Wells REIT II Pasadena Corporate Park LP	Office Building	116,000,000	0.42
8.	SSR Paseo Colorado LLC	Apartments	108,315,203	0.39
9.	Pasadena Towers LLC	Office Building	106,247,937	0.38
10.	Operating Engineers Funds Inc.	Office Building	86,095,979	0.31
11.	BBCAF Inc.	Office Building	79,000,000	0.28
12.	Marc Ittah	Commercial	73,600,000	0.26
13.	Parfinco EWA LLC	Office Building	72,622,244	0.26
14.	621 Colorado Associates	Commercial	72,421,680	0.26
15.	Holly Street LP	Apartments	71,595,882	0.26
16.	South Lake Avenue Investors LLC	Office Building	71,106,263	0.26
17.	Maguire Partners WAP LLC	Office Building	66,021,548	0.24
18.	One Colorado Investments LLC	Shopping Center	62,063,761	0.22
19.	Robles Street LLC	Hotel	59,472,385	0.21
20.	LB L DS Pasadena Project LLC	Hospital	57,719,000	0.21
			<u>\$2,252,128,721</u>	<u>8.10%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$27,801,586,941

Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization. See table: "Summary of Assessed Valuation" – "Utility" column. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed collectively as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulas generally based on the distribution of taxes in the prior year.

Ongoing changes in the structure of California's electric utility industry and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether future legislation, regulations or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

Tax Rate

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the assessed value of taxable property in that year. (Unsecured property is taxed at the secured property tax rate from the prior year.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

The following table shows *ad valorem* property tax rates for the last several years in a typical Tax Rate Area of the District (TRA 7456). TRA 7456 comprises approximately 7% of the total assessed value of taxable property in the District:

**Pasadena Unified School District
Summary of *Ad Valorem* Tax Rates
(Dollars per \$100 of assessed valuation)**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General	\$1.000000	\$1.000000	\$1.000000	\$1.000000
Los Angeles County	.000795	.000663	--	--
City of Pasadena	.009792	0.11055	--	--
Pasadena Area Community College				
District	.004103	.020801	.019720	.017417
Pasadena Unified School District	.109911	.040078	.054911	.063747
Los Angeles County Flood Control District	.000049	.000052	--	--
Metropolitan Water District	.005200	.004700	.004500	.004300
TOTAL	\$1.129850	\$1.077349	\$1.079131	\$1.085464

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in Fiscal Year 1978-79, as adjusted according to a complex web of statutory modifications enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The county treasurer-tax collector prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a ten percent penalty attaches. If taxes remain unpaid by June 30, the tax is deemed to be in default. Penalties then begin to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer. The County has not adopted the "Teeter Plan" alternative method for collection of taxes,

but a number of school districts in the County have formed a joint powers authority that purchases delinquent property tax receivables. (See APPENDIX A: “DISTRICT FINANCIAL AND OPERATING INFORMATION – FINANCIAL AND DEMOGRAPHIC INFORMATION – Insurance, Risk Pooling and Joint Powers Arrangements”)

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The following table shows a recent history of real property tax collections and delinquencies in the District.

**Pasadena Unified School District
Secured Tax Charges and Delinquencies**

Fiscal Year	Secured Tax Charge	Amount Delinquent June 30	Percent Delinquent June 30
2004-05	\$36,929,104.46	\$ 871,805.32	2.36%
2005-06	40,687,885.88	1,053,546.03	2.59
2006-07	44,695,114.58	1,693,088.73	3.79
2007-08	49,389,590.98	2,477,865.86	5.02

⁽¹⁾ 1% General Fund apportionment. Excludes redevelopment agency impounds. Reflects countywide delinquency rate.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of June 1, 2009, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

The table generally includes long-term obligations sold in the public credit markets by the public agencies listed. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**Pasadena Unified School District
Direct and Overlapping Bonded Debt**

2008-09 Assessed Valuation: \$28,510,438,079
 Redevelopment Incremental Valuation: 3,012,425,795
 Adjusted Assessed Valuation: \$25,498,012,284

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/09</u>
Los Angeles County Flood Control District	2.884%	\$ 2,442,892
Metropolitan Water District	1.288	3,779,314
Pasadena Area Community College District	47.063	35,983,616
Pasadena Unified School District	100.	189,635,000⁽¹⁾
City of Arcadia	0.058	4,101
City of Pasadena Community Facilities District No. 1	100.	8,685,000
Los Angeles County Community Facilities District No. 7	100.	7,730,000
Los Angeles County Improvement District No. 2658	100.	3,860,000
Los Angeles County Regional Park and Open Space Assessment District	2.592	<u>6,742,156</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$258,862,079
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	2.731%	\$ 25,369,384
Los Angeles County Pension Obligations	2.731	9,620,095
Los Angeles County Superintendent of Schools Certificates of Participation	2.731	434,345
Pasadena Area Community College District Certificates of Participation	47.063	1,360,121
City of Pasadena General Fund Obligations	99.939	380,762,565
City of Pasadena Pension Obligations	99.939	117,670,800
City of San Marino Pension Obligations	0.015	1,016
Los Angeles County Sanitation District No. 15 Authority	6.124	2,289,195
Los Angeles County Sanitation District No. 16 Authority	59.475	13,852,360
Los Angeles County Sanitation District No. 17 Authority	100.	<u>2,983,269</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$554,343,150
 COMBINED TOTAL DEBT		\$813,205,229 ⁽²⁾

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$189,635,000)..... 0.67%
 Total Direct and Overlapping Tax and Assessment Debt..... 0.91%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt 3.19%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

⁽¹⁾ Excludes issue to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

TAX MATTERS

Tax Matters Relating to the Series 2009A-1 Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2009A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of the Series 2009A-1 Bonds of any given maturity date is less than the amount to be paid at maturity of such Series 2009A-1 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2009A-1 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2009A-1 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2009A-1 Bonds is the first price at which a substantial amount of such maturity of the Series 2009A-1 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2009A-1 Bonds accrues daily over the term to maturity of such Series 2009A-1 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2009A-1 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2009A-1 Bonds. Beneficial owners of the Series 2009A-1 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2009A-1 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2009A-1 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2009A-1 Bonds is sold to the public.

Series 2009A-1 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2009A-1 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009A-1 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2009A-1 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2009A-1 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2009A-1 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009A-1 Bonds. Accordingly, the opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2009A-1 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership

or disposition of, or the accrual or receipt of interest on, the Series 2009A-1 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Series 2009A-1 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decision may also affect the market price for, or marketability of, the Series 2009A-1 Bonds. Prospective purchasers of the Series 2009A-1 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2009A-1 Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2009A-1 Bonds ends with the issuance of the Series 2009A-1 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Series 2009A-1 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009A-1 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Series 2009A-1 Bonds, and may cause the District or the beneficial owners to incur significant expense.

Tax Matters Relating to the Series 2009A-2 Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Series 2009A-2 Bonds is exempt from State of California personal income taxes. Interest on the Series 2009A-2 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series 2009A-2 Bonds. The proposed form of opinion of Bond Counsel is contained in APPENDIX C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2009A-2 Bonds that acquire their Series 2009A-2 Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2009A-2 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series 2009A-2 Bonds pursuant to this offering for the issue price that is applicable to such Series 2009A-2 Bonds (*i.e.*, the price at which a substantial amount of the Series 2009A-2 Bonds are sold to the public) and who will hold their

Series 2009A-2 Bonds as “capital assets” within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

As used herein, “U.S. Holder” means a beneficial owner of a Series 2009A-2 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series 2009A-2 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2009A-2 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2009A-2 Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2009A-2 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

The Series 2009A-2 Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the Series 2009A-2 Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a *de minimis* amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Series 2009A-2 Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series 2009A-2 Bonds.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the District) or other disposition of a Series 2009A-2 Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2009A-2 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2009A-2 Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the Series 2009A-2 Bond (generally, the purchase price paid by the U.S. Holder for the Series 2009A-2 Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Series 2009A-2 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Series 2009A-2 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series 2009A-2 Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such Series 2009A-2 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2009A-2 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Series 2009A-2 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such

Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2009A-2 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series 2009A-2 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Series 2009A-2 Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Series 2009A-2 Bond, to certain noncorporate holders of Series 2009A-2 Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Series 2009A-2 Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2009A-2 Bond or a financial institution holding the Series 2009A-2 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Series 2009A-2 Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Series 2009A-2 Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2009A-2 Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Series 2009A-2 Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the District and its tax advisors are (or may be) required to inform prospective investors that:

- i. any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- ii. any such advice is written to support the promotion or marketing of the Bonds and the transactions described herein; and
- iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX C: "PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2008-09 Fiscal Year (which is due no later than March 31, 2010) and to provide notice of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The District has not failed to comply in all material respects with its previous undertakings with regard to the Rule to file annual reports or notices of material events.

No Litigation

No litigation is pending or threatened concerning the validity of the Bonds, or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District or County officials who will sign the Bonds and other certifications relating to the Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the original purchasers at the time of the original delivery of the Bonds.

The District is routinely subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

MISCELLANEOUS

Ratings

Moody's Investors Service has assigned its municipal bond rating of "Aa3" to the Bonds and Standard & Poor's Ratings Services ("S&P") has assigned its municipal bond rating of "AA-" to the Bonds with respect to the Bonds concurrent with the delivery thereof. Each rating agency generally bases its rating on its own investigations, studies, and assumptions. The District has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement). The ratings reflect only the views of the each rating agency, and any explanation of the significance of the rating may be obtained only from Moody's at www.moodys.com or S&P at www.sandp.com. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The District undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel to the District with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Certain legal matters are being passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California, Underwriter's Counsel. Underwriter's Counsel will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Underwriting

The Bonds are being purchased by RBC Capital Markets Corporation (the "Underwriter") pursuant to a bond purchase agreement by and among the District, the County and the Underwriter, dated September 1, 2009, at a price of \$127,811,241.83 (calculated as the principal amount of the Bonds of \$125,000,000.00, plus original issue premium of \$3,792,163.05, less underwriting compensation ("spread") of \$621,354.22 and less \$359,567.00 to be retained by the Underwriter to pay costs of issuing the Bonds. Pursuant to the bond purchase agreement, the Underwriter will purchase all of the Bonds if any are purchased, the obligation of the Underwriter to purchase the Bonds being subject to certain terms and conditions to be satisfied by the District and the County.

The Underwriter has certified the reoffering prices or yields set forth on the inside cover page hereof. The District takes no responsibility for the accuracy of these prices or yields. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

Additional Information

Quotations from and summaries and explanations of the Bonds, the Resolution providing for issuance and payment of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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APPENDIX A

DISTRICT FINANCIAL AND OPERATING INFORMATION

The information in this appendix concerning the operations of the District, the District's finances, and State funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District or from State revenues. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.

FINANCIAL AND DEMOGRAPHIC INFORMATION

General

The District was formed in 1874 and unified in its present form in 1944. The District is a unified school district providing public education for students in kindergarten through grade 12. The District is located within the County of Los Angeles (the "County"), and encompasses a territory of about 76 square miles. The territory of the District includes the cities of Pasadena and Sierra Madre, as well as the communities of Altadena and unincorporated portions of the County. The City of Pasadena hosts the Tournament of Roses and the Rose Bowl each year.

The District operates 20 elementary schools, three middle schools, four comprehensive high schools, one continuation school and one drop-out recovery school. Enrollment in the District for grades K-12 in the 2008-09 school year was 19,755 students. In Fiscal Year 2009-10, the District has budgeted for approximately 1,929 full-time equivalent employees, which includes certificated (credentialed teaching) staff, classified (non-teaching) staff, and management personnel. The District also operates five charter schools with a 2008-09 estimated enrollment of 1,072 students. The District has budgeted general fund expenditures of approximately \$187 million in Fiscal Year 2009-10. Total assessed valuation of taxable property in the District in Fiscal Year 2009-10 is approximately \$28.4 billion. The District operates under the jurisdiction of the Los Angeles County Superintendent of Schools.

The District is governed by a seven-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. The District's day-to-day operations are managed by a board-appointed Superintendent of Schools. Edwin Diaz has served as Superintendent of the District since March, 2007. Prior to joining the District, Mr. Diaz served six years as superintendent of Gilroy Unified School District in Santa Clara County, California.

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund, and a local portion derived from the District's share of the county-wide property tax. In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District receives approximately 56% of its general fund revenues from State funds, budgeted at approximately \$96.6 million in Fiscal Year 2009-10. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98", a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

Adoption of Annual State Budget. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the amended 2009-10 Budget Act on July 29, 2009.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White* decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor".

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2004 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the

Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, as the State did in 2004-05; and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

2009-10 State Budget. On September 24, 2008, the Governor signed the State budget for Fiscal Year 2008-09, the latest budget approval in State history. It is widely acknowledged that even by the time of its passage, the budget's revenue estimates were already too optimistic, in light of continuing weak performance in the California economy and unprecedented adverse developments in the global and national financial markets, particularly after September 15, 2008. The Governor declared a fiscal emergency in December 2008, and called three concurrent special legislative sessions in order to address the budget deficit then estimated to be \$42 billion. In the face of growingly negative estimates of State tax receipts during Fiscal Year 2008-09, the Governor signed the State's Fiscal Year 2009-10 Budget Act on February 20, 2009 (the earliest date on record), essentially as a revised two-year budget settlement for Fiscal Years 2008-09 and 2009-10. However, after the failure in May 2009 of six revenue and spending propositions on the statewide ballot essential to success of the budget bill, work began again on a Fiscal Year 2009-10 budget plan. On July 24, 2009, the Legislature approved a new budget package, which the Governor signed on July 28, 2009. For an accurate view of current Proposition 98 funding, one must treat these three recent budgets as a whole, and consider also the significant adjustments that have been left to future budget years.

The amended 2009-10 State Budget consisted of some 30 separate bills; subsequent legislation may affect final budget totals. Indeed, if the economy worsens, the assumptions in even the amended 2009-10 State Budget may prove unsustainable, and further cuts and revisions may be needed. Until audited Fiscal Year-end 2008-09 State revenues are known, the State cannot determine the final Fiscal Year 2008-09 Proposition 98 funding requirement. The following information relating to the funding of elementary and secondary education is adapted from the budget summaries prepared by Legislative Analyst's Office, the Governor's office, and other sources.

The amended 2009-10 State Budget achieves balance through spending cuts, additional revenue generation, borrowing from local governments and others, revenue shifts from redevelopment agencies, and other accounting changes; all of these techniques are also present in the adopted Proposition 98 funding plan. Fiscal Year 2008-09 Proposition 98 funding for K-12 schools is reduced to \$43.1 billion (\$9 billion less than the level assumed in the adopted 2008-09 State Budget, and \$1.6 billion less than the February 2009 amended amount). Fiscal Year 2009-10 funding is established at \$44.6 billion (\$3.7 billion less than the February 2009 adopted amount). Over \$10.1 billion in mandated Proposition 98 funding is deferred to future years: the so-called "maintenance factor." Of budgeted Proposition 98 funding, \$1.7 billion is shifted to school districts from property taxes and other moneys belonging to redevelopment agencies. Funding is also delayed in several ways: \$2 billion is deferred from the first months of Fiscal Year 2009-10 to December 2009 and January 2010, while \$1.8 billion will not be paid until August 2010-11. Mandated settle-up payments of \$450 million for prior years under the Quality Education Investment Act are also deferred, effectively to 2014-15. Cost-of-living adjustments of over 18% are deferred, creating a future obligation of well over \$6.5 billion. Categorical funding of \$1.6 billion intended for Fiscal Year 2008-09 that had not been funded by June 30, 2009, is treated as Fiscal Year 2009-10 categorical funding, but an equal amount of minimum guarantee funding is eliminated. For those districts that would otherwise receive no Proposition 98 minimum guarantee funding from the State, categorical funding is reduced by \$80 million. In addition, the Governor vetoed \$3.9 million of approved spending for special education transportation costs.

State savings is also achieved by lifting various mandates and restrictions on local school districts: full flexibility is allowed to spend funding for 42 categorical programs as districts wish through 2012-13; class-size reduction in grades K-3 is largely suspended, and the minimum days of instruction are reduced from 180 to 175, through reduced or suspended financial penalties on districts that do not meet existing requirements; districts are excused from buying new approved instructional materials; proceeds of surplus land sales otherwise restricted to capital improvements are permitted to be used for general fund expenditures through 2011; the general fund reserve

requirement is reduced to one-third of the otherwise applicable percentage (3% of expenditures for a district with average daily attendance of up to 30,000), provided this is restored by 2011-12; the routine maintenance reserve requirement of 1% of general fund expenditures is suspended; and school districts that project they will not meet financial guidelines due to loss of federal stimulus funding in Fiscal Years 2011-12 and 2012-13 will not have their budgets negatively rated as a result.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Proposition 1A. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election.

Proposition 1A is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 1A allows the State to divert up to 8% of local property tax revenues for State purposes (including, but not limited to, funding K-12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment to local agencies for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts will be capped and limited in frequency, school and college districts that receive Proposition 98 funding from the State will be more directly dependent upon the State's general fund.

The amended 2009-10 State Budget includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amended 2009-10 State Budget diverts another \$1.7 billion in local property tax revenues from local redevelopment agencies, but this is not covered by Proposition 1A, and may be subject to lawsuits by such affected local agencies.

District Revenues

Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A.").

The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in fixed operating costs.

The District's base revenue limit per A.D.A. is budgeted to be \$6,389 for Fiscal Year 2009-10, compared to an estimated amount of \$6,128 for Fiscal Year 2008-09. The District's recent A.D.A. history for kindergarten through grade 12, including special education, is set forth in the table below:

Pasadena Unified School District Total Grades K-12 Second Period (P-2) Average Daily Attendance	
<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
2004-05 ⁽¹⁾	21,319
2005-06 ⁽¹⁾	20,301
2006-07 ⁽¹⁾	19,775
2007-08 ⁽¹⁾	19,199
2008-09 ⁽²⁾	18,765
2009-10 ⁽³⁾	18,467

⁽¹⁾ Audited financial statements.

⁽²⁾ Estimated Actuals.

⁽³⁾ Budgeted.

The principal component of local revenues is the school district's property tax revenues; that is, the District's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to. Ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known colloquially as "basic aid districts." Districts that receive some equalization aid may commonly be referred to as "revenue limit districts."

The District is currently a "revenue limit district." Local property tax revenues account for 49% of the District's aggregate revenue limit income, and are budgeted to be \$48.3 million, or 28% of total general fund revenue in 2009-10. For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

Changes in local property tax income and student enrollment (or A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, assuming property tax revenues are unchanged. Operating costs increase disproportionately slowly—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In basic aid districts, increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid. Meanwhile, as new students impose increased operating costs, the fixed property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a basic aid district.

For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State.

In its adopted budget for 2009-10, the District estimates that it will receive \$99.1 million in aggregate revenue limit income, or approximately 57% of its total general fund revenues. This amount represents a decrease of approximately 8.2% from the \$107.8 million that the District estimates it received in 2008-09. State funds for special (categorical) programs are budgeted at \$45.8 million, including the State lottery fund portion. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's total State lottery revenue is budgeted at \$2.2 million, or about 1.3% of general fund revenue in 2009-10.

The District adopted its own Fiscal Year 2009-10 budget prior to the adoption of the amended 2009-10 State Budget. The District has not yet fully evaluated the impact of the amended State budget, or the federal stimulus funding, on the District's current year finances. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance and in particular, within 45 days of the State's revised 2009-10 budget. The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budgets, and the effect of these changes on school finance. The District's adopted budget and budgeted A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance or the District's actual funding level for Fiscal Year 2009-10.

Effect of Redevelopment Project Area. Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Assessed Valuation of Property Within the District" in the forepart of this Official Statement. For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State. In neither case are taxes collected for payment of debt service on school bonds affected or diverted. School districts may negotiate "pass-through agreements" with their local redevelopment agencies in order to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds), and in some cases the pass-through is mandated by statute (in which case it cannot be pledged to pay redevelopment agency bonds). The District receives pass-through payments from the Cities of Sierra Madre and Pasadena redevelopment agencies with respect to project areas that include a portion of the District's territory. The District received pass-through payments aggregating \$179,409 in Fiscal Year 2008-09.

Foundations

The Pasadena Educational Foundation ("PEF") is a nonprofit public benefit corporation, providing financial support to the District. PEF was formed solely to assist the District. The support is to supplement the resources available to the District through normal tax revenues and State funds. The foundation funds are restricted to various educational programs. For the last three fiscal years PEF raised \$24 million and is budgeted to raise \$6 million for Fiscal Year 2009-10. There is no guarantee that the foundation will continue to provide this supplemental financial support to the District in the future and expenses are not obligated until revenues are received.

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

In its Fiscal Year 2009-10 budget, the District projects that it will expend \$148 million in salaries and benefits, or approximately 79% of its general fund expenditures. This amount represents a decrease of approximately 7% from the \$159 million the District estimates it expended in Fiscal Year 2008-09.

Labor Relations. Approximately 1,988 employees are represented by various labor organizations as shown in the table below. In addition, 164 supervisory and management personnel are not represented by any formal bargaining unit.

Pasadena Unified School District Labor Organizations

<u>Labor Organization</u>	<u>Employees Represented</u>	<u>Contract Expiration</u>
United Teachers of Pasadena	1,030	June 30, 2008 ⁽¹⁾
CSEA – Chapter 434 and Teamsters' Local 911	958	June 30, 2010 June 30, 2008 ⁽¹⁾

⁽¹⁾ Negotiations are on-going. Salaries have not been settled for Fiscal Year 2008-09 and discussions have not yet commenced for Fiscal Year 2009-10.

Retirement Programs. The District participates in the State Teachers' Retirement System ("STRS") for all full-time and some part-time certificated employees. Each school district is required by statute to contribute 8.25% of eligible employees' salaries to STRS on a monthly basis. Employees are required to contribute 8.0% of eligible salary. The State is required to contribute as well. The District's employer contribution to STRS is estimated at \$6,935,794 for Fiscal Year 2008-09, and is budgeted at \$6,430,451 in Fiscal Year 2009-10.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. The District is required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. For Fiscal Year 2009-10, the contribution percentage is 9.709%. In the current budget year, the total contribution is budgeted at \$2,768,688, compared to a Fiscal Year 2008-09 estimated expense of \$3,091,604.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. STRS and CalPERS liabilities are more fully described in APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008," Note 11.

Post-Employment Benefits. In addition to the pension benefits described above, the District provides post-employment health benefits for eligible employees who retire early.

The District has budgeted for 33 retirees who will meet the eligibility requirements to receive post-employment health benefits in Fiscal Year 2008-09. The plan provides medical, dental and prescription drug benefits to all certificated, management and classified employees working at least 75% of a full-time assignment, retiring between the ages of 55 and 65 with at least 15 years of service. Expenditures for post-employment benefits are recognized on a "pay-as-you-go" basis as premiums are paid. The District has budgeted the pay-as-you-go cost of providing retiree health benefits at \$869,676 in Fiscal Year 2009-10, compared to estimated expenditures of \$1,107,123 in 2008-09.

Commencing with fiscal years following December 15, 2006, the District has been required to comply with GASB Statement No. 45 regarding reporting of post-employment health benefit liabilities. The District

commissioned its most recent actuarial study of post-employment health benefit liabilities from SMART Business Advisory and Consulting, LLC, dated July 1, 2006, to determine the estimated liability for post-employment benefits. As of July 1, 2006, the District's Actuarial Accrued Liability for post-employment health benefits was estimated to be \$18,461,458, against which the District had set aside \$1.43 million as of Fiscal Year-end 2008-09. As of July 1, 2006, the District's Annual Required Contribution was estimated to be \$2,274,788.

The District has engaged Dempsey Filliger & Associates, LLC to prepare an updated actuarial study of post-employment benefits, which is expected to be completed August 31, 2009.

Accrued Vacation: The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2009, was \$2,475,424.

Summary of District Revenues and Expenditures

The table on the following page summarizes the District's general fund revenue, expenditures and fund balances from Fiscal Years 2005-06 through 2009-10. See "SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS – District Budget Process and County Review" herein for a general description of the annual budget process for California school districts. The District's audited financial statements for the year ending June 30, 2008, are reproduced in Appendix B. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District's Board of Education by September 15, and the audit report must be filed with the County of Los Angeles Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% percent of its total general fund expenditures and other financing sources, based on total student attendance. For Fiscal Year 2009-10, the District has budgeted an unrestricted general fund reserve of 3%, or approximately \$5.6 million. Substantially all funds of the District are required by law to be deposited with and invested by the Treasurer and Tax Collector of the County (together with all authorized deputies thereof, the "County Treasurer") on behalf of the District, pursuant to law and the investment policy of the County. See APPENDIX E: "COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR INVESTMENT POLICY – THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS."

**Pasadena Unified School District
General Fund
Revenues, Expenditures and Fund Balances
2005-06 through 2009-10**

	2005-06 Actual ⁽¹⁾	2006-07 Actual ⁽¹⁾	2007-08 Actual ⁽²⁾	2008-09 Unaudited Actuals ⁽³⁾	2009-10 Budget ^{(4) (5)}
REVENUES					
Revenue limit sources:					
State apportionment	\$ 70,667,872	\$ 71,629,788	\$ 71,130,759	\$59,104,913	\$ 50,774,587
Local sources	41,033,279	42,939,796	42,484,741	48,770,389	48,291,917
Federal sources	24,916,042	21,032,882	23,194,872	29,325,848	22,293,439
Other State sources	50,441,594	57,363,850	57,886,844	51,764,172	45,856,230
Other local sources	5,747,140	11,734,999	8,520,221	10,281,117	5,798,610
Total Revenues	<u>\$192,775,927</u>	<u>\$204,701,315</u>	<u>\$203,217,437</u>	<u>\$199,246,440</u>	<u>\$173,014,783</u>
EXPENDITURES					
Certificated salaries	79,378,527	79,933,213	85,169,112	85,872,364	79,973,961
Classified salaries	28,215,266	29,578,126	32,043,931	31,698,131	29,520,435
Employee benefits	36,111,969	37,151,404	38,273,270	40,079,895	38,486,223
Books and supplies	7,727,753	8,865,994	12,030,182	8,482,543	7,436,753
Services and other expenditures	31,533,972	31,748,865	33,335,574	31,210,031	31,029,020
Capital outlay	447,420	358,943	509,226	1,304,581	274,765
Other outgo	462,015	1,565,672	779,045	106,141	700,000
(Direct support)/indirect costs	(751,652)	(605,267)	(535,270)	(492,754)	(610,350)
Total Expenditures	<u>\$183,125,270</u>	<u>\$188,596,950</u>	<u>\$201,605,070</u>	<u>\$198,753,686</u>	<u>\$186,810,807</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>9,650,657</u>	<u>16,104,365</u>	<u>1,612,367</u>	<u>492,754</u>	<u>(13,796,024)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	2,781,669	-
Transfers out	(2,579,911)	(6,747,043)	-	-	-
Other sources/uses	-	-	424,612	-	902,394
Net Financing Sources (Uses)	<u>(2,579,911)</u>	<u>(6,747,043)</u>	<u>424,512</u>	<u>2,781,669</u>	<u>902,394</u>
Excess (deficiency) of revenue sources over (under) expenditures and other financing uses	<u>7,070,746</u>	<u>9,357,322</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Beginning	13,199,005	20,269,751	28,871,657	30,908,636	19,637,655
Other Restatement	-	(755,417)	-	-	-
Fund Balance - Ending	<u>\$ 20,269,751</u>	<u>\$ 28,871,657</u>	<u>\$ 30,908,636</u>	<u>\$34,183,059</u>	<u>\$ 6,744,025</u>

⁽¹⁾ Audited financial statements.

⁽²⁾ Unaudited Supplementary Information Section of the audited financial statements.

⁽³⁾ Unaudited Actuals, adopted August 25, 2009. Totals may not add up due to rounding.

⁽⁴⁾ Fiscal Year 2009-10 Budget, adopted June 23, 2009. Totals may not add up due to rounding.

⁽⁵⁾ Beginning and ending fund balances are from the Fiscal Year 2009-10 Budget, which was adopted prior to the Unaudited Actuals for Fiscal Year 2008-09 becoming available. The ending balance in the Unaudited Actuals as of August 25, 2009 is \$34,183,059, which creates a new projected ending balance for Fiscal Year 2009-10 of \$21,289,430.

Commencing with Fiscal Year 2007-08, the District implemented Governmental Accounting Standards Board ("GASB") Procedure No. 34, which resulted, among other things, in a change in the financial statements of the District to reflect expenditures by function rather than by object. The following table presents audited figures in the new format. Figures presented in the GASB 34 format are not directly comparable to the presentation in the preceding table.

**Pasadena Unified School District
General Fund
Revenues, Expenditures and Fund Balances
2007-08**

	2007-08 Actual ⁽¹⁾
REVENUES	
Revenue limit sources:	
State apportionments	\$ 71,130,759
Local sources	42,484,741
Federal sources	23,630,056
Other State sources	57,943,777
Other local sources	8,028,104
Total Revenues	<u>\$203,217,437</u>
EXPENDITURES	
Current	
Instruction	\$120,365,788
Instruction related	
services	26,516,752
Pupil services	18,311,497
Ancillary services	470,412
Community services	1,139,631
Enterprise activities	323,812
General administration:	11,946,336
Plant services	21,751,796
Other outgo	779,045
Debt service	
Principal	-
Interest and other	-
Total Expenditures	<u>\$201,605,069</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,612,368</u>
Other Financing Sources (Uses)	
Transfers in	1,333,915
Other sources	-
Transfers out	(909,303)
Net Financing Sources (Uses)	<u>424,612</u>
NET CHANGE IN FUND BALANCES	2,036,980
Fund Balance - Beginning	<u>28,871,656</u>
Fund Balance - Ending	\$ 30,908,636

⁽¹⁾ Audited financial statements.

District Debt Structure

Tax and Revenue Anticipation Notes. No tax and revenue anticipation notes have been issued in last five years. The District does not anticipate issuing TRANs in the 2009-10 fiscal year.

Operating Leases. The District has entered into various operating leases for land, buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Rental obligations are payable from the general fund of the District. The balance on the District's equipment leases, as of June 30, 2009, was \$401,184. Future payments under the leases are shown in the following table, as of June 30, 2009. The final payment is due in Fiscal Year 2013.

Year Ending June 30	Total Lease Payments
2010	\$132,312
2011	123,888
2012	120,648
2013	<u>24,336</u>
Total	\$401,184

Certificates of Participation. The District entered into a Lease Agreement with Public Property Financing Corporation of California dated as of July 1, 2008, and terminating on July 31, 2023, and has caused the issuance of certificates of participation in the lease in the aggregate principal amount of \$2,500,000. Annual rental payments are \$216,667, including interest, and constitute an obligation of the District's general fund.

General Obligation Bonds. The District has two series of General Obligation Refunding Bonds outstanding. The outstanding general obligation bond debt of Pasadena Unified School District as of June 30, 2009 is described in the table below. All such bonds are payable from a special *ad valorem* property tax which the County is required to levy in an amount sufficient to pay such obligations.

Summary of General Obligation Bond Issues to Date (Table does not reflect the issuance of the Bonds)

Series Name	Issuance Date	Final Maturity Date	Original Principal Amount	Outstanding ⁽¹⁾
Refunding Bonds Series 2004	September 22, 2004	November 1, 2015	\$ 86,685,000	\$ 69,460,000
Refunding Bonds Series 2005	July 13, 2005	November 1, 2019	<u>128,970,000</u>	<u>120,175,000</u>
Total			\$215,655,000	\$189,635,000

For more information on the District's outstanding debt, see APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008," Note 7.

Capital Financing Plan

In its Facilities Master Plan, completed October 1, 2008, the District has identified facilities improvement needs through 2023 of \$758 million, and has planned funding for improvements over the next ten years in the amount of approximately \$465 million as set forth in the table below. The District expects to fund a portion of the costs of these projects from bonds authorized by Measure TT and from available State funding, developer fees, and redevelopment pass-through payments. To make up the shortfall, the District expects to seek additional State funding, seek authorization for the issuance of additional bonds, or identify other funding sources.

<u>Sources of Funds</u>	<u>Amount</u>
Measure TT General Obligation Bonds	\$350,000,000
State Modernization and other grants	25,000,000
Developer Fees	20,000,000
Williams Settlement Funding	15,000,000
Career Technical Match	15,000,000
Deferred Maintenance	13,000,000
Asset Sales Account	12,000,000
State/Joint Use Partnership Grants	6,000,000
State Funding-Seismic	5,000,000
State/Joint Use Partnership Grants – Athletic Fields 50%	<u>4,000,000</u>
Total	\$465,000,000

As a condition to receiving State modernization or construction funds, the District agrees to fund a restricted maintenance reserve account in the general fund each year for 20 years of at least 3% of its general fund budget or as otherwise required by the State. For fiscal years 2008-09 through 2012-13, the adopted 2009-10 State Budget has reduced the required reserve contribution from 3% to 1%. In 2009-10, the District has budgeted a maintenance reserve contribution of \$4.9 million, which is 3%.

Insurance, Risk Pooling and Joint Powers Arrangements

The District participates in the Alliance of Schools in Cooperative Insurance Programs (“ASCIP”), a joint powers authority that arranges and provides the primary liability and property coverages for its member school districts. For property damage, the District has a deductible of \$25,000 per occurrence, and purchases coverage up to \$500 million. For general liability insurance, the District has a deductible of \$50,000 per occurrence, purchases liability coverage from ASCIP up to \$1,000,000 per occurrence, and purchases excess coverage from Schools Excess Liability Fund (“SELF”) to the level of \$20,000,000. The District does not directly bear liability for the losses of other members of ASCIP; however in the event of numerous large local losses, ASCIP’s self-insured retention could be exhausted, and member districts such as the District could be required to make further contributions to cover member claims. The District has a \$250,000 self-insured retention for its workers’ compensation program which is administered by Corvel Corporation. The District has excess workers’ compensation coverage with Republic Indemnity Company of America (“RICA”) at an annual cost of approximately \$476,000 with no limits.

The District is also a member of the California Statewide Delinquent Tax Finance Authority, a joint powers authority formed among various Los Angeles area school and community college districts in order to purchase delinquent *ad valorem* property tax receivables (consisting of the unpaid taxes plus penalties and interest) from its member districts, and to sell rights in the receivables to the investing public. This financing operates as an alternative to the Teeter Plan, which has never been implemented by the County. The District may opt to sell its property tax delinquency receivables to the authority on an annual basis, in which event it will receive an initial purchase payment and forego the right to receive any of the penalties and interest due when those taxes are finally paid. The District does not directly bear liability for the debts, losses, or operating expenses of the California Statewide Delinquent Tax Finance Authority.

The District’s potential liabilities under its arrangements with these joint powers authorities are described in APPENDIX B: “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008,” Note 14. The relationship between the District and each of the joint powers authorities is such that the joint powers authorities are not component units of the District for financial reporting purposes. The District is not a member of any other joint powers agencies or authorities.

Charter Schools

Charter schools operate as autonomous public schools, under charter from a school district, county office of education, or the State Board of Education, with minimal supervision by the local school district. Charter schools receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is also required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students.

Five charter schools operate in the District as shown in the table below.

Charter School	Grades Served	Enrollment
Aveson Global Leadership Academy	K-5	194
Aveson School of Leaders	6-11	240
Pasadena Rosebud Academy	K-3	51
Learning Works Charter School	7-12	340
Odyssey Charter School	K-8	247
Total		1,072

SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the County of Los Angeles Superintendent of Schools (the "County Superintendent").

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) after also consulting with the district's board, develop and impose revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 ("A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200,

each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that *will meet* its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed *unable to meet* its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that *may not meet* its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has not received a qualified or negative certification in the most recent five fiscal years.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with the definitions, instructions and procedures of the California School Accounting Manual, as required by the State Education Code. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Vicenti, Lloyd & Stutzman LLP certified public accountants, served as independent auditors to the District for Fiscal Year 2007-08, and their report for Fiscal Year Ended June 30, 2008, is attached hereto as Appendix B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the District since the audit was concluded. The District is required by law to adopt its audited financial statements following a public meeting to be conducted no later than January 31 following the close of each fiscal year.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIII A of the California Constitution. Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to one percent of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one-percent limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond proposition. The tax for payment of the District’s bonds approved at the 2008 election falls within the exception for bonds approved by a 55% vote.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns

or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restored value of the damaged property. The California courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII C and Article XIII D of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer-tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Bonds.

The interpretation and application of Proposition 218 continues to be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Expenditures and Appropriations

Article XIII B of the California Constitution. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIII B of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations

limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity, each has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district’s revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. If the State’s aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State’s contribution to school and college districts.

In Fiscal Year 2008-09, the District had an appropriations limit of \$110,144,554 and appropriations subject to the limit of \$110,144,554. For Fiscal Year 2009-10, the District’s appropriations limit is budgeted at \$114,329,869.

Future initiatives. Articles XIII A, XIII B, XIII C, and XIII D, and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

PASADENA UNIFIED SCHOOL DISTRICT

LOS ANGELES COUNTY

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2008

PASADENA UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
June 30, 2008**

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PASADENA UNIFIED SCHOOL DISTRICT

AUDIT REPORT June 30, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Education
Pasadena Unified School District
351 South Hudson
Pasadena, CA 91109

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 as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not obtained an actuarial study to determine the net pension obligation or provide the information needed for the required disclosures for the defined benefit plan offered from 1992-2000. Accounting principles generally accepted in the United States of America require that the net pension obligation be recorded, which could increase the government-wide liabilities and expenses and decrease the government-wide net assets. The amount by which this departure would affect the government-wide liabilities, expenditures and net assets is not reasonably determinable.

In our opinion, except for the effects of not obtaining an actuarial study to determine the net pension obligation for the government-wide financial statements as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities of the Pasadena Unified School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Pasadena Unified School District

In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of Pasadena Unified School District as of June 30, 2008, and the respective changes in financial position and cash flows for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, the Pasadena Unified School District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2008 on our consideration of the Pasadena Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and schedule of funding progress are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pasadena Unified School District basic financial statements. The supplementary schedules, combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Pasadena Unified School District. The supplementary section and combining and individual non-major fund financial statements, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

December 11, 2008

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Pasadena Unified School District (the "District") for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 34 (Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments) issued in June 1999. Certain comparative information between the current and the prior year is required to be presented in the MD&A.

The Pasadena Unified School District experienced a year of transition and reform in 2007-08. With a new Superintendent and three new Board of Trustees seated just before the 2007-08 fiscal year began, the District embarked upon an aggressive plan to improve student performance while revitalizing the administration and support services necessary to successfully implement district-wide change. Thus, the "Approach to Excellence" began.

In order to successfully implement and adhere to the Vision, Goals, and Mission Statements noted below, three major areas of focus were selected during 2007-08: to completely reorganize the District Office administrative staff; restructure John Muir High School; and reform the middle school programs.

The District Office reorganization was implemented beginning July 1, 2008; however, recruitment and some hiring took place during the 2007-08 planning year. The new administrative model includes four new "Chiefs" over Academic Services, Human Resources, Technology and Finance and Operations. All of the prior administrative positions, including middle management positions, were eliminated and replaced with newly created job descriptions, resulting in the elimination of the assistant superintendents, many directorships, revised coordinator positions, and reconfigured clerical support staff. In addition to providing better service to students and parents, the new administrative model is more efficient, effective, and less expensive.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

During 2007-08, it became evident that school facilities needed further attention even after the completion of the Measure Y modernization, if the District's "Approach to Excellence" was to be achieved. The board, staff, and local community leaders began planning for a new facilities bond campaign to further upgrade and modernize the schools. The November 4, 2008 election proved that the community overwhelmingly supports the new PUSD innovative ideas with the voter approval of Measure TT. This bond measure will bring the Pasadena schools up to 21st Century standards.

The vision, mission and goals of the district are shown below:

Vision

Educating today's children to create tomorrow's world, empowering them to shape, build and achieve their dreams.

Mission Statement

Pasadena Unified School District's mission is to provide rigorous education in an environment that engages and empowers all children to become lifelong learners; our students will be thinking, literate, productive, responsible and ethical, able to compete in and contribute to a diverse society.

Goals

- To provide a rigorous comprehensive curriculum that challenges and engages all students to reach academic excellence;
- To recruit, develop and retain exceptional teachers, administrators and staff;
- To ensure a clean, safe & orderly environment that supports learning;
- To establish and maintain excellent schools close to home and a variety of meaningful school options for every child;
- To ensure quality management, financial integrity, meaningful accountability and an effective technology and communication infrastructure;
- To engage and sustain the trust and involvement of the entire community in our education movement to create excellent schools;
- To provide the resources necessary to ensure an optimal environment for teaching and learning and accountability for achieving academic success.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Financial Highlights

This section provides an overview of the District's financial activities.

- The District's financial status was such that we ended the 2007-08 fiscal year with a decrease in total governmental fund balances of \$5.3 million, as presented on the fund financial statements. This is mainly attributable to the District's capital projects expenditures in 2007-08.
- The government-wide financial statements present a net increase of approximately \$4.4 million. The difference of approximately \$9.7 million from the fund financial statements to the government-wide financial statements is explained in the reconciliation of the statement of revenues, expenditures and changes in fund balances to the Statement of Activities, as presented on page 6.
- Expenses for the General Fund were \$201.6 million with overall revenues at approximately \$203.2 million.
- The District maintains reserves sufficient to meet the state-required minimum Reserve for Economic Uncertainties.

Enrollment

For the year ending June 2008, the Pasadena Unified School District served approximately 20,275 pupils from the communities of Pasadena, Altadena and Sierra Madre. In addition, 541 students were enrolled in the five local charter schools. The number of students enrolled establishes the basis of State revenue, staffing needs, and facilities planning, therefore it is the most important projection a district can make. For the purpose of predicting enrollment and comparing historical enrollment data, the measurement date used is the California Basic Education Data Survey (CBEDS) Day, which occurs the first week in October. Although the October CBEDS is the first solid indicator of the district's enrollment for the year, the largest source of State revenue is based on the student's average daily attendance (ADA).

There are three reporting periods for Average Daily Attendance (ADA), P-1 ending on December 15; P-2 ending on April 15; and Annual ending on June 30. However, the District's funding is based upon the P-2 reporting period. The District receives approximately \$32 per day for each student attending school.

Student enrollment has declined since 2001-02, and it is anticipated that the decline will continue for the next several years. The enrollment decline between 2006-07 and 2007-08 was 417, of which about half that decline was due to students leaving PUSD and moving to charter schools. Four charter schools opened during 2007-08. One of those new charters also closed during the year with a few students returning to PUSD schools.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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 three 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).

Proprietary funds: The proprietary fund category includes Internal Service Funds. Internal Services funds report activities that provide supplies and services for the other programs and activities of the District. Proprietary funds are reported on a full accrual basis. The District has an internal service fund used for health and welfare insurance and workers' compensation insurance.

Fiduciary funds: The District has Associated Student Body Funds, Pension Trust Fund, 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 assets and a statement of changes in fiduciary net assets reports 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.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities 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 Assets 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 Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current) and net assets (assets minus liabilities).

From the data presented, readers of the Statement of Net Assets 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 Assets provides a picture of the net assets and the availability of those assets for expenditure.

The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District, and the change in net assets 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 Assets are presented in three major categories. The first category, invested 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 assets; these net assets are 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 assets that are available for obligations as may be approved by the Board of Education.

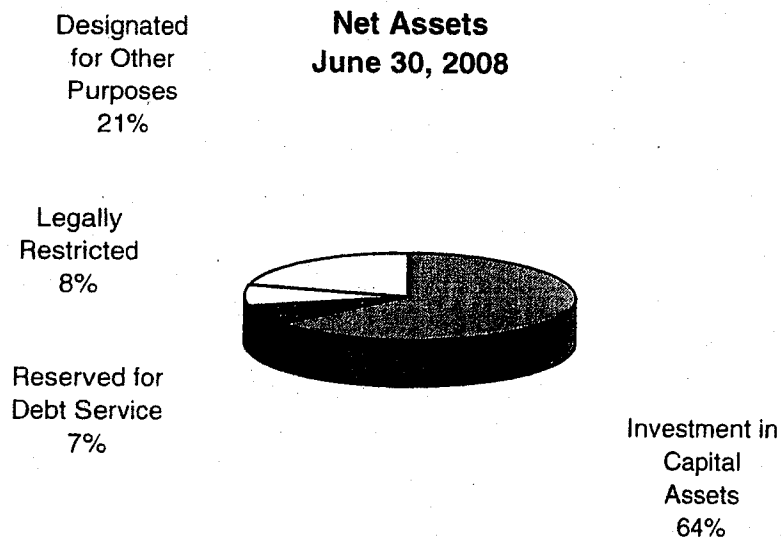
PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

The Statement of Net Assets as of June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 96,279,979	\$ 101,727,104
Accounts receivable	23,029,457	18,260,084
Inventories	309,561	428,385
Prepaid expenditures	61,315	-
Capital assets, net	325,186,382	298,000,632
Total Assets	<u>444,866,694</u>	<u>418,416,205</u>
Liabilities		
Accounts payable and other current liabilities	24,776,864	30,491,466
Deferred revenue	2,866,156	1,877,113
Long-term liabilities	211,761,021	206,905,509
Total Liabilities	<u>239,404,041</u>	<u>239,274,088</u>
Net Assets		
Invested in capital assets, net of related debt	130,950,838	91,095,123
Restricted	31,347,683	7,843,334
Unrestricted	43,164,132	80,203,660
Total Net Assets, as restated	<u>\$ 205,462,653</u>	<u>\$ 179,142,117</u>

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

- Accounts receivable are mainly amounts due from State and Federal government sources for state apportionment and categorical programs.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2008, including amounts owed to employees.
- Deferred revenues consist mainly of categorical program grant revenues received during the year, but not expended and deferred to the next fiscal year.
- The beginning net assets designated as "Invested in capital assets, net of related debt" were restated. The District performed a reconciliation of the facilities projects and related fixed assets in response to the audit qualification in the prior year audit report. The fixed assets were updated accordingly and were reflected in the \$21.9 million restatement to net assets (See Note 15). The restatement, to a large extent, revolved around incorporation of soft costs in the asset value of buildings modernized in the facilities program over the last decade.
- Unrestricted net assets are a combination of designated and undesignated amounts. The designated balances are amounts set-aside for economic uncertainty and deferred maintenance projects, retiree benefit obligations or capital projects to fund future purchases. The net assets designated as unrestricted decrease is primarily due to the purchase of capital assets as mentioned in the previous page.



PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Statement of Activities

Changes in total net assets, as presented on the Statement of Net Assets, 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.

The Statement of Activities for the year ended June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,238,837	\$ 1,873,852
Operating grants and contributions	86,051,201	84,419,677
General revenues:		
Property taxes	58,190,686	54,415,070
Grants, subsidies and unrestricted contributions	83,295,685	84,538,352
Interest and investment earnings	3,865,563	4,341,608
Miscellaneous	5,005,392	19,967,371
Total revenues	<u>237,647,364</u>	<u>249,555,930</u>
Expenses		
Instruction	123,774,038	111,973,598
Instruction related services	27,326,928	25,565,698
Pupil services	25,737,265	24,570,350
Ancillary services	470,412	447,713
Community services	2,701,743	2,399,918
General administration	12,328,963	11,765,582
Plant services	22,477,344	28,233,955
Enterprise activities	325,488	527,694
Interest expense	9,460,055	9,774,284
Other outgo	779,045	1,583,718
Depreciation (unallocated)	7,872,553	5,164,000
Total expenses	<u>233,253,834</u>	<u>222,006,510</u>
Increase (Decrease) in Net Assets	<u>4,393,530</u>	<u>27,549,420</u>
Net Assets - Beginning of Year, as Originally Stated	179,142,117	152,348,114
Adjustment for Restatement (See Note 15)	<u>21,927,006</u>	<u>(755,417)</u>
Net Assets - Beginning of Year, as Restated	<u>201,069,123</u>	<u>151,592,697</u>
Net Assets, End of Year	<u><u>\$ 205,462,653</u></u>	<u><u>\$ 179,142,117</u></u>

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

The total revenues decreased by \$11.9 million from 2006-07. The majority of this decrease is the result of one-time revenue received from the gain on the sale of property in the prior year.

Expenses in the previous table are categorized by specific functions as required by GASB 34. The expenses for instruction, instruction related services and pupil services increased by approximately \$14.7 million due in part by salary and employee benefit increases.

The expense category of "general administration" refers to agency wide administrative activities that are accounted for in the general fund. Example of the administrative activities are establishing and administering policies for operating the District; budgeting and disbursing, financial accounting, payroll; recruitment and placement of personnel; purchasing, receiving, storing, and distributing supplies, materials, and mail. These expenditures increased by approximately \$0.6 million primarily due to a salary increase of 4.5% for 2007-08.

The "plant services" category is related to the operation and maintenance of the District facilities. Its expenditures decreased by approximately \$5.8 million. This decrease is due more in part to a prior year categorization of facilities expenditures than operational activities.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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.

Governmental Activities
Fiscal Year ended June 30, 2008

<u>Functions/Programs</u>	<u>Total cost of Services</u>	<u>Net cost of Services</u>
Governmental activities:		
Instruction	\$ 123,774,038	\$ (77,562,013)
Instruction - related services	27,326,928	(13,797,666)
Pupil services	25,737,265	(5,691,870)
Ancillary services	470,412	(470,112)
Community services	2,701,743	(426,532)
Enterprise activities	325,488	(325,488)
General administration	12,328,963	(9,090,776)
Plant services	22,477,344	(20,947,096)
Other outgo and debt service	10,239,100	(9,779,690)
Depreciation (unallocated)	<u>7,872,553</u>	<u>(7,872,553)</u>
Total governmental activities	<u>\$ 233,253,834</u>	<u>\$ (145,963,796)</u>

Governmental Activities
Fiscal Year ended June 30, 2007

<u>Functions/Programs</u>	<u>Total cost of Services</u>	<u>Net cost of Services</u>
Governmental activities:		
Instruction	\$ 111,973,598	\$ (25,680,069)
Instruction - related services	25,565,698	(25,565,698)
Pupil services	24,570,350	(24,570,350)
Ancillary services	447,713	(447,713)
Community services	2,399,918	(2,399,918)
Enterprise activities	527,694	(527,694)
General administration	11,765,582	(11,765,582)
Plant services	28,233,955	(28,233,955)
Other outgo and debt service	11,358,002	(11,358,002)
Depreciation (unallocated)	<u>5,164,000</u>	<u>(5,164,000)</u>
Total governmental activities	<u>\$ 222,006,510</u>	<u>\$ (135,712,981)</u>

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

- 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

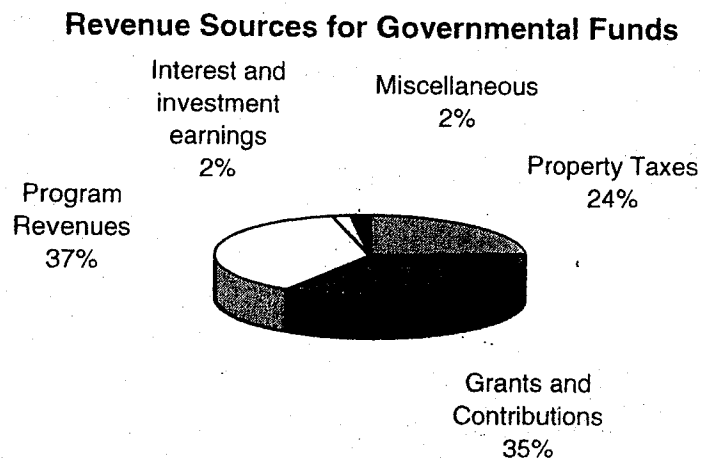
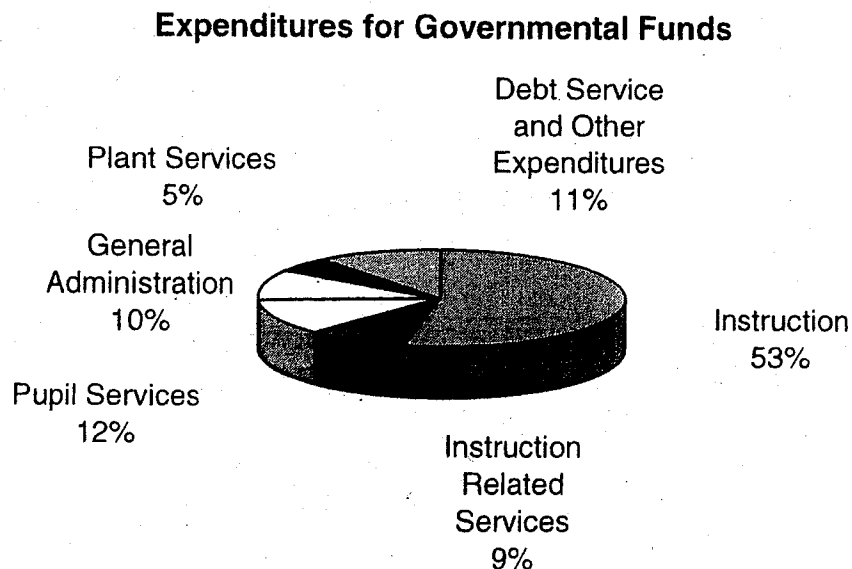


Figure 2



PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

- The District's main source of revenues is the base revenue limit (BRL) sources which represent 56% of the general fund revenues. The revenue limit sources are generated through a series of calculations based on average daily attendance and other factors such as statutory COLA, BRL deficit, equalization aid, etc. The general revenues received from grants, subsidies and unrestricted contributions as mentioned on page viii, include the state apportionment for the revenue limit sources which decreased by approximately \$1.2 million. This decrease is attributable to declining enrollment offset by cost of living adjustment.
- The District's largest operating expenses are primarily for salaries and benefits. The District expended approximately 77% of the total general fund expenditures on salaries and benefits. Certificated and classified salaries are adjusted annually for step and column salary adjustments and corresponding salary savings due to attrition and retirements.

Capital Asset and Debt Administration

Capital Assets

The Governmental Accounting Standards Board Statement No. 34 (GASB 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 annual and accumulated depreciation on major assets.

The District has \$5.9 million remaining from Measure Y funds. Measure Y was approved by voters in 1997 and authorized the sale of \$240 million in general obligation bonds. These proceeds enable the district to access \$57.6 million in State Proposition 1A funds that required local matching funds.

As a subsequent event to the 2007-2008 fiscal year, 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 identified an additional \$115 million that it may be able to access to support projects under this measure.

As of June 30, 2008, the District had \$130,950,838 invested in net capital assets after deducting long-term debt, primarily related to school construction and other capital improvements.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Note 9 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

	<u>2008</u>	<u>2007*</u>
Land	\$ 4,475,719	\$ 4,475,719
Land improvements	321,893	337,427
Buildings and improvements	278,032,464	285,577,605
Machinery, equipment and vehicles	1,341,339	1,110,780
Construction in progress	<u>41,014,967</u>	<u>29,336,235</u>
Net capital assets	<u>\$ 325,186,382</u>	<u>\$ 320,837,766</u>

* Represents restated balances. See Note 9.

Debt

Note 8 to the financial statements provides additional information on outstanding debt. Debt proceeds have been spent in prior years in modernization and the District is in repayment phase of their obligation. A schedule of long term debt for June 30, 2008 and 2007 is shown below:

	<u>2008</u>	<u>2007*</u>
General obligation bonds	\$198,570,000	\$205,175,000
Capital leases		7,841
Other post employment benefits	880,621	
Compensated absences	2,800,424	2,632,796
Supplemental retirement plan	<u>1,689,866</u>	
Total long-term debt	<u>\$ 203,940,911</u>	<u>\$ 207,815,637</u>

* Represents restated balances. See Note 8.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

General Fund Budget Information

The District's budget is prepared in accordance with California law and is based on generally accepted accounting principles, utilizing projections for cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. After updating of the forecast for changes in revenue and expenditure assumptions, the operating budget begins with staffing projections. The schools and departments then receive the remainder of funds to bring the budget into balance. The 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 to accommodate differences from the original budget to the actual expenditures of the District. A budgetary comparison schedule for the general fund is presented on page 42.

Variations between final budget amounts and actual results were a direct result 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 carryover of funds and new funding for categorical programs, adjustments to categorical programs based on actual grants/entitlements and adjustments to salaries and benefits based on actual full-time equivalents. These amounts were unknown at the time the original budget was adopted.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Economic Factors that may affect the Future

2008-09 REVENUE LIMIT – The District is currently projecting a deficated revenue limit of \$5,839.48 per ADA for 2008-09 which includes a 5.66% COLA adjustment equal to \$329 per student with a 4.713% deficit. Future year COLA's are projected at 0.0% for 2009-10 and 3.5% for 2010-11. Both years are projected to have a 4.713% deficit. The District will revise these projections that will be based on information from the Governor's Proposed Budget for 2009-10 in January 2009.

PROJECTED STUDENT AVERAGE DAILY ATTENDANCE – District ADA is projected to decrease by 113 from 2007-08 to 2008-09 school year, for a total of 19,086. In the most recent year, 2007-08, ADA decreased by 576 or 2.91% from 2006-07, due in part to the movement of students to charter schools.

LOTTERY – Lottery income for years 2008-09 through 2010-11 is based on estimates from the State Department of Education, the Los Angeles County Office of Education, and School Services of California. Projected unrestricted lottery income is \$118 per ADA for 2008-09 and future years and \$19 per ADA for restricted lottery.

STATE CLASS SIZE REDUCTION – The 2008-09 budget includes \$6.9 million for K-3 and 9th Grade Class Size Reduction (CSR) revenue from the State.

SPECIAL EDUCATION – Effective in the 2008-09 fiscal year, the Special Education program will be funded based on ADA funding model with the provision that the District will not receive funding less than the amount received in the prior year, except adjustments for Non-Public School License Children's' Institutions. The District is included in this exception and will receive a reduction of \$0.4 million for the second consecutive year.

Based on current estimates, the General Fund contribution (encroachment) in support of various Special Education programs will be approximately \$9.5 million at the first interim report of the 2008-09 General Fund budget.

ENDING FUND BALANCE PROJECTION – The District's 2008-09 ending fund balance is projected to meet the minimum reserve requirement of 3%.

STATE BUDGET – According to the latest update by the Legislative Analyst's Office (LAO), the Governor and the legislature will continue to face a multi-billion deficit for the next few years. The LAO currently places the combined shortfall for 2007-08 and 2008-09 at \$28 billion.

PASADENA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Contacting the District's Financial Management

This financial report is designed to provide the community, investors, creditors, etc. 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:

Joyce Yeh
Director of Budget
351 South Hudson Avenue
Pasadena, CA 91101

FINANCIAL SECTION

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

<u>Assets</u>	<u>Governmental Activities</u>
Cash in county treasury	\$ 94,706,671
Cash in revolving fund	1,168,180
Cash in banks	405,128
Accounts receivable:	
Federal and State governments	18,321,157
Miscellaneous	4,708,300
Inventories	309,561
Prepaid expenditures	61,315
Land	4,475,719
Construction in progress	41,014,967
Depreciable assets, net	279,695,696
Total Assets	444,866,694
<u>Liabilities</u>	
Accounts payable and other current liabilities	24,776,864
Deferred revenue	2,866,156
Current portion of long-term liabilities:	
General obligation bonds	8,935,000
Supplemental retirement plan	337,973
Non-current portion of long-term liabilities:	
General obligation bonds	189,635,000
Otherpost employment benefits other than pensions	880,621
Compensated absences	2,800,424
Supplemental Retirement Plan	1,351,893
Estimated liability for open claims and IBNR's	7,820,110
Total Liabilities	239,404,041
<u>Net Assets</u>	
Invested in capital assets, net of related debt	130,950,838
Restricted for:	
Debt service	16,005,228
Educational programs	15,342,455
Unrestricted	43,164,132
Total Net Assets	\$ 205,462,653

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				Governmental Activities
Instruction	\$ 123,774,038	\$ 164,283	\$ 46,047,742	\$ (77,562,013)
Instruction - related services	27,326,928	49,506	13,479,756	(13,797,666)
Pupil services	25,737,265	875,916	19,169,479	(5,691,870)
General administration	12,328,963	52,658	3,185,529	(9,090,776)
Plant services	22,477,344	7,770	1,522,478	(20,947,096)
Ancillary services	470,412		300	(470,112)
Community services	2,701,743	88,039	2,187,172	(426,532)
Enterprise activities	325,488			(325,488)
Other outgoing	779,045	665	458,745	(319,635)
Debt service - interest	9,460,055			(9,460,055)
Depreciation (unallocated)	7,872,553			(7,872,553)
Total Governmental Activities	\$ 233,253,834	\$ 1,238,837	\$ 86,051,201	(145,963,796)
General Revenues				
Property taxes levied for				
General purposes				42,484,740
Debt service				15,605,166
Taxes levied for other specific purposes				100,780
Federal and state aid not restricted to specific purposes				83,295,685
Interest and investment earnings				3,865,563
Miscellaneous				5,005,392
Total General Revenues and Special Items				150,357,326
Change in net assets				4,393,530
Net Assets - Beginning of Year, as Originally Stated				179,142,117
Adjustment for Restatement (See Note 15)				21,927,006
Net Assets - Beginning of Year, as Restated				201,069,123
Net Assets - End of Year				\$ 205,462,653

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Bond Interest and Redemption Fund	Special Reserve- Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash in county treasury	\$ 31,372,276	\$ 14,937,651	\$ 17,711,518	\$ 19,009,993	\$ 83,031,438
Cash in revolving fund	50,000				50,000
Cash in banks				405,128	405,128
Accounts receivable:					
Federal and State governments	15,390,802			2,930,355	18,321,157
Miscellaneous	2,890,266		176,508	480,145	3,546,919
Due from other funds	1,228,141				1,228,141
Inventories	186,229			123,332	309,561
Prepaid expenditures	61,315				61,315
Total Assets	\$ 51,179,029	\$ 14,937,651	\$ 17,888,026	\$ 22,948,953	\$ 106,953,659
<u>Liabilities and Fund Balances</u>					
<u>Liabilities</u>					
Accounts payable	\$ 19,831,858	\$	\$ 531,557	\$ 2,442,288	\$ 22,805,703
Due to other funds				1,228,141	1,228,141
Deferred revenue	438,535		1,714,042	713,579	2,866,156
Total Liabilities	20,270,393	-	2,245,599	4,384,008	26,900,000
<u>Fund Balances</u>					
Reserved for special purposes	297,544			123,332	420,876
Restricted for debt service		14,937,651			14,937,651
Restricted for special purposes	15,342,455				15,342,455
Designated for special purposes	9,692,928				9,692,928
Undesignated	5,575,709		15,642,427	18,441,613	39,659,749
Total Fund Balances	30,908,636	14,937,651	15,642,427	18,564,945	80,053,659
Total Liabilities and Fund Balances	\$ 51,179,029	\$ 14,937,651	\$ 17,888,026	\$ 22,948,953	\$ 106,953,659

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance - governmental funds \$ 80,053,659

Amounts reported for governmental funds are different than the statement of net assets 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 and improvements	\$ 4,475,719
Construction in progress	41,014,967
Depreciable assets, net	<u>279,695,696</u>

Total capital assets 325,186,382

Property taxes levied for debt service not received as of June 30, 2008 are not considered current financial resources and are not reported as receivables in the governmental funds. 1,067,577

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

General Obligation Bonds Payable and related discount	(198,570,000)
Postemployment benefits other than pensions (OPEB)	(880,621)
Compensated Absences	(2,800,424)
Supplemental Retirement Plan	<u>(1,689,866)</u>

Total long-term liabilities (203,940,911)

An internal service fund is used by the District to cover the costs of post employment benefits. The assets and liabilities should be included with governmental activities. 4,656,969

Interest expense related to general obligation bonds payable was incurred but not accrued through June 30, 2008 (1,561,023)

Total net assets - governmental activities **\$ 205,462,653**

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	Bond Interest and Redemption Fund	Special Reserve - Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Revenue limit sources:					
State apportionments	\$ 71,130,759	\$	\$	\$	\$ 71,130,759
Local sources	42,484,741				42,484,741
Total revenue limit sources	113,615,500	-	-	-	113,615,500
Federal sources	23,630,056			6,176,290	29,806,346
Other state sources	57,943,777	123,524	235,585	6,802,961	65,105,847
Other local sources	8,028,104	15,203,381	676,190	4,144,425	28,052,100
Total Revenues	<u>203,217,437</u>	<u>15,326,905</u>	<u>911,775</u>	<u>17,123,676</u>	<u>236,579,793</u>
Expenditures					
Instruction	120,365,788			2,189,423	122,555,211
Instruction - related services	26,516,752			488,569	27,005,321
Pupil services	18,311,497			7,324,297	25,635,794
Ancillary services	470,412				470,412
Community services	1,139,631			1,556,016	2,695,647
Enterprise activities	323,812				323,812
General administration	11,946,336			535,270	12,481,606
Plant services	21,751,796		1,731,014	10,568,920	34,051,730
Other outgo	779,045				779,045
Debt service		16,112,013			16,112,013
Total Expenditures	<u>201,605,069</u>	<u>16,112,013</u>	<u>1,731,014</u>	<u>22,662,495</u>	<u>242,110,591</u>
Excess (deficiency) of revenues over expenditure.	<u>1,612,368</u>	<u>(785,108)</u>	<u>(819,239)</u>	<u>(5,538,819)</u>	<u>(5,530,798)</u>
Other Financing Sources (Uses)					
Interfund transfers in	1,333,915		1,951,222	909,303	4,194,440
Interfund transfers out	(909,303)			(3,051,222)	(3,960,525)
Total Other Financing Sources (Uses)	<u>424,612</u>	<u>-</u>	<u>1,951,222</u>	<u>(2,141,919)</u>	<u>233,915</u>
Net changes in fund balances	2,036,980	(785,108)	1,131,983	(7,680,738)	(5,296,883)
Fund Balances at Beginning of Year	<u>28,871,656</u>	<u>15,722,759</u>	<u>14,510,444</u>	<u>26,245,683</u>	<u>85,350,542</u>
Fund Balances at End of Year	<u>\$ 30,908,636</u>	<u>\$ 14,937,651</u>	<u>\$ 15,642,427</u>	<u>\$ 18,564,945</u>	<u>\$ 80,053,659</u>

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Net change in fund balances-total governmental funds \$(5,296,883)

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 those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay (net of deletions)	\$12,221,169	
Depreciation expense	<u>(7,872,553)</u>	
Excess of capital outlay over depreciation expense		4,348,616

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 the repayment of debt is

1,067,577

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 assets.

General obligation bond principal payments	6,605,000	
Capital leases	<u>7,841</u>	
		6,612,841

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.

Net decrease in accrued interest	46,958	
Net increase in Compensated absences	(167,628)	
Net increase in post employment benefits other than pensions	(880,621)	
Net increase in Supplemental retirement plans	<u>(1,689,866)</u>	
		(2,691,157)

Internal service funds are used by District to charge costs of the health and welfare and worker's compensation insurance programs to the individual funds. The net income of the internal service funds are reported with governmental activities

352,536

Change in net assets of governmental activities \$ 4,393,530

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008

	Self-Insurance Fund	Warehouse Revolving Fund	Total Internal Service Funds
<u>Assets</u>			
Cash in county treasury	\$ 11,675,233	\$	\$ 11,675,233
Cash in revolving	1,118,180		1,118,180
Accounts receivable:			
Miscellaneous	93,804		93,804
Total Assets	<u>12,887,217</u>	<u>-</u>	<u>12,887,217</u>
<u>Liabilities</u>			
Accounts payable	410,138		410,138
Estimated liability for open			
claims and IBNR's	7,820,110		7,820,110
Total Liabilities	<u>8,230,248</u>	<u>-</u>	<u>8,230,248</u>
<u>Net Assets</u>			
Unrestricted	4,656,969		4,656,969
Total Net Assets	<u>\$ 4,656,969</u>	<u>\$ -</u>	<u>\$ 4,656,969</u>

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

For the Fiscal Year Ended June 30, 2008

	<u>Self-Insurance Fund</u>	<u>Warehouse Revolving Fund</u>	<u>Total Internal Service Funds</u>
Operating Revenues			
Self-insurance premiums	\$ 9,635,792	\$	\$ 9,635,792
Other operating revenues	<u>935,740</u>	<u></u>	<u>935,740</u>
Total Operating Revenues	<u>10,571,532</u>	<u>-</u>	<u>10,571,532</u>
Operating Expenses			
Classified salaries	149,980		149,980
Employee benefits	54,887		54,887
Books and supplies	14,265		14,265
Services and other operating expenses	<u>10,244,408</u>	<u></u>	<u>10,244,408</u>
Total Operating Expenses	<u>10,463,540</u>	<u>-</u>	<u>10,463,540</u>
Operating income (Loss)	107,992	-	107,992
Non-Operating Revenues			
Interest income	<u>478,459</u>	<u></u>	<u>478,459</u>
Total Non-Operating Revenues	478,459	-	478,459
Other Financing Sources (Uses)			
Interfund transfers out	<u></u>	(233,915)	(233,915)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(233,915)</u>	<u>(233,915)</u>
Net income (loss)	586,451	(233,915)	352,536
Net Assets at Beginning of Year	<u>4,070,518</u>	<u>233,915</u>	<u>4,304,433</u>
Net Assets at End of Year	<u>\$ 4,656,969</u>	<u>\$ -</u>	<u>\$ 4,656,969</u>

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2008**

	<u>Self-Insurance Fund</u>	<u>Warehouse Revolving Fund</u>	<u>Total Internal Service Funds</u>
Cash Flows from Operating Activities			
Cash received from self-insurance premiums	\$ 9,635,792	\$	\$ 9,635,792
Cash received from other operating revenues	935,740		935,740
Cash paid for claims	(11,700,869)		(11,700,869)
Cash paid for operating expenses	(19,827)	(33,141)	(52,968)
Cash paid to other funds		(32,192)	(32,192)
Cash paid to employees	(204,867)		(204,867)
Net cash used by operating activities	<u>(1,354,031)</u>	<u>(65,333)</u>	<u>(1,419,364)</u>
Cash Flows from Investing Activities			
Interest income	527,276		527,276
Net cash provided by investing activities	<u>527,276</u>	<u>-</u>	<u>527,276</u>
Cash Flows from Non-Capital Financing Activities			
Interfund transfers out		(1,444)	(1,444)
	<u>-</u>	<u>(1,444)</u>	<u>(1,444)</u>
Net decrease in Cash	(826,755)	(66,777)	(893,532)
Cash - July 1, 2007	13,620,168	66,777	13,686,945
Cash - June 30, 2008	<u>\$ 12,793,413</u>	<u>\$ -</u>	<u>\$ 12,793,413</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities			
Operating income	\$ 107,992	\$ -	\$ 107,992
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts payable	(1,462,023)	(33,141)	(1,495,164)
Decrease in due to other funds		(32,192)	(32,192)
Total adjustments	<u>(1,462,023)</u>	<u>(65,333)</u>	<u>(1,527,356)</u>
Net Cash Used by Operating Activities	<u>\$ (1,354,031)</u>	<u>\$ (65,333)</u>	<u>\$ (1,419,364)</u>
Cash balances at June 30, 2008 consisted of the following:			
Cash in county treasury	\$ 11,675,233	\$ -	\$ 11,675,233
Cash in revolving	1,118,180		1,118,180
Total Cash balances at June 30, 2008	<u>\$ 12,793,413</u>	<u>\$ -</u>	<u>\$ 12,793,413</u>

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

June 30, 2008

	<u>Pension Trust Fund</u>	<u>Agency Funds Associated Student Body Funds</u>
<u>Assets</u>		
Cash on hand and in banks	\$ 1,416,561	\$ 685,709
Accounts receivable:		
Miscellaneous	13,743	6,551
Stores inventory		20,369
Total Assets	<u>1,430,304</u>	<u>\$ 712,629</u>
<u>Liabilities</u>		
Accounts payable		\$ 3,244
Due to student groups		709,385
Total Liabilities	<u>-</u>	<u>\$ 712,629</u>
<u>Net Assets</u>		
Held in trust for pension benefits	<u>1,430,304</u>	
Total Net Assets	<u>\$ 1,430,304</u>	

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2008

	<u>Pension Trust Fund</u>
Additions	
Revenue from local sources	\$ 65,247
Total Additions	<u>65,247</u>
Deductions	
Other expenses	<u> </u>
Total Deductions	<u>-</u>
 Changes in net assets	 <u>65,247</u>
 Net Assets at beginning of year, as originally stated	 16,299
Adjustment for restatement (see note 15)	<u>1,348,758</u>
 Net Assets at beginning of year, as restated	 <u>1,365,057</u>
 Net Assets at end of year	 <u>\$ 1,430,304</u>

See the accompanying notes to the financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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) and the American Institute of Certified Public Accountants.

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

A. BASIS OF PRESENTATION:

The accompanying financial statements have been prepared in conformity with GAAP as prescribed by GASB, including Statement No. 34, Basic Financial Statements and Management Discussion and Analysis – for State and Local Governments and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 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 fiduciary activities of the District's component unit are reported separately in the fiduciary fund statements.)

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

1. Government-wide Financial Statements:

The Statement of Net Assets 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.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

1. Government-wide Financial Statements: (continued)

The Statement of Net Assets 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.

2. 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.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements: (continued)

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.

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.

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.

Enterprise activities – includes activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs are financed or recovered primarily through user charges. This function is used with self-insurance funds and retiree benefit funds.

Other outgo – includes transfers to other agencies.

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

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. 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 Statements of Revenue, 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 - the general operating fund of the District is used to account for all financial resources except those required to be accounted for in another fund.

Bond Interest and Redemption Fund - used to account for the payment of principal and interest on general long-term debt. The District maintains the Debt Service Fund to account for bond interest and redemption of bond principle.

Special Reserve Fund for Capital Outlay Projects - used to account for specific board-approved capital expenditures.

GOVERNMENTAL FUNDS - NON-MAJOR

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

1. Adult Education Fund - used to account for resources committed to adult education programs maintained by the District.
2. Child Development Fund - used to account for resources committed to child development programs.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

3. Cafeteria Fund - used to account for revenues received and expenditures made to operate the District's cafeterias.
4. Deferred Maintenance Fund - used for the purpose of major repair or replacement of District property.
5. Special Reserve Fund for Other Than Capital Outlay Projects – used to account for District resources designated for non-capital outlay purposes and related expenditures.

Capital Projects Funds - used to account for the acquisition and/or construction of major governmental general fixed assets.

1. Building Fund - used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.
2. Capital Facilities Fund - used to account for resources received from residential and commercial developer impact fees.

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.

Warehouse Revolving Fund - used to account for the District's inventory.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

FIDUCIARY FUNDS

Pension Trust Fund - used to account for the Alternative Retirement Plan in effect for part-time employees for the time period 1992-2000.

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 eight 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 \$(848,208) on June 30, 2008, which represents a prepayment of withholdings payable.

C. 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 deferred revenue, and in the presentation of expenses versus expenditures.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

In accordance with GASB Statement No. 20, the District's proprietary funds follow all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District also applies all FASB statements issued after November 30, 1989 that are developed for business enterprises, unless those statements conflict with or contradict a GASB statement.

1. 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, in accordance with the requirements of GASB Statement No. 31.

2. Receivables

Receivables are generally recorded when the amount is earned and can be estimated. Per Education Code Section 33128.1, a local education agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. The District has recognized receivables in accordance with this standard, the most notable being for the final P-2 apportionment.

3. 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, 2008, the inventory for supplies is \$186,229. The inventory for food is \$123,332.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2008, 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 expenditure/expense is reported in the year in which goods or services are consumed.

5. 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 Assets, 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 fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-15 years
Vehicles	8 years

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

6. Deferred Revenue

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

7. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District. The entire compensated absences liability is accrued 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. 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 since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

8. 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.

9. Fund Balance Reservations and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors or laws or regulations of other governments.

11. 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 revenue limits and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

12. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

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 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 revenue limit purposes. Property taxes for debt service purposes have been accrued in the Government-wide financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

13. On-Behalf Payments

GASB Statement No. 24 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 and Public Employees Retirement Systems on behalf of all school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,658,000 for STRS.

14. 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.

15. Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from nonoperating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as food service sales, Federal and most State and local grants and contracts, and self-insurance premiums. Nonoperating revenues include activities that have the characteristics of nonexchange transactions that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB No. 33, such as investment income.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

16. 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.

D. 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 Statement No. 14, The Financial Reporting Entity. 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 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.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support of the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. 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.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. REPORTING ENTITY: (continued)

2. 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.
3. 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 in 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 District.

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 criterion 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 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.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008, \$1,922,632 of the District's bank balance of \$2,509,121 was exposed to credit risk as follows:

Uninsured and collateral held by pledging bank's
trust department not in the District's name

\$1,922,632

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. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2008, as provided by the pool sponsor, was \$95,169,363.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 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. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund activity has been eliminated in the Government-wide statements as required by GASB No. 34. The following balances and transactions are reported in the fund financial statements.

A. Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2008 are temporary loans and are detailed as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$1,228,141	\$
Special Revenue Funds:		
Cafeteria		<u>1,228,141</u>
Totals	<u>\$1,228,141</u>	<u>\$1,228,141</u>

B. 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 2007-08 fiscal year are as follows:

Transfer from the Special Reserve Fund Other than Capital Projects to the General Fund for Nextel one-time funds for approach to excellence and John Muir revitalization	\$1,100,000
Transfer from the Special Reserve Fund Other than Capital Projects to the Special Reserve for Capital Outlay Fund for capital outlay projects	1,951,222
Transfer from the General Fund to the Deferred Maintenance Fund to match state allocation	909,303
Transfer from the Warehouse Revolving Fund to the General Fund to close out the Warehouse Revolving Fund	<u>233,915</u>
Total	<u>\$4,194,440</u>

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED:

The following amounts were reserved by the Board of Education for the special purposes below:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Cash in revolving fund	\$ 50,000	\$	\$ 50,000
Inventory	186,229	123,332	309,561
Prepaid expenditures	<u>61,315</u>	<u> </u>	<u>61,315</u>
Total	<u>\$297,544</u>	<u>\$123,332</u>	<u>\$420,876</u>

The following ending balances were legally restricted for the special purposes below:

Restricted General Fund

Medi-Cal Billing Option	\$ 232,310
Other Federal	56,664
Physical Education Teacher Incentive Grants	210,000
English Language Acquisition Program, Teacher Training & Student	166,861
English Language Learner Acquisition and Development Pilot	400,200
California Public School Library Act of 1998	15,352
Lottery: Instructional Materials	300,361
Career Technical Education Equipment and Supplies	25,180
School Safety & Violence Prevention	686,707
Arts and Music Grant	401,734
Arts, Music, and Physical Education Supplies and Equipment	1,138,682
CAHSEE Intensive Instruction and Services	255,776
Supplemental School Counseling Program	305,116
Economic Impact Aid	2,701,524
Gifted & Talented Program	89,444
Instructional Materials Realignment, IMFRP	715,588
Instructional Materials: English Language Learners	95,998
Instructional Materials: Williams Case	241,738
California Peer Assistance & Review Program for Teachers	234,413
Certificated Staff Mentoring Program	163,800

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED: (continued)

Staff Development: Mathematics and Reading	54,143
Pupil Retention Block Grant	151,774
Teacher Credentialing Block Grant	201,084
Professional Development Block Grant	344,315
Targeted Instructional Improvement Block Grant	2,027,415
School and Library Improvement Block Grant	790,927
Discretionary Block Grant - School Site	697,479
Discretionary Block Grant - School District	80,675
Instructional Materials, Library Materials, and Education Technology	28,786
Quality Education Investment Act	118,489
Medical Administrative Activities	890,201
Mental Health Services	444,026
Other Local	1,052,365
Other State	<u>23,328</u>
Total	<u>\$15,342,455</u>

The following amounts were designated by the Board of Education for the special purposes below:

General Fund:

Designated for Economic Uncertainties	\$6,816,555
Designated for Approach to Excellence	1,476,373
Designated for Summer School Attendance Audit	<u>1,400,000</u>
Total	<u>\$9,692,928</u>

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6 - LEASES:

Operating Leases

The District has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2009	\$166,161
2010	132,312
2011	123,888
2012	120,648
2013	<u>24,336</u>
Total	<u>\$567,345</u>

Current year expenditures for operating leases is approximately \$257,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 7 – GENERAL OBLIGATION BONDS:

The District has two General Obligation Bonds outstanding during the year. The purpose of these bonds are to finance the acquisition, construction and modernization of school facilities and paying related costs.

The outstanding general obligation bond debt of Pasadena Unified School District as of June 30, 2008 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2008</u>
9/22/2004	2.63-5.00%	11/1/2015	\$ 86,685,000	\$ 78,805,000	\$ 4,180,000	\$ 74,625,000
7/13/2005	2.75-5.00%	11/1/2019	128,970,000	126,370,000	2,425,000	123,945,000
				<u>\$205,175,000</u>	<u>\$ 6,605,000</u>	<u>\$198,570,000</u>

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2008, are as follows:

2004 General obligation refunding bond with original issue of \$86,685,000:

Year Ended June 30	Principal	Interest	Total
2009	\$ 5,165,000	\$ 3,254,701	\$ 8,419,701
2010	6,180,000	3,044,163	9,224,163
2011	7,265,000	2,770,438	10,035,438
2012	8,475,000	2,429,501	10,904,501
2013	9,740,000	2,025,188	11,765,188
2014-2016	37,800,000	2,851,169	40,651,169
	<u>\$ 74,625,000</u>	<u>\$ 16,375,160</u>	<u>\$ 91,000,160</u>

2005 General obligation refunding bond with original issue of \$128,970,000:

Year Ended June 30	Principal	Interest	Total
2009	\$ 3,770,000	\$ 5,950,738	\$ 9,720,738
2010	3,800,000	5,835,225	9,635,225
2011	3,815,000	5,695,138	9,510,138
2012	3,875,000	5,513,113	9,388,113
2013	4,005,000	5,316,800	9,321,800
2014-2018	55,825,000	21,869,088	77,694,088
2019-2020	48,855,000	2,431,625	51,286,625
	<u>\$ 123,945,000</u>	<u>\$ 52,611,727</u>	<u>\$ 176,556,727</u>

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2008

NOTE 8 – LONG-TERM DEBT – SCHEDULE OF CHANGES:

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

Governmental Activities

	Balance June 30, 2007	Adjustment for Restatement*	Restated Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008	Amount Due in One Year
General Obligation Bonds:							
2004 Refunding Bond	\$ 78,805,000	\$	\$ 78,805,000	\$	\$ 4,180,000	\$ 74,625,000	\$ 5,165,000
2005 Refunding Bond	126,370,000		126,370,000		2,425,000	123,945,000	3,770,000
Capital Leases	7,841		7,841		7,841	-	
Compensated Absences	1,722,668	910,128	2,632,796	167,628		2,800,424	
Supplementary Retirement Program				1,689,866		1,689,866	337,973
Other Postemployment Benefits							
Other than Pensions				880,621		880,621	
	<u>\$ 206,905,509</u>	<u>\$ 910,128</u>	<u>\$ 207,815,637</u>	<u>\$ 2,738,115</u>	<u>\$ 6,612,841</u>	<u>\$ 203,940,911</u>	<u>\$ 9,272,973</u>

*See Note 15

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES:

Capital asset activity for the year ended June 30, 2008 is shown below.

Governmental Activities

	Balance June 30, 2007	Adjustment for Restatement*	Restated Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Land	\$ 4,475,719	\$	\$ 4,475,719	\$	\$	\$ 4,475,719
Land Improvements	4,312,800	330,147	4,642,947			4,642,947
Buildings and Improvements	239,252,690	109,081,772	348,334,462			348,334,462
Machinery, Equipment and Vehicles	10,540,549		10,540,549	542,437		11,082,986
Construction in Progress	117,275,494	(87,939,259)	29,336,235	11,678,732		41,014,967
Totals at Historical Cost	<u>375,857,252</u>	<u>21,472,660</u>	<u>397,329,912</u>	<u>12,221,169</u>	<u>-</u>	<u>409,551,081</u>
Less Accumulated Depreciation for:						
Land Improvements	(4,305,520)		(4,305,520)	(15,534)		(4,321,054)
Buildings and Improvements	(64,121,331)	1,364,474	(62,756,857)	(7,545,141)		(70,301,998)
Machinery, Equipment and Vehicles	(9,429,769)		(9,429,769)	(311,878)		(9,741,647)
Total Accumulated Depreciation	<u>(77,856,620)</u>	<u>1,364,474</u>	<u>(76,492,146)</u>	<u>(7,872,553)</u>	<u>-</u>	<u>(84,364,699)</u>
Governmental Capital Assets, Net	<u>\$ 298,000,632</u>	<u>\$ 22,837,134</u>	<u>\$ 320,837,766</u>	<u>\$ 4,348,616</u>	<u>\$ -</u>	<u>\$ 325,186,382</u>

*See Note 15

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 – INTERNAL SERVICE FUNDS:

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 an Internal Service Funds to account for and finance its uninsured risks of loss. Under this program, the Internal Service Funds provides coverage for up to a maximum of \$350,000 for each worker's compensation claim, and up to \$1,700 in annual benefits for each covered employee and their dependents for dental claims. 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 Internal Service 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, 2008, the District accrued the claims liability in accordance with GASB Statement No. 10, 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 \$7,820,110. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Worker's Compensation	\$7,407,657	\$3,757,430	\$3,344,977	\$7,820,110

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 11 - 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 State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Self-Insured Schools of California (SISC).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool 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. CalPERS issues a separate and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-08 was 9.306% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2006	\$6,373,712	100%	\$2,724,669	100%
2007	6,398,742	100%	2,789,099	100%
2008	6,783,511	100%	3,049,489	100%

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Self-Insured Schools of California

Plan Description

The Self-Insured Schools of California (SISC) is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District.

Funding Policy

The District contributes a percentage each year based on an annual actuarially determined rate. Contributions for 2007-08 ranged from 3.5-3.9% of covered compensation of eligible employees. Total contributions were made in the amount of \$193,669 during the fiscal year. The total amount of covered compensation was \$5,220,499. Total contributions made are 100% of the amount of contributions required for fiscal year 2007-08.

NOTE 12 - SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN:

Supplemental Employee Retirement Plan

On May 27, 2008, the Board of Education approved the implementation of a District's Supplemental Employee Retirement Plan for eligible certificated non-management employees.

A total of 33 certificated teachers are participating. The District will pay benefits over five years totaling \$1,689,866. No payments were made during 2007-08, thus the total liability of \$1,689,866 has been reflected in these financial statements.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS:

Plan Description

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.

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 2008, the District contributed \$1,394,167 which included an implicit rate subsidy of approximately \$450,000 to the plan. Total member contributions were approximately \$235,000.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

PASADENA UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

Annual required contribution (ARC)	\$2,274,788
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	2,274,788
Contributions made	<u>(1,394,167)</u>
Change in net OPEB obligation	880,621
Net OPEB obligation - beginning of year ⁽¹⁾	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 880,621</u></u>

⁽¹⁾ GASB Statement No. 45 provides for prospective implementation, therefore the beginning net OPEB obligation is set at zero as of the beginning of the initial year

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$2,274,788	61.3%	\$ 880,621

Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Funding Status and Funding Progress

As of July 1, 2006, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$18,461,458. The covered payroll (annual payroll of active employees covered by the plan) was \$105,565,767, and the ratio of the UAAL to the covered payroll was 17.5%.

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

Actuarial Methods and Assumptions

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

In the July 1, 2006 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses) which is the rate of the expected long-term investment return on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 5 percent after 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized as a level dollar of projected payroll on a closed basis over 30 years.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 14 - JOINT POWERS AGREEMENTS:

The Pasadena Unified School District participates in two joint powers agreement (JPA) entities, Alliance of Schools in Cooperative Insurance Programs (ASCIP), which arranges for and provides property and liability insurance for its members and the California Statewide Tax Authority (the Authority).

The Authority purchases delinquent ad valorem property taxes from school agencies in Los Angeles County to receive additional unrestricted revenues through financing of property tax delinquencies. The Authority is a pass through entity and financial information is not available. For the fiscal year 2007-08, the District received local revenue in the amount of \$129,106 from the Authority.

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 Pasadena Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from the respective entity.

The relationships between the Pasadena Unified School 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:

	ASCIP (Audited) <u>June 30, 2008</u>
Total Assets	\$215,712,557
Total Liabilities	<u>130,986,429</u>
Fund Balance	<u>\$ 84,726,128</u>
Total Revenues	\$183,000,226
Total Expenditures	<u>163,140,353</u>
Net Increase/Decrease in Fund Balance	<u>\$ 19,859,873</u>

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 15 – RESTATEMENT TO BEGINNING NET ASSETS:

Governmental Activities:

The beginning net assets for the government-wide financial statements have been restated \$(21,927,006) for the following:

To capitalize and depreciate modernization costs not previously included	\$22,837,134
To restate beginning compensated absences balance	<u>(910,128)</u>
	<u>\$21,927,006</u>

Fiduciary Funds Net Assets:

The beginning net assets for the pension trust fund have been restated for the following:

To reflect the removal of the accounts payable account to reflect proper presentation of net assets held in trust for pension benefits	\$ <u>1,348,758</u>
--	---------------------

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

A. Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

B. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, that 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.

C. State School Building Lease-Purchase and 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.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 16 - COMMITMENTS AND CONTINGENCIES: (continued)

D. Purchase Commitments

As of June 30, 2008, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$200,000. Projects will be funded through Bond Proceeds, State School Building Lease-Purchase Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and General Funds.

E. Contingent Liability – Net Pension Obligation:

The District has an inactive defined benefit plan that is accounted for in a fiduciary fund (pension trust fund). The defined benefit plan was active for the time period of 1992 – 2000. The District has \$1,416,561 in assets held in trust for pension benefits. The District did not obtain an actuarial study to determine if there is a net pension obligation that should be recorded on the government-wide financial statements. There is also not adequate information to include the disclosures required by Governmental Accounting Standards Board (GASB) Statements Nos. 25 and 27. The effect of such adjustments, if any, are unknown at this time.

NOTE 17 - SUBSEQUENT EVENT:

A. General Obligation Bonds

On November 4, 2008, the citizens passed Measure TT, General Obligation Bonds in the amount of \$350,000,000. The bonds are to be used for the construction, reconstruction, rehabilitation, or replacement of school facilities.

B. Qualified Zone Academy Bonds

The District was authorized to issue \$7,500,000 of Qualified Zone Academy Bonds and issued \$2,500,000 in July 2008.

C. Litigation Settlement

The District was involved in a lawsuit and in August 2008, the parties entered into a settlement agreement pursuant to which the District agreed to pay the sum of \$599,409 as full and final settlement of all claims. The settlement agreement was approved by the District's Board of Education on August 26, 2008. On September 15, 2008 the District paid the settlement proceeds of \$599,409.

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF BUDGETARY COMPARISON
FOR THE - GENERAL FUND
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Revenue limit sources:				
State apportionments	\$ 68,175,760	\$ 68,457,075	\$ 71,130,759	\$ 2,673,684
Local sources	44,088,413	45,714,377	42,484,741	(3,229,636)
Total revenue limit sources	112,264,173	114,171,452	113,615,500	(555,952)
Federal sources	21,673,023	26,332,713	23,630,056	(2,702,657)
Other State sources	54,789,035	58,990,938	57,943,777	(1,047,161)
Other local sources	6,641,251	7,856,130	8,028,104	171,974
Total Revenues	<u>195,367,482</u>	<u>207,351,233</u>	<u>203,217,437</u>	<u>(4,133,796)</u>
Expenditures				
Certificated salaries	79,790,158	86,194,625	85,169,125	1,025,500
Classified salaries	30,093,600	33,982,046	32,043,930	1,938,116
Employee benefits	37,585,301	39,348,195	38,273,280	1,074,915
Books and supplies	14,334,377	26,856,875	12,030,154	14,826,721
Contracted services	34,428,298	38,598,248	33,335,580	5,262,668
Capital outlay	667,170	665,321	509,226	156,095
Tuition and other outgo	631,329	1,107,394	779,045	328,349
Direct support - indirect cost	(547,003)	(509,474)	(535,271)	25,797
Total Expenditures	<u>196,983,230</u>	<u>226,243,230</u>	<u>201,605,069</u>	<u>24,638,161</u>
Excess (deficiency) of revenues over expenditures	<u>(1,615,748)</u>	<u>(18,891,997)</u>	<u>1,612,368</u>	<u>20,504,365</u>
Other Financing Sources (Uses)				
Interfund transfers in		1,333,915	1,333,915	-
Interfund transfers out	(1,072,691)	(1,253,238)	(909,303)	343,935
Total Other Financing Sources (Uses)	<u>(1,072,691)</u>	<u>80,677</u>	<u>424,612</u>	<u>343,935</u>
Net change in fund balance	<u>\$ (2,688,439)</u>	<u>\$ (18,811,320)</u>	<u>2,036,980</u>	<u>\$ 20,848,300</u>
Fund Balance - Beginning of Year			<u>28,871,656</u>	
Fund Balance - End of Year			<u>\$ 30,908,636</u>	

See the accompanying notes to the required supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2008

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (Unit Cost Method) (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funding Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2008	7/1/2006	\$ -	\$ 18,461,458	\$ 18,461,458	0%	\$ 105,565,767	17.5%

Note: Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three year trend information will be presented.

See the accompanying notes to the required supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2008**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Budgetary Comparison For The General Fund

GASB Statement No. 34 requires a budgetary comparison be presented for the general fund. This schedule presents the budget as originally adopted, the revised budget as of the fiscal year end, actual amounts at fiscal year end and the variance between the final budget and actual amounts.

B. Schedule of Postemployment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

June 30, 2008

The Board of Education and the District Administrators for the fiscal year ended June 30, 2008 were as follows:

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Esteban (Steve) Lizardo	President	April 2009
Mr. Tom Selinske	Vice President	April 2011
Mr. Edwin Diaz	Secretary	
Mr. Mike Babcock	Member	April 2009
Ms. Renatta Cooper	Member	April 2011
Mr. Scott Phelps	Member	April 2009
Mr. Bob Harrison	Member	April 2011
Mr. Ed Honowitz	Member	April 2009

DISTRICT ADMINISTRATORS

Mr. Edwin Diaz	Superintendent
Ms. Michele McClowry	Interim Assistant Superintendent for Business Services
Ms. Kathleen Duba	Chief Academic Officer
Dr. George McKenna	Assistant Superintendent for School Operations and Support – 9-12
Dr. Jacqueline Cochran	Assistant Superintendent for Teaching and Learning – K-8

PASADENA UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA) For the Fiscal Year Ended June 30, 2008

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 State Department of Education.

ADA statistics reported to the State for the fiscal year ended June 30, 2008 are as follows:

	<u>Revised Second Period</u>	<u>Revised Annual</u>
Elementary:		
Kindergarten	1,437	1,438
First through third grade	4,448	4,446
Fourth through eighth grade	6,939	6,931
Home or hospital - temporary physical disabilities	5	6
Special education	444	447
Special education – nonpublic, nonsectarian schools	112	108
Extended year special education – mandated	42	42
Extended year programs - nonpublic, nonsectarian schools	23	23
Total elementary ADA	<u>13,450</u>	<u>13,441</u>
Secondary:		
Regular classes	5,322	5,257
Continuation education	69	73
Home or hospital - temporary physical disabilities	5	5
Special education	203	194
Special education – nonpublic, nonsectarian schools	90	91
Extended year special education – mandated	18	18
Extended year programs - nonpublic, nonsectarian schools	12	12
Total secondary ADA	<u>5,719</u>	<u>5,650</u>
Classes for Adults:		
Not concurrently enrolled	<u>30</u>	<u>30</u>
Total ADA	<u>19,199</u>	<u>19,121</u>

Hourly Programs Hours of Attendance

Elementary	386,485
Secondary	213,975

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2008**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2007-08 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,000	180	In Compliance
Grade 1	50,400	49,890	54,165	180	In Compliance
Grade 2	50,400	49,890	54,165	180	In Compliance
Grade 3	50,400	49,890	54,165	180	In Compliance
Grade 4	54,000	53,320	54,165	180	In Compliance
Grade 5	54,000	53,320	54,165	180	In Compliance
Grade 6	54,000	53,320	54,165	180	In Compliance
Grade 7	54,000	60,756	61,595	180	In Compliance
Grade 8	54,000	60,756	61,595	180	In Compliance
Grade 9	64,800	59,376	63,635	178	Not in Compliance*
Grade 10	64,800	59,376	63,635	178	Not in Compliance*
Grade 11	64,800	59,376	63,635	178	Not in Compliance*
Grade 12	64,800	59,376	63,635	178	Not in Compliance*

*Please refer to Finding 08-4.

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through California Department of Education:			
National School Lunch Program	10.555	03396	\$ 4,360,097
Especially Needy Breakfast Program	10.553	03526	1,291,912
Basic School Breakfast	10.553	13396	4,664
Meal Supplements	10.553	(1)	381,575
Child Care Food Program	10.558	13666	138,042
Pass-Through Los Angeles County Office of Education:			
Forest Reserve Funds	10.665	10044	22,584
Total U.S. Department of Agriculture			<u>6,198,874</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct:			
California Nutrition Network for Healthy Active Families	84.000	(1)	1,481,077
Pass-Through California Department of Education:			
Special Education Cluster:			
IDEA Basic Local Assistance Entitlement, Part B	84.027	13379	4,173,683
IDEA Preschool Local Entitlement, Part B	84.027A	13682	598,893
IDEA Preschool Staff Development, Part B	84.173A	13431	1,559
IDEA Early Intervention Grants, Part C	84.181	23761	84,746
IDEA Preschool Grants, Part B	84.173	13430	263,592
Carl Perkins Act	84.048	13924	249,973
Carol M. White Physical Education: Spark Up Your Fitness	84.215F	(1)	228,219
Presidents and Precedents: Teaching American History	84.215X	(1)	362,545
Title I, Part A, Basic Grants	84.010	14329	7,664,692
Title I, Part A, Non-Program Improvement LEAs with Program Improvement Schools	84.010	14796	120,000
Title I, Part B, Reading First	84.357	14328	1,278,429
Title I, Part D, Local Delinquent Program	84.010	14357	36,904
Title II, Part A, Administrator Training	84.367	14344	320
Title II, Part A, Improving Teacher Quality	84.367	14341	2,371,240
Title II, Part B, Mathematics and Science Partnership	84.366	14512	810,955
Title II, Part D, Enhancing Education Through Technology	84.318	14334	101,308
Title III, Limited English Proficient	84.365	10084	579,765
Title IV, Part A	84.186	14347	147,786
Title IV, Part B, 21st Century Community Learning Centers	84.287	14535	217,190
Title V, Part A, Innovative Education Strategies	84.298A	14354	20,484
Pass-Through Los Angeles County Office of Education:			
Title X, McKinney - Vento Homeless Children Assistance Grants	84.196	14332	79,946
Total U.S. Department of Education			<u>20,873,306</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct:			
Junior Reserve Officers' Training Corps	12.000	(1)	410,271
Total U.S. Department of Defense			<u>410,271</u>

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, 2008

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through California Department of Education:			
Child Care Initiative Project	93.575	13942	3,464
Infant/Toddler Child Care Resource Contracts	93.575	13942	2,462
Pass-Through Department of Health Services:			
Medi-Cal Administrative Activities	93.778	10060	765,705
Pass-Through Los Angeles County:			
Mental Health Services	93.000	(1)	1,605,554
Pass-Through State of California:			
Medi-Cal Billing Option	93.778	10013	191,316
Total U.S. Department of Health and Human Services			<u>2,568,501</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through City of Pasadena:			
Healthy Start	14.218	(1)	33,674
Young and Healthy	14.218	(1)	30,775
Blair Learns	14.218	(1)	17,960
Total U.S. Department of Housing and Urban Development			<u>82,409</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Direct:			
Workforce Investment Act	17.255	10055	91,752
Total U.S. Department of Labor			<u>91,752</u>
Total Federal Program Expenditures			<u>\$ 30,225,113</u>
Reconciliation to Federal Revenue:			
Total Federal Program Expenditures			\$ 30,225,113
Expenditures in Excess of Revenue Related to Federal Entitlement Program			
Medi-Cal Billing Option	93.778	10013	(95,730)
Medi-Cal Administrative Activities	93.778	10060	(275,509)
Mental Health Services	93.000	(1)	(14,875)
California Nutrition Network for Healthy Active Families	84.000	(1)	(26,728)
Child Care Initiative Project	93.575	13942	(3,464)
Infant/Toddler Child Care Resource Contracts	93.575	13942	(2,461)
Total Federal Program Revenues			<u><u>\$ 29,806,346</u></u>

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

The District is the recipient of a federal award program that does not result in cash receipts or disbursement.
The District was granted \$403,423 of commodities under the National School Lunch Program (CFDA 10.555)

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

	(Budget) 2009		2008		2007*		2006*	
	Amount	%	Amount	%	Amount	%	Amount	%
General Fund								
Revenue								
Revenue limit sources	111,547,893	57.6	113,615,500	56.1	114,569,584	58.6	111,701,151	60.2
Federal	20,855,922	10.8	23,630,056	11.7	21,032,882	10.8	24,916,042	13.4
State	53,003,457	27.4	57,943,777	28.6	57,363,850	29.4	50,411,594	27.1
County and local	6,428,208	3.3	8,028,104	4.0	11,734,999	6.0	5,747,140	3.1
Transfers in	2,000,000	1.0	1,333,915	0.7				
Total Revenue	193,835,480	100.1	204,551,352	101.1	204,701,315	104.8	192,775,927	103.8
Expenditures								
Certificated salaries	79,056,773	40.8	85,169,125	42.1	79,933,213	40.9	79,378,527	42.7
Classified salaries	30,359,421	15.7	32,043,930	15.8	29,578,126	15.1	28,215,266	15.2
Employee benefits	38,514,265	19.9	38,273,280	18.9	37,151,404	19.0	36,111,969	19.5
Books and supplies	9,996,957	5.2	12,030,154	5.9	8,865,994	4.5	7,727,753	4.2
Services and other								
operating expenditures	33,020,671	17.1	33,335,580	16.5	31,748,865	16.3	31,533,972	17.0
Capital outlay	270,932	0.1	509,226	0.3	358,943	0.2	447,420	0.2
Other outgo	2,005,048	1.0	779,045	0.4	1,565,672	0.8	462,015	0.2
Direct support/indirect costs	(567,024)	(0.3)	(535,271)	(0.3)	(605,267)	(0.3)	(751,652)	(0.4)
Interfund transfers out	933,854	0.5	909,303	0.4	6,747,043	3.5	2,579,911	1.4
Total Expenditures	193,590,897	100.0	202,514,372	100.0	195,343,993	100.0	185,705,181	100.0
Change in fund balance	\$ 244,583	0.1	\$ 2,036,980	1.0	\$ 9,357,322	4.8	\$ 7,070,746	3.8
Other restatement					\$ (755,417)			
Ending fund balance	\$ 31,153,219	16.1	\$ 30,908,636	15.3	\$ 28,871,656	14.8	\$ 20,269,751	10.9
Available reserve	\$ 10,610,764	5.5	\$ 12,392,264	6.1	\$ 11,528,269	5.9	\$ 8,893,070	4.8
Recommended reserve percentage		3.0		3.0		3.0		3.0
Average daily attendance	19,086		19,169		19,775		20,301	
Total Long-term debt	\$ 195,548,559		\$ 203,940,911		\$ 206,905,509		\$ 216,295,632	

Important Notes:

Available reserves are those amounts designated for economic uncertainty, and any other remaining undesignated fund balance from the General Fund.

The 2009 Budget is the original adopted budget.

Average daily attendance numbers do not include the Charter Schools or Adult Education.

All percentages are of Total Expenditures.

* These years were not audited by Vicenti, Lloyd & Stutzman LLP.

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2008**

<u>Charter School</u>	<u>Included in District Audit Report</u>
Aveson Global Leadership Academy	No
Aveson School of Leaders	No
Nia Educational Charter School	No
Pasadena Rosebud Academy	No
Rhythms of the Village	No

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

GOVERNMENTAL FUNDS

	<u>Child Development Fund</u>	<u>Capital Facilities Fund</u>
June 30, 2008 Annual Financial and Budget Report Fund Balances	\$2,304,676	\$2,788,868
Adjustments and Reclassifications:		
Increasing (Decreasing) the Fund Balance:		
Understatement (overstatement) of Accounts Receivable	(114,897)	142,015
Understatement of Deferred Revenue	<u>(713,579)</u>	<u> </u>
Net Adjustments and Reclassifications	<u>(828,476)</u>	<u>142,015</u>
June 30, 2008 Audited Financial Statement Fund Balances	<u>\$1,476,200</u>	<u>\$2,930,883</u>

FIDUCIARY FUNDS

	<u>Pension Trust Fund</u>
June 30, 2008 Annual Financial and Budget Report Fund Balances	\$ 17,078
Adjustment for Restatement	1,348,758
Overstatement of Accounts Payable	<u>64,468</u>
Net Adjustments and Reclassifications	<u>1,413,226</u>
June 30, 2008 Audited Financial Statement Fund Balances	<u>\$1,430,304</u>

See the accompanying notes to supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES:

A. 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.

B. Schedule of Instructional Time

The District 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.

C. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133, this schedule was prepared for the District and is presented on the modified accrual basis of accounting.

D. Schedule of Financial Trends and Analysis

The State Controller's Office 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.

E. Schedule of Charter Schools

The State Controller's Office 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.

PASADENA UNIFIED SCHOOL DISTRICT

**NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

F. 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.

NOTE 2 – EXCESS SICK LEAVE:

Section 19833.5(a)(3) disclosure

Pasadena Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

OPTIONAL SUPPLEMENTARY INFORMATION

PASADENA UNIFIED SCHOOL DISTRICT

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Total (Memorandum Only)
Assets						
Cash in county treasury	\$ 52,996	\$ 710,319	\$ 1,427,031	\$ 4,124,793	\$ 2,965,693	\$ 9,280,832
Cash in banks			405,128			405,128
Accounts receivable:						
Federal and State governments		1,729,154	1,201,201			2,930,355
Miscellaneous	5,243	56,650	21,921	43,514	95,450	222,778
Inventories			123,332			123,332
Total Assets	\$ 58,239	\$ 2,496,123	\$ 3,178,613	\$ 4,168,307	\$ 3,061,143	\$ 12,962,425
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 2,807	\$ 306,344	\$ 686,730	\$ 286,990	\$ (749)	\$ 1,282,122
Due to other funds			1,228,141			1,228,141
Deferred revenue		713,579				713,579
Total Liabilities	2,807	1,019,923	1,914,871	286,990	(749)	3,223,842
Fund Balances						
Reserved for special purposes			123,332			123,332
Undesignated	55,432	1,476,200	1,140,410	3,881,317	3,061,892	9,615,251
Total Fund Balances	55,432	1,476,200	1,263,742	3,881,317	3,061,892	9,738,583
Total Liabilities and Fund Balances	\$ 58,239	\$ 2,496,123	\$ 3,178,613	\$ 4,168,307	\$ 3,061,143	\$ 12,962,425

See the accompanying notes to the optional supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Total (Memorandum Only)
Revenues						
Revenue from federal sources	\$	\$	\$ 6,176,290	\$	\$	\$ 6,176,290
Revenue from other state sources	85,747	5,069,205	819,725	828,284		6,802,961
Revenue from local sources	2,048	336,199	873,754	162,579	330,547	1,705,127
Total Revenues	<u>87,795</u>	<u>5,405,404</u>	<u>7,869,769</u>	<u>990,863</u>	<u>330,547</u>	<u>14,684,378</u>
Expenditures						
Instruction	51,862	2,137,561				2,189,423
Instruction-related services		488,569				488,569
Pupil services		92,470	7,231,827			7,324,297
Community services		1,556,016				1,556,016
General administration	2,458	206,304	326,508			535,270
Plant services		118,186		959,519		1,077,705
Total Expenditures	<u>54,320</u>	<u>4,599,106</u>	<u>7,558,335</u>	<u>959,519</u>	<u>-</u>	<u>13,171,280</u>
Excess (deficiency) of revenues over expenditures	<u>33,475</u>	<u>806,298</u>	<u>311,434</u>	<u>31,344</u>	<u>330,547</u>	<u>1,513,098</u>
Other Financing Sources (Uses)						
Interfund transfers in				909,303		909,303
Interfund transfers out					(3,051,222)	(3,051,222)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>909,303</u>	<u>(3,051,222)</u>	<u>(2,141,919)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	33,475	806,298	311,434	940,647	(2,720,675)	(628,821)
Fund Balances at Beginning of Year	<u>21,957</u>	<u>669,902</u>	<u>952,308</u>	<u>2,940,670</u>	<u>5,782,567</u>	<u>10,367,404</u>
Fund Balances at End of Year	<u>\$ 55,432</u>	<u>\$ 1,476,200</u>	<u>\$ 1,263,742</u>	<u>\$ 3,881,317</u>	<u>\$ 3,061,892</u>	<u>\$ 9,738,583</u>

See the accompanying notes to the optional supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
NON-MAJOR CAPITAL PROJECTS FUNDS
BALANCE SHEET
June 30, 2008

	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Total (Memorandum Only)</u>
<u>Assets</u>			
Cash in county treasury	\$ 6,924,504	\$ 2,804,657	\$ 9,729,161
Accounts receivable:			
Miscellaneous	88,763	168,604	257,367
Total Assets	<u>\$ 7,013,267</u>	<u>\$ 2,973,261</u>	<u>\$ 9,986,528</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 1,117,788	\$ 42,378	\$ 1,160,166
Total Liabilities	<u>1,117,788</u>	<u>42,378</u>	<u>1,160,166</u>
<u>Fund Balance</u>			
Undesignated	5,895,479	2,930,883	8,826,362
Total Fund Balance	<u>5,895,479</u>	<u>2,930,883</u>	<u>8,826,362</u>
Total Liabilities and Fund Balance	<u>\$ 7,013,267</u>	<u>\$ 2,973,261</u>	<u>\$ 9,986,528</u>

See the accompanying notes to the optional supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT
NON-MAJOR CAPITAL PROJECTS FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2008

	Building Fund	Capital Facilities Fund	Total (Memorandum Only)
Revenues			
Other local sources	\$ 615,577	\$ 1,823,721	\$ 2,439,298
Total Revenues	<u>615,577</u>	<u>1,823,721</u>	<u>2,439,298</u>
Expenditures			
Plant services	9,235,239	255,976	9,491,215
Total Expenditures	<u>9,235,239</u>	<u>255,976</u>	<u>9,491,215</u>
Excess (deficiency) of revenues over expenditures	(8,619,662)	1,567,745	(7,051,917)
Fund Balance at Beginning of Year	<u>14,515,141</u>	<u>1,363,138</u>	<u>15,878,279</u>
Fund Balance at End of Year	<u>\$ 5,895,479</u>	<u>\$ 2,930,883</u>	<u>\$ 8,826,362</u>

See the accompanying notes to the optional supplementary information.

PASADENA UNIFIED SCHOOL DISTRICT

NOTES TO OPTIONAL SUPPLEMENTARY INFORMATION

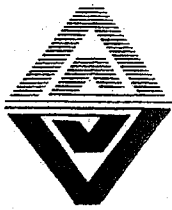
For the Fiscal Year Ended June 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES:

Combining and Individual Fund Financial Statements

Combining and individual 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



**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
351 South Hudson
Pasadena, CA 91109

We have audited 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, 2008 which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pasadena Unified School District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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***

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as finding numbers 08-1, 08-2, 08-3, 08-5, 08-8, 08-9, 08-10, 08-11, 08-12, 08-13, 08-15 and 08-16.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-2, 08-3 and 08-16 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pasadena Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-2, 08-3, 08-4, 08-5, 08-6, 08-7, 08-14, 08-15, 08-17, 08-18, 08-19, 08-20, 08-21, 08-22, 08-23 and 08-24.

Pasadena Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

**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***

This report is intended solely for the information and use by management, the Board, the Los Angeles County Office of Education, the California Department of Education, the State Controller's Office and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 11, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Pasadena Unified School District
351 South Hudson
Pasadena, CA 91109

Compliance

We have audited the compliance of Pasadena Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

As described in items 08-19, 08-20, 08-21 and 08-23 in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding activities allowed, allowable costs/cost principals and the per pupil allocation (special tests and provisions) that are applicable to its Title II, Part A, Improving Teacher Quality program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

As described in item 08-24 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding reporting, eligibility and cash management that are applicable to its Mental Health Services program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-18 and 08-22.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-24 to be a significant deficiency.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 08-24 to be a material weakness.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use by management, the Board, the Los Angeles County Office of Education, the California Department of Education, the State Controller's Office and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 11, 2008



REPORT ON STATE COMPLIANCE

Board of Education
Pasadena Unified School District
351 South Hudson
Pasadena, CA 91109

We have audited the basic financial statements of the Pasadena Unified School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. In our report, our opinion was qualified because the District has not obtained an actuarial study to determine the net pension obligation or provide the information needed for the required disclosures for the defined benefit plan offered from 1992 to 2000.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2007-08 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. 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:

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not applicable

REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community day schools	9	Not applicable
Class size reduction program (including charter schools):		
General requirements	7	Yes
Option 1	3	Yes
Option 2	4	Yes
One school serving K-3	4	Not applicable
Morgan-Hart class size reduction program	7	Yes
Instructional materials:		
General requirements	12	Yes
Grades K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Not applicable
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	No
School Accountability Report Card	3	Yes
Mathematics and reading professional development	4	Yes
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes
Charter Schools:		
Contemporaneous records of attendance	1	Not applicable
Mode of instruction	1	Not applicable
Nonclassroom-based instruction/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – classroom based	3	Not applicable

REPORT ON STATE COMPLIANCE

The District did not participate in the Early Retirement Incentive Program; therefore, the compliance procedures are not applicable. Testing for Charter Schools was done by each school's respective auditor.

Based on our audit, we found that, for the items tested, the Pasadena Unified School District complied with the laws and regulations of the State programs referred to above, except as described in the Schedule of Findings and Questioned Costs Related to Financial Statements section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Pasadena Unified School District had not complied with the laws and regulations of state programs and requirements, except as noted in the Schedule of Findings and Questioned Costs Related to the Financial Statements as finding numbers 08-4, 08-6, 08-7, 08-14 and 08-17.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use by management, the Board, the Los Angeles County Office of Education, the California Department of Education, the State Controller's Office and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 11, 2008

FINDINGS AND RECOMMENDATIONS

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2008

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

X Yes No

Significant deficiencies identified not considered
to be material weaknesses?

X Yes None reported

Noncompliance material to financial statements noted?

X Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

X Yes No

Significant deficiencies identified not considered
to be material weaknesses?

X Yes None reported

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

Qualified

Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a)

X Yes No

Identification of major programs

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I, Part A, Basic Grants

84.367

Title II, Part A, Improving Teacher Quality

84.366

Title II, Part B, Mathematics and Science Partnership

84.215X

Presidents and Precedents: Teaching American History

84.000

California Nutrition Network for Healthy Active Families

93.000

Mental Health Services

10.553 and 10.555

Child Nutrition Cluster

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

\$ 883,782

Auditee qualified as low-risk auditee?

 Yes X No

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Note: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Questioned costs, if applicable are listed separately. The district response that follows the finding is the District's corrective action plan.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-1 – INTERNAL CONTROL
ASSOCIATED STUDENT BODY FUNDS

30000

Original Finding 07-01 and 07-02

Finding: There appears to be a lack of understanding of regulations and good business practices with regards to the ASB's. The following internal control weaknesses were noted during the review of controls over ASB's.

- Cash receipts were not deposited timely.
- Sub-receipts were not used during cash collections.
- Budgets were not prepared.
- Authorization to pay or evidence of receipt of goods or services was not obtained.
- Revenue potential forms were not completed for major fund raisers.

Questioned Costs: Not Applicable

Recommendation: To strengthen internal controls and prevent, deter and detect fraud we would suggest training in ASB procedures and accounting practices for teachers, clerks, and other people involved with student organizations. We also recommend the District Office review the monthly financial statements for each ASB.

District Response: The District contracted with the Fiscal Crisis and Management Assistance Team (FCMAT) to provide Associated Student Body (ASB) training to all personnel involved with ASB activities and accounting. This inservice was provided on February 9, 2008 and with mandatory attendance required.

Many of the errors noted by the auditors may have occurred prior to the training, however, to ensure compliance now, additional training will be provided. The school principals are aware of their responsibility to oversee the ASB activities at their schools. Several staff have attended the California Association of School Business Officials ASB training this year.

The District will require all ASB's to provide monthly financial reports to the District Business Office. A person in the Business Office has been assigned the task of overseeing ASB's and providing assistance as needed. In addition, on an annual basis, one of the Directors or Supervisors in the Business Office will visit each ASB during the year (at least once) to conduct an internal audit of the financial activities. A written report of each site visit will be provided to the Executive Director of Secondary Schools and the school principal identifying any weaknesses.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

<u>FINDING 08-2 – ATTENDANCE ACCOUNTING AND REPORTING</u>	10000
<u>INTERNAL CONTROLS</u>	30000

Original Finding 07-08 and 07-11

Finding: The following observations were made during the review of controls over District attendance accounting and reporting:

- Monthly summaries are not reviewed and signed by the site administrator and are not sent to the District Office. This indicates that the data used to report ADA is not reviewed or analyzed at either the site or the District office. This review would help the District identify potential errors that could be corrected prior to the submission of the attendance reports.
- Changes to an attendance month are not documented and are not communicated to the District Office.
- Attendance summaries from the online system are not printed and signed each week. The maximum period allowed for signature/date of eye-witness employee is one week for attendance taken online. Signatures on the attendance summaries are required by CDE to create a valid contemporaneous record to support the ADA claimed. The summaries reviewed at the sites were for two week periods and were not consistently signed.
- Due to staffing levels and lack of training, attendance is not adequately monitored at the site or District Office. Monthly summaries are not reviewed by the site administrators and are not submitted to the District Office and no one at the District Office is reviewing the Attendance Report or supporting schedules. There are very few employees who are trained to run reports from the attendance system and the employees that are trained do not have the knowledge of attendance accounting to be able to interpret the results of any requested queries. During our site visits, many attendance clerks were not able to generate the requested reports.

Questioned Costs: Not Applicable

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

<u>FINDING 08-2 – ATTENDANCE ACCOUNTING AND REPORTING</u>	10000
<u>INTERNAL CONTROLS</u>	30000
(continued)	

Recommendation:

- Consider revising attendance procedures to include submission of a signed, monthly summary from all sites. These summaries should be reviewed by site and district office personnel for reasonableness. When changes are made to an attendance month, document the reasons for the changes and forward a revised summary to the District Office.
- Print and sign weekly attendance summaries for all sites recording attendance online. These should be maintained on file at the site and be available for audit purposes.
- Conduct additional training on the importance of accurate attendance accounting and the proper use of the attendance system. Designate employees to review and analyze the site attendance data on a regular basis and an additional review of the Attendance Report should be completed before it is submitted to the State.

District Response: The accuracy of attendance accounting continues to be a concern of the District' administration. The new District Office reorganization that was described earlier in the Management's Discussion and Analysis section of this audit report includes a "Chief of Technology" who has made attendance accounting one of her major focuses. A new student information system has been purchased and will be operational beginning July 1, 2009. The School Max system currently in use has limitations and complexities that have compounded the issues noted in this finding.

Site attendance personnel have received extensive training on an ongoing basis but the procedures are not consistently followed. Proper oversight at the District level will help to identify the weaknesses as school sites and allow the administration to structure training in a more effective manner.

Specific training was provided to principals during the summer of 2008 by the Interim Assistant Superintendent of Business. Principals are aware that attendance is of utmost importance and they have been instructed to ensure that teachers take and record attendance correctly and in a timely manner. Reports are to be printed out weekly and signed by teachers. Principals are to submit attendance reports to the District monthly.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-3 – ATTENDANCE –
ROSE CITY CONTINUATION SCHOOL

10000
30000

Original Finding 07-10

Finding: The following was noted during the review of attendance reporting and compliance testing of Rose City Continuation School:

- The California Department of Education (CDE) requires that every teacher sign and date CDE-approved attendance documents as a condition of state apportionment funding. The maximum time allowed for signature/date of teacher for attendance taken via a terminal is one week. At Rose City, teachers are not signing and dating a weekly attendance summary certifying the attendance reported. This resulted in very few rosters available for testing. Only teachers that elected to use a manual attendance roster in addition to the online system were available for testing. We were therefore unable to vouch the reporting attendance back to original supporting documentation for three of three teachers tested.
- Teachers are not consistently logging attendance into the attendance software. We noted one teacher of three tested that did not enter attendance into the attendance software for 8 of 9 days. Additionally, all rosters tested contained discrepancies between the teacher roster and the attendance system.
- The report used at the District Office to summarize the ADA for Rose City was incorrect. The report used to prepare the P-2 Attendance Report showed a 99.57% attendance rate for the month of February for the continuation site. This appears to be overstated as the monthly summary obtained during site testing showed a 40.56% attendance rate. Upon further review by District personnel, it was determined that only 69.09 ADA of the originally reported 208.12 ADA was supported by contemporaneous documentation.

Questioned Costs: 139.03 overstated ADA at P-2 multiplied by the base revenue limit of \$5,799.31 is \$806,278.

Recommendation: Revise the P-2 attendance report to exclude the questioned costs reported for Rose City Continuation School. For future reporting, the District should research to determine the correct report to use for positive attendance reporting sites. Additionally, immediately begin to print weekly summaries of attendance and require signatures and dates for all teachers. These should be available for audit purposes.

District Response: Upon notice from the auditors that the Rose City Continuation High School attendance was not auditable, the District hired an outside consultant to completely review and reconstruct the ADA based upon the documentation that was available and deemed accurate. The 2007-08 P-2 Attendance Report was amended by the District and the Continuation ADA was reduced to 69. The auditors reviewed the revised ADA figures as amended and concurred with this change.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2008

**FINDING 08-4 – ATTENDANCE ACCOUNTING AND REPORTING
LONGER SCHOOL DAY INCENTIVE FUNDING**

40000

Finding:

- Education Code Section 46142 sets an absolute minimum for the number of minutes for a high school instructional day at 180 minutes. Two minimum days at Muir High Schools were scheduled for less than 180 minutes each. These days did not meet the absolute minimum minutes of 180. This resulted in noncompliance with longer day/longer year incentive funding requirements for grade levels 9 through 12.
- Education Code Section 46201 sets the minimum annual instructional minutes at 64,800 for grade levels 9-12. We noted that Blair High School was short 1,165 minutes for the 2007-08 year. This resulted in noncompliance with longer day/longer year incentive funding requirements for grade levels 9 through 12.

Questioned Costs: Education code 46200(c) states that: "For any school district that received an apportionment pursuant to subdivision (a) and that offers less than 180 days of instruction or, in multitrack year-round schools, fewer than the number of days required in subdivision (a) for multitrack year-round schools, in the 2001-02 fiscal year, or any fiscal year thereafter, the Superintendent of Public Instruction shall withhold from the district's revenue limit apportionment for the average daily attendance of each affected grade level the sum of 0.0056 multiplied by that apportionment, for each day less than 180, or, in multitrack year-round schools, for each day less than the number of days required in subdivision (a) for year-round schools that the district offered."

Estimate of questioned costs: 5,327.82 (9-12 ADA reported at P-2) multiplied by \$5,799.31 base revenue limit multiplied by .0056, multiplied by two days of noncompliance is \$346,054.

Education code 46201(d) states that: For each school district that received an apportionment pursuant to subdivision (a) and reduces the amount of instructional time offered below the minimum amounts specified by statute in the 2001-02 fiscal year, or any fiscal year thereafter, the Superintendent of Public Instruction shall withhold from the district's revenue limit apportionment for the average daily attendance of each affected grade level, the sum of that apportionment multiplied by the percentage of the minimum offered minutes at that grade level that the district failed to offer. Estimate of questioned costs: 5,327.82 (9-12 ADA reported at P-2) multiplied by \$5,799.31 base revenue limit multiplied by 1,165/64,800 percentage of short minutes is \$556,158.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-4 – ATTENDANCE ACCOUNTING AND REPORTING
LONGER SCHOOL DAY INCENTIVE FUNDING
(continued)

40000

Recommendation: At the time the non-compliance was identified, the recommendation was made to add two additional instructional days that are at least 240 minutes in length by June 30, 2008 and/or 1,156 minutes to the school year at Blair High School. Since this did not occur, we recommend that District administration contact the California Department of Education and the LA County Office of Education to determine the appropriate course of action (waiver or penalty).

District Response: The District began discussion with the United Teachers of Pasadena bargaining unit to see if a solution to the two short days can be achieved this school year. In the meantime, staff will be working with the California Department of Education and the Education Audit Appeals Panel to determine the exact financial impact that this finding will have on the District's budget.

The overall minutes at John Muir High School were well over the minimum number of minutes required by the Education Code. The two days in question were short by only one minute. The Superintendent added extra minutes to two days at the end of 07-08 school year to show a good faith effort in solving this finding.

The bell schedules for all schools are now carefully reviewed and recalculated by both academic and business offices. Monitoring instructional minutes will continue throughout each year to ensure that no changes are inadvertently made by school sites.

In reviewing the bell schedule for Blair High School, it was noted by the District that the overall instructional minutes were short by 1,165 minutes in the 2007-08 year.

The Blair bell schedule was revised to include 2,330 minutes in 2008-09, which adds the 1,165 minutes for two years as the penalty that is required by the California Department of Education in order to seek a waiver. The District will seek a waiver to offset any financial penalty with the California Department of Education.

The additional minutes will be added for two years and the instructional minutes will be in compliance with the State required minutes in the future.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-5 – ATTENDANCE

10000
30000

Original Finding 07-11, 07-13 and 07-14

Finding: During our detail testing of attendance, we noted the following errors.

Blair High School

- Beginning enrollment totals for month 3 did not agree to the ending enrollment totals for month 2. There did not appear to be a process in place for a monthly reconciliation between the attendance system and the registrar enrollment data.

Muir High School

- The ADA totals on the site detail report for Grade 10 did not agree to the ADA totals reported on the monthly summary for the February 2008 attendance month. The site detail report showed total ADA of 332.27 while the summary report listed 338.00 ADA. School site personnel were unable to determine the reason for differences noted between the summary report totals and the detail report totals.

Pasadena High School

- Beginning enrollment totals for month 3 did not agree to the ending enrollment totals for month 2. There did not appear to be a process in place for a monthly reconciliation between the attendance system and the registrar enrollment data.

Pasadena High School Independent Study Program

- There was not a clear audit trail from the student work samples to the days of apportionment credit claimed for one teacher and a work sample was not maintained for one student for two days of apportionment. An original representative sample of the student work product must be kept on file. This sample must establish a clear audit trail to the days of apportionment claimed. The cover sheet for the work samples reviewed for four of ten students was not completely filled out and did not indicate the total days of attendance awarded. We were able to verify total days based on the review of a separate form, but there was not a direct link between the work samples and days of attendance reported.
- There were 18 days of attendance reported for a student that was not on independent study.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-5 – ATTENDANCE
(continued)

10000
30000

Questioned Costs:

Blair High School – Not applicable

Muir High School - Possible overstatement of 5.73 ADA multiplied by base revenue limit
\$5,799.31 is \$33,230.

Pasadena High School – not applicable

Pasadena High School Independent Study Program – Estimated maximum questioned costs 1
ADA multiplied by base revenue limit \$5,799.31 is \$5,799.31.

Recommendation:

Blair High School

- To improve internal controls and ensure gains and losses are properly recorded, we recommend that site personnel compare manual enrollment records with the computerized enrollment information monthly. In addition, the monthly attendance reports for all months of the year should be compared to verify that the enrollment number at the end of each period is the same as the beginning enrollment number of the next period. Any discrepancies should be investigated and resolved and the attendance reports revised appropriately.

Muir High School

- District personnel should investigate the cause of the incongruence between the two attendance reports. After this issue has been resolved, reports for all attendance months should be reprinted and submitted to the District office for inclusion in a revised Period 2 Attendance Report.

Pasadena High School

- To improve internal controls and ensure gains and losses are properly recorded, we recommend that site personnel compare manual enrollment records with the computerized enrollment information monthly. In addition, the monthly attendance reports for all months of the year should be compared to verify that the enrollment number at the end of each period is the same as the beginning enrollment number of the next period. Any discrepancies should be investigated and resolved and the attendance reports revised appropriately.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-5 – ATTENDANCE
(continued)

10000
30000

Recommendation: (continued)

Pasadena High School Independent Study Program

- Have the site administrator review the attendance requirements for independent study with all teachers annually. The district-provided form for work samples should be filled in completely to ensure a complete audit trail exists.
- Revise the P-2 Attendance Report to exclude the overstated attendance resulting from the clerical error and the erroneous student.

District Response: Please refer to the District's response to Finding 08-2 as it also pertains to this finding. The District will amend the P-2 Attendance Report to reflect the loss of ADA and related apportionment identified here by the auditors.

The District will implement the auditors' recommendations. In addition, further training will be conducted for personnel at all sites and specific assistance will be given to the sites noted here, especially addressing the Independent Study compliance regulations. The principals of the above named sites will be notified of these findings and held accountable for the implementation of the necessary corrective actions.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2008

FINDING 08-6 – ATTENDANCE – KINDERGARTEN RETENTION 40000

Finding: State guidelines allow Districts to claim apportionment for students retained in Kindergarten for an additional year only if they obtain a Kindergarten retention agreement signed by both the parent/guardian and site personnel on or near the student's anniversary date. The documentation must be on a state-approved form. At Hamilton Elementary School, we reviewed two retention forms and at Don Benito Elementary School, we reviewed 3 retention forms and noted they were signed but not dated. The form the District uses does not include a space for the date of signature. Thus, we were unable to verify that the form was signed on or near the student's anniversary date.

Questioned Costs: Estimated maximum questioned costs 5 ADA multiplied by base revenue limit \$5,799.31 is \$28,997

Recommendation: If the District cannot provide documentation of the date the agreements were signed, the attendance for these students should be excluded from the ADA calculation and the P-2 Attendance Report should be revised appropriately. Additionally, revise the form to include a space for the date of the parent signature.

District Response: Specific training will be provided to elementary principals regarding the compliance requirements for retaining kindergarten students. The District will research the records for the five students identified by the auditors to see if the parent signature dates can be verified. If evidence of accuracy cannot be found, the P-2 Attendance Report will be adjusted to reflect the loss of ADA for these five students.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-7 – STATE COMPLIANCE – AFTER SCHOOL AND
EDUCATION AND SAFETY PROGRAM

40000

Finding:

- Education Code 8483(a)(2) requires that elementary school pupils participate in the full day of the program every day during which pupils participate and that pupils in middle school or junior high school attend a minimum of nine hours a week and three days a week to accomplish program goals. It was noted during testing, that the sign in and out sheets documented pupil participation and supported the amounts reported on the Semi-Annual Reports. It was noted that the sign in and out sheets were not consistently completed properly. An improperly signed in and/or signed out student makes the extent of pupil participation undeterminable.
- It was also noted the District has not established a policy regarding reasonable late daily arrival of pupils to the before school program.
- It was noted that the totals reported to the California Department of Education (CDE) were understated for one site. The site's support documents indicate more attendance than was reported to CDE

Questioned Costs: Not applicable

Recommendation:

- Establish adequate written records that document pupil participation in order to support the attendance reported on the Semi-Annual Reports.
- We recommend the District establish the required policy regarding reasonable late daily arrival of pupils to the before school program.
- Report accurate information to CDE.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-7 – STATE COMPLIANCE – AFTER SCHOOL AND
EDUCATION AND SAFETY PROGRAM
(continued)

40000

District Response: The District recognizes that accurate parental sign in and sign out sheets are required to support student participation in before and after school programs. The inconsistent signing in and out occurs mostly at the secondary school site. An appropriate sign in and sign out protocol will be established for the LEARNs before school and after school program as of January 1, 2009 to ensure consistency across all the various sites where the LEARNs program operates. In addition, a policy will be developed to address reasonable late arrival or early departure times. Training for all staff associated with the LEARNs program will be provided to ensure that proper procedures are understood and followed.

Additionally, to facilitate accountability, these documents will be collected and reviewed monthly by the Program Coordinator who will specifically focus on the secondary programs where inconsistency of parent's signing students out of the program daily occurs more frequently. Parents/Guardians will be reminded of this requirement via LEARNs newsletter and reminded by site staff. Attendance reported to the CDE will be carefully reviewed prior to submittal by the Program Coordinator.

FINDING 08-8 CASH RECEIPTS

30000

Finding: We noted the same employee is performing the following duties relating to cash receipting.

1. Opening the mail
2. Logging the checks
3. Preparing the deposits
4. Recording the activity into the general ledger

Questioned Costs: Not applicable

Recommendation: To better protect the District from misappropriation of cash, segregate the following duties:

1. Access to cash
2. Authorization of transactions
3. Recording/accounting for cash

District Response: The duties performed by the Business Office staff have been reviewed and tasks reassigned to improve internal controls. The secretary now opens the mail and logs in checks. The person who prepares the deposit will no longer enter the details into the system.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-9 – ANTI-FRAUD PROGRAM

30000

Finding: In accordance with statement on auditing standard (SAS 99) related to our consideration of fraud, we are required to assess the organization's anti-fraud program and controls. The standard requires an assessment of whether management has developed an environment that is 1) a culture of honesty and high ethics, 2) evaluating anti-fraud processes and controls and 3) developing appropriate oversight processes. Although the District has adopted an ethics policy, we believe that additional controls and policies would strengthen the District's programs and bring it into alignment with recommendations issued by the American Institute of Certified Public Accountants.

Questioned Costs: Not applicable

Recommendation: We believe the District should consider the following:

- 1) Consider integrating ethics into the training program for employees including training on Code of Ethics, Board Policy 4119.21, 4219.21, 4319.21, and training on understanding and awareness of red flags related to fraud.
- 2) Incorporate a formal, anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous.
- 3) As recommended by Government Code Section 1231, and the AICPA, governmental entities with revenues exceeding \$50 million, should consider having an internal audit function to assess and test high risk areas on an ongoing basis.

District Response: The Board of Trustees and Administration are committed to high ethical standards on the part of all employees and students. The Board will review, revise and implement policies to address ethics and fraud prevention and detection.

The District has joined an on-line anti-fraud service to address recommendation number 2 above. Training will be provided to principals and school site office managers on a regular basis.

The District is evaluating the need to add an internal auditor. Budget constraints are such that adding an additional position at this time may not be feasible. In the meantime, the new Business Office structure includes several high level accounting professionals who have been tasked with improving internal controls throughout the District and overseeing the internal control function.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2008

FINDING 08-10 – INTERNAL CONTROLS – ACCRUALS

30000

Original Finding 07-03

Finding: We noted that the District's closing procedures did not ensure that all expenditures and revenue had been recorded in the proper period. There were many occurrences of unrecorded liabilities and receivables.

Questioned Costs: Not applicable

Recommendation: We suggest that the District review the closing accrual procedures to determine the reasons for the unrecorded accounts payable and receivables. The procedures need to be revised to ensure that a thorough review of accruals is completed prior to the final closing date.

District Response: As described in the Management's Discussion and Analysis section of this audit report, the District went through a total District Office reorganization effective July 1, 2008. The impact of this reorganization on the Business Office was that all employees were in new positions on July 1, 2008, right at the crucial time of year-end closing. The timing of this change resulted in the newly assigned accounts payable and accounts receivable staff not being fully trained to fully understand the proper year-end accrual procedures. A major effort was made by the supervisors and managers to review the work of the staff, but items were missed. It is management's opinion that no major dollar accruals were overlooked, however, these mistakes are not being taken lightly.

The two new Directors in the Business Office who were hired in October 2008 will carefully review and revise all procedures to ensure that the year-end financial activities in the future are correctly processed.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-11 – VACATION ACCRUALS

30000

Finding: We noted the District Office does not have a formal tracking mechanism for employees that are eligible to accrue vacation time. The District Office does not monitor the accrued vacation liability. The District policy in regards to the maximum amount that can be carried is not followed.

Questioned Costs: Not applicable

Recommendation: We suggest that the District develop a vacation accrual tracking mechanism and review employees balances to make sure they are in line with the District's vacation accrual policies.

District Response: The District administration recognized the financial vulnerability in this area and developed a revised work year calendar for principals and other managers to take their excess vacation leave during the 2008-09 fiscal year. The financial impact has been calculated and should any excess vacation balances exist as of June 30, 2009, the administration will work with the employees to determine a solution.

The expectation is that the vacation tracking and reporting and the accrual procedures will be fully in place by June 30, 2009.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-12 – WARRANT/PASSTHROUGH FUND

30000

Original Finding: 06-3

Finding: The District is not performing monthly reconciliations on the Warrant/Passthrough Fund. This creates the potential of misstatement in other funds if the warrant/passthrough accounts are not clearing on a monthly basis.

Questioned Costs: Not applicable

Recommendation: We suggest that the District perform monthly reconciliations to ensure that balances are clearing out on a monthly basis.

District Response: Procedures will be developed to clear these accounts monthly and this responsibility will be assigned to one of the senior accountants or supervisors in the Business Office.

FINDING 08-13 – JOURNAL ENTRY REVIEW

30000

Finding: During our review of journal entries, it was noted that there is no approval of journal entries prior to posting. In addition, there were a significant number of journal entries with no supporting documentation.

Questioned Costs: Not applicable

Recommendation: Establish procedures to ensure that all journal entries have supporting documentation. In addition, establish procedures to ensure that journal entries are reviewed and approved prior to posting.

District Response: The Director of Accounting or the Director of Budget in the Fiscal Services Department or their supervisory designees will approve all journal entries before being entered into the financial system. As part of the procedure, the support documents explaining the transaction will be attached to the journal entry worksheet prior to approval. If attaching the support document proves to be impractical, the staff who submits the journal entry will provide the detailed description in writing as to why the journal is needed and/or clearly reference the documentation (such as report number, date, etc.) that supports the entry. All back up for journal entries will be kept in one place for easy reference.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-14 – STATE COMPLIANCE
SCHOOL ACCOUNTABILITY REPORT CARD

72000

Original Finding 07-19

Finding: The District is required to perform annual facility inspections on the District's non deciles 1-3 sites. State law requires that the annual facility inspection be reflected on the School Accountability Report Card in accordance with Section 33126 (b) of the Education Code. The District failed to perform the annual facility inspections and therefore the information reported on the School Accountability Report Card is unsubstantiated.

Questioned Costs: Not applicable

Recommendation: The District should perform annual facility inspections on the District's non deciles 1-3 sites. The summarized information from this report should be recorded on the School Accountability Report Card.

District Response: The facilities department will develop procedures to make sure that annual inspections are performed and reported as required. In most cases, safety inspections were performed during the 2007-08 school year but not properly reported as required for the non deciles 1-3 schools. Facility safety issues are always addressed immediately. The facilities department will utilize a standardized facilities inspection form for *all* schools for annual safety inspections. This information will be submitted to the Office of Accountability to be included in the School Accountability Report Cards (SARC).

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-15 – ATTENDANCE ACCOUNTING AND
REPORTING SUMMER SCHOOL HOURS

10000
30000

Original Finding 07-12

Finding: The District under reported summer school hours claimed for June 2007. During our testing of supplemental hourly programs we determined that hours for 4 out of 4 classes tested were under reported by a total of 1,576 hours or approximately \$6,400.

To report on the status of the prior year finding, we also reviewed the supporting documentation for 7 classes from summer school hours claimed for June 2006. Four of seven classes were under reported by 1,001 hours or approximately \$3,800. Two of seven classes were missing rosters, therefore the hours reported could not be verified.

Questioned Costs: There are no questioned costs related to June 30, 2008. In all cases the District has under reported summer school hours.

Questioned costs related to June 30, 2007 are estimated at 780 hours or \$3,000.

Recommendations: Review the procedures for attendance recording for summer school and develop a process that includes a review of the data entered into the attendance system. These should be compared to the original rosters to ensure all hours are recorded into the system accurately. Additionally, revise the 2006 Attendance Report to exclude the hours not supported by rosters.

District Response: The District first became aware of this issue in the 2006-07 audit report. The 2006-07 audit report was received by the District in April 2008, four months after the statutory deadline of December 15, 2007. The prior year finding in that report stated that the entire amount of supplemental hours in 2006-07 were in question, amounting to a potential loss of nearly \$2 million in state apportionment.

The District reviewed all of the student attendance hours for the 2006-07 and 2007-08 summer school sessions and verified that the hours were recorded in the correct reporting category.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

<u>FINDING 08-15 – ATTENDANCE ACCOUNTING AND</u>	10000
<u>REPORTING SUMMER SCHOOL HOURS</u>	30000
(continued)	

District Response: (continued)

In addition to the regular audit procedures that the were performed related to the 2007-08 summer school hours, the District contracted with the current audit firm, Vicenti, Lloyd and Stutzman LLP, to conduct an audit of the 2006-07 summer school hours to determine if the prior year finding had been successfully corrected by the District.

According to the above statement in this finding related to the 2007 hours, the District will amend the 2006-07 P-2 and Annual Attendance Reports to show the reduction of 780 hours and the apportionment loss of \$3,000.

The summer school program offered in the summer of 2008 was completely revised and the subsequent audit for 2008-09 should show that the hours are not under reported or recorded incorrectly.

The District will carefully review the procedures for reporting summer school hours and make sure that all of the sites have clear direction and understanding of the proper classification for student intervention hours and that the hours are recorded correctly.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-16 – PENSION TRUST FUND

30000

Finding: The District has a defined benefits plan for part-time employees that was in place from 1992 to 2000. The assets for this plan are accounted for in the Pension Trust Fund. The District has not disclosed the information required according to GASB 25 through 27. The required disclosures include an actuarial calculation of the annual required contribution (ARC) as well as computation of the net pension obligation. These amounts have not been determined as required. The District has not determined if payments are currently required to retired employees.

Questioned costs: Unknown

Recommendation: Obtain an actuarial determination of the net pension obligation and the related information for disclosures. The District needs to determine whether there are current obligations to retired employees for benefits and make payments as required.

District Response: This concern has not been raised in prior audit reports and was therefore not known by the current District administration until now. The District will make every effort to resolve this audit finding in a timely manner by determining the identity and status of all employees past and present who may have been covered by this old plan and then obtain an actuarial study to determine if the approximately \$1.4 million of reserves being held in this fund are adequate.

The following steps will be taken to resolve the pension trust fund issues:

1. Research and review all documentation related to this pension plan and seek advice from legal counsel as to how to proceed with this matter.
2. Update the pension plan trust fund employee database.
3. Obtain the actuarial valuation of the pension plan.
4. Determine the necessary steps to be taken to properly administer the trust agreement provisions.
5. Implement corrective measures as necessary to ensure that the plan and administration of the plan meet all legal requirements.
6. Notify all plan participants of the District's actions as deemed appropriate by legal counsel.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-17 – STATE COMPLIANCE
INSTRUCTIONAL MATERIALS
FUNDING REALIGNMENT PROGRAM (IMFRP)

40000

Original Finding 07-18

Finding: Based on prior year audit finding, it was determined Instructional Materials Funding Realignment Program funds were expended on unallowable goods and services, not in accordance with California Education Code 60242, in the amount of \$185,823. These amounts were not reimbursed in 2007-08.

Questioned costs: \$185,823

Recommendation: Ensure expenditures comply with California Education Code 60242 and reimburse the IMFRP in the amount of \$185,823.

District Response: The District reimbursed the Instructional Materials program \$185,823 in 2008-09.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

FINDING 08-18 - SCHOOLWIDE PROGRAM PLAN

50000

Program: Title I Part A, Basic Grants

CFDA Number: 84.010

Total Program Expenditures: \$7,664,692

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Special Tests and Provisions (N)

Finding: No Child Left Behind Act Section 1114 (b) (1) requires a Title 1 schoolwide program plan to contain several components. The District's schoolwide plans did not discuss instruction by highly qualified teachers or plans for assisting preschool children in the transition from early childhood programs.

Questioned Costs: Not applicable

Recommendation: Revise the schoolwide plans be revised to include these two components.

District Response: The District Student Support Director in conjunction with Child Development Coordinator are revising and/or developing a plan to provide schools with information on transition from preschool to kindergarten. School principals and site personnel will be trained on these procedures and this information will be included in all of the 2008-09 elementary school Single Plans for Student Achievement. The schoolwide plans will also include detailed information about the instructional programs under the guidance of highly qualified teachers at their sites.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-19 – TIME ACCOUNTING – MULTI-FUNDED SALARIES 50000

Program: Title II Part A, Improving Teacher Quality

CFDA Number: 84.367

Total Program Expenditures: \$2,371,240

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Allowable Costs/Cost Principals (B)

Finding: During our testing of Title II Part A, Improving Teacher Quality it was noted that one out of the one employee tested did not have the proper documentation to support the allocation of time and effort for multi-funded employees whose salaries are charged to a single source or cost objective. Salaries charged to a categorically funded program must have the proper documentation as required by OMB circular A-87.

Questioned Costs: \$34,749.83

Recommendation: Maintain an accurate and current listing of all employees that fall under this requirement and verify on a regular basis that the appropriate supporting documentation is obtained and maintained.

District Response: The current system for monitoring and tracking multi-funded employees at the school sites has been restructured to ensure accuracy and accountability. All schools are required to submit these documents to the Office of Student Support Programs to meet the OMB circular A-87 requirements. The salary information for all employees charged to multiple account codes will be reviewed by the Director of Student Support Programs to make sure that no documentation is overlooked.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

FINDING 08-20 – TIME ACCOUNTING –
SEMI-ANNUAL CERTIFICATION

50000

Programs: Title II Part A, Improving Teacher Quality

Title II Part B, Mathematics and Science Partnership

CFDA Numbers: 84.367

84.366

Total Program Expenditures: \$2,371,240 – Title II Part A, Improving Teacher Quality

\$810,955 – Title II Part B, Mathematics and Science Partnership

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Allowable Costs/Cost Principals (B)

Finding: During our testing of Title II Part A, Improving Teacher Quality and Part B, Mathematics and Science Partnership it was noted that ten out of the ten employees tested under these two programs did not have the proper documentation to support the time charged to the programs. OMB circular A-87 requires employees working 100% on a single cost objective to complete a semi-annual certification. We have not reported questioned costs as there is no evidence indicating that employee salaries were charged inappropriately to the above listed programs.

Questioned Costs: None

Recommendation: Maintain an accurate and current listing of all employees that fall under this requirement and verify on a regular basis that the appropriate supporting documentation is obtained and maintained.

District Response: In addition to improving the current system for monitoring and tracking multi-funded employees working at school sites and in district departments and/or directly reporting to district staff, procedures have been restructured to better track and report the activities of those employees charged to one funding source or single cost objective. Each department is now responsible for having all categorically funded employees complete and submit semi-annual certificates. Each department will provide copies of this information to Student Support Programs during the fall and again in the spring of each year.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

FINDING 08-21 – TITLE II PART A – PER PUPIL ALLOCATION **50000**

Program: Title II Part A, Improving Teacher Quality

CFDA Number: 84.367

Total Program Expenditures: \$2,371,240

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Special Tests and Provisions (N)

Finding: It was noted that the per pupil allocation of Title II Part A, Improving Teacher Quality was calculated incorrectly. The District applied a per pupil amount of \$39 and it appears that the correct amount is \$100.

Questioned Costs: Under allocation to private schools of \$288,840

Recommendation: Allocate an additional \$288,840 to private schools in fiscal year 2008-09 to make up for the under allocation.

District Response: The allocation of Title II funding to the private schools has been adjusted for the 2008-2009 school year to reflect the correct (increased) dollar amount for the current year and the shorted funds in 2007-08. Past practice in the funding distribution took into account the cost to the Pasadena Unified School District for these schools to participate in all of the District's professional development. From now on the funding will be provided to all private schools and charges for particular services will be billed directly based upon participation.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-22 – CASH MANAGEMENT – FEDERAL INTEREST 50000

Program: Title I Part A, Basic Grants

CFDA Number: 84.010

Total Program Expenditures: \$7,664,692

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Cash Management (C)

Program: Title II Part A, Improving Teacher Quality

CFDA Number: 84.367

Total Program Expenditures: \$2,371,240

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Cash Management (C)

Program: Mental Health Services

CFDA Number: Not available

Total Program Expenditures: \$1,605,554

Federal Agency: U.S. Department of Health and Human Services

Pass-through Agency: Los Angeles County

Federal Award Number and Year: MH120170 2008

Types of Compliance Requirements: Cash Management (C)

Finding: Interest earned on Federal advances is required to be calculated quarterly and interest over \$100 is to be remitted to the Federal agency in a timely manner. The District calculated the interest earned on Federal advances at year end, and therefore the interest owed was not remitted promptly.

Questioned Costs: Title I Part A, Basic Grants \$32,498

Title II Part A, Improving Teacher Quality \$22,440

Mental Health Services \$27,286

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-22 – CASH MANAGEMENT – FEDERAL INTEREST 50000
(continued)

Recommendation: Track all Federal interest earned on a quarterly basis and remit any amount exceeding \$100 to the Federal agency timely. Additionally, the above reported questioned costs should be remitted to the California Department of Education immediately.

District Response: The District plans to extract weekly from the financial system the actual cash balance for all the federal resources as the basis to establish the quarterly average cash balance. Once the average cash balance is determined, the District will apply the interest rate supplied by the County Office of Education to calculate the quarterly interest earnings for each federal resource. Any amount exceeding \$100 will be remitted to the CDE immediately. If the earnings are less than \$100, they will be set aside until the accumulated earnings reach \$100 then the excessive amount will be returned.

The District will remit the interest due to the appropriate agencies as noted by the auditors by January 31, 2009.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-23 – TITLE II PART A – UNALLOWABLE EXPENDITURES 50000

Program: Title II Part A, Improving Teacher Quality

CFDA Number: 84.367

Total Program Expenditures: \$2,371,240

Federal Agency: U.S. Department of Education

Pass-through Agency: California Department of Education

Federal Award Number and Year: Not available

Types of Compliance Requirements: Activities Allowed or Unallowed (A)

Finding: It was noted that unallowable expenditures were charged to this program. Expenses for copy charges of Open Court Instructional Materials for student use were transferred to Title II Part A, Improving Teacher Quality Program. These expenses are not allowable under this program.

Questioned Costs: \$379,088

Recommendations: Reimburse the Federal program for the questioned costs.

District Response: The District erroneously charged these instructional materials expenditures to Title II Part A, Improving Teacher Quality. The cost for these expenditures, \$379,088, will be reimbursed to the Federal Title II program using an appropriate funding source. In the future, all requisitions and/or purchase orders for instructional materials, core or supplemental, will be reviewed and approved by the appropriate District administrators to ensure compliance with all program rules and regulations.

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-24 – MENTAL HEALTH SERVICES

50000

Program: Mental Health Services

CFDA Number: Not available

Total Program Expenditures: \$1,605,554

Federal Agency: Department of Health and Human Services

Pass-through Agency: Los Angeles County

Federal Award Number and Year: MH120170 2008

Types of Compliance Requirements: Reporting (L), Eligibility (E) and Cash Management (C).

Finding: The following was noted during our testing of the Mental Health Services program:

- Amounts reported on the Annual Report for submission to the Department of Mental Health were \$55,399 greater than the amounts in the general ledger. The program administrator who is an outside consultant prepared the report and submitted the report to Department of Health and Human Services without the District's review. The District is not able to review the submission to ensure that the amounts reported are in agreement with the general ledger.
- Referral applications are submitted to identify whether recipients are eligible for District mental health services and require strict screening and verification from key personnel executing the program in order to ensure that participants are qualified to benefit from Federal funding. Applications should indicate proper approval and date as to when the applicant was deemed to be accepted into the Federal Program. It was noted during eligibility testing that applications do not indicate proper verification has been made. No signatures and dates as to when the participant was accepted are noted. As a result, there is no means of identifying if the participant is in fact qualified to participate in the federal program. Additional backup obtained did support that only qualified recipients received services, however, there is no documentation on the application to support this.
- Reimbursement claim requests and amounts received should be monitored and reconciled to the general ledger to ensure that all amounts requested are received and properly recorded. The contract allows the District, through an outside consultant, to request cash advances not greater than 1/12th of the award amount. The District was able to provide support for only one of six claim requests/advances selected for testing. The District does not receive copies of the claim requests completed by the outside contractor, thus they are unable to complete a reconciliation to the general ledger to ensure all funds are properly recorded. The amount of claim requests without supporting documentation is approximately \$1.5 million.

Questioned Costs: None

PASADENA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2008

FINDING 08-24 – MENTAL HEALTH SERVICES
(continued)

50000

Recommendations:

- Develop procedures that require coordination of reporting of financial information with accounting/budget department and the outside consultant to ensure proper reporting of financial information.
- Revise the referral applications to include signatures as authorization of key personnel screening and accepting the application as approved. This will better document that all participants have been reviewed and are deemed to be qualified.
- The District retains ultimate responsibility for initiating cash flow advances and requests to the Department of Mental Health. In order to be aware of the revenues generated and received, the District should require copies of all cash flow advance requests or reimbursement requests. These should be reviewed and approved by District personnel prior to submission. Compare amounts received to the amounts requested to ensure all funds are received and properly posted to the general ledger. Also, it is recommended that the District prepare a comparative analysis of the services rendered based on the total amount received in order to identify if the District is over or under expending and ensure that the requests for advances are necessary.

District Response: The District acknowledges the oversight responsibility for this program and has been working with the outside consultant/program manager over the past year to improve the communication and responsibilities of each party.

The District contracts with an outside agency to operate this program. The outside consultant/program manager is an employee of the outside agency. The program undergoes outside audits by both the Los Angeles County Department of Mental Health and an independent audit firm. The District has participated and cooperated with both to those audits.

To address these audit findings, the following procedures will be implemented:

District staff and School-Based Mental Health personnel will meet with the accounting and budget staff on monthly basis to review the financial data in the District's general ledger to ensure the proper recording of the program expenditures.

PASADENA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

FINDING 08-24 – MENTAL HEALTH SERVICES
(continued)

50000

District Response: (continued)

The District will require that the fiscal report submitted to the Department of Mental Health be approved by the Business Office staff before being submitted to the County Mental Health Department. In the past, the outside consultant/program director submitted the report directly without allowing District staff to review or reconcile the report to the general ledger.

The District will review and approve the revision of referral applications by the District School-Based Mental Health staff to include signatures as authorization of key personnel screening and accepting the application as approved.

The District will require that the District School-Based Mental Health staff prepare cash flow advance requests or reimbursement requests and submit them to the Business Office staff for approval before being transmitted to the Department of Mental Health. The District will retain copies of all cash disbursement requests.

Cash received will be compared to the amounts requested to ensure all funds are received and properly posted to the general ledger. A comparative analysis of the services rendered based on the total amount received in order to identify if the District is over or under expending and ensure that the requests for advances are necessary.

Regular meetings will be conducted between District staff and the outside consultant/program director to review and reconcile financial records.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-01 – Significant Deficiencies in Internal Control for ASB Funds (30000)

Condition

A) Cash received for student store and other student clubs are inadequately documented

During the test of controls for John Muir High School ASB, it was noted that there is no cash register in use for student store sales. All cash received is counted at the end of each period of sales and recorded in a currency recap sheet. No cash received has been reconciled with inventory sold.

During the test of controls for Wilson Middle School, it was noted that no cash register is in use for student store sales. All cash received is counted at the end of the day of sales and total amount is written down on a piece of paper by a part-time ASB store clerk. Also, cash received has not been reconciled with the inventory sold.

B) Documents are Inadequately Maintained and Retained

During the test of controls for John Muir High School, it was noted that detailed financial/accounting documents were unattainable during audit fieldwork date. We were informed by the ASB bookkeeper that all receipt books and/or logs for any kind of sales such as Yearbook sale, PE cloth sale, ASB card/sticker sale, and Prom ticket sale are maintained by the ASB Activities coordinators.

During the test of controls for Wilson Middle School, it was noted that detailed supporting documentation were unattainable during the audit fieldwork date. ASB staff did not maintain receipt book for any kind of sales such as Yearbook sale and PE clothes sale.

C) Deposits are not Made in a Timely Manner and Cash Receipts on Bank Statements are not Reconciled to Book

During the test of controls for John Muir High School, we were informed that deposits are done once a week. However, it was noted that cash collected through store sales was deposited into bank three to four weeks later. ASB Bookkeeper has posted an entry for cash collected from Prom of \$8,778 on May 14, 2007, but the cash was still on hand during the audit fieldwork date, May 29, 2007.

In addition, it was noted that one deposit amount per general ledger did not agree with deposit slip and bank statement, and it is off by \$20.48. There is another deposit that the deposit amount did not tie out with the amount stated on the currency recap sheet, and it is off by \$400.

PASADENA UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-01 – Significant Deficiencies in Internal Control for ASB Funds (30000) (continued)

Condition (continued)

D) Supporting Documents Not Properly Maintained

During the course of audit for John Muir High School, 1 out of 16 bank deposit receipts tested was missing and 2 out of 22 vendor invoices/check requisition forms could not be located.

E) Minutes Inadequately Prepared

During the course of audit for John Muir High School, it was noted that 17 out of 22 cash disbursements tested are not properly approved and/or documented in the ASB minutes. The minutes are written in an informal and unstructured manner and there is no sufficient information such as disbursement purpose, purchase order or sales order approval documented in the minutes. In addition, ASB minutes are not submitted to the bookkeeper timely.

F) Cash Disbursement Inadequately Processed

During the test of controls for John Muir High School, it was noted that 1 out of 22 cash disbursements lacks the proper requisition form with all required signatures for approval and an invoice.

We also noted that both Principal and Athletics Club Advisor ordered and purchased club T-shirts for the same purpose by mistake.

G) Prior Year Adjustment to Cash Not Properly Supported

No document was found for adjusting entries of increasing cash by \$2,658.90 and reducing cash by \$37,653.61. We were informed by the ASB Bookkeeper that the school district ASB accountant advised her to adjust the cash balance in order to reconcile the book balance with current year bank statements because no bank reconciliation had been done in FY 2005-2006.

H) ASB Bookkeeper Duties Not Segregated

It was noted that ASB Bookkeeper at Pasadena High School is one of the authorized signers of checks. Each check requires two signatures. By reviewing copy of checks, the signature of the Assistant Principal appeared to be a stamped signature.

PASADENA UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-01 – Significant Deficiencies in Internal Control for ASB Funds (30000) (continued)

Criteria

As part of good internal control over financial reporting process, all financial information reported should be properly supported to provide an audit trail.

Effect

Due to weakness of internal control on revenue potential, ASB revenue is more susceptible to misappropriations.

Recommendation

The District should consider the following:

- The District should enforce the ASB policies and procedures. The District should consider reorganize the ASB to enhance the internal control.
- The District should hire qualified and experienced personnel to oversee all ASBs.
- Periodic trainings should be provided to ASB Bookkeepers to update the ASB policies and procedures.
- All bank accounts opened and closed should be approved by the District personnel.
- Use of cash register in student stores. All cash receipts should tally to the printout from cash register on a daily basis. Cash should be counted in the presence of two persons. Cash should then be kept in a safe until the deposit day.
- ASB Advisor should prepare Revenue Potential Form for each fund-raising event. All cash collected from fund-raising events should be counted in the presence of two persons. ASB Advisor should prepare the coin/currency count sheet. Both the two persons in charge of cash counting should sign the coin/currency count sheet. ASB Advisor should submit the completed Revenue Potential Form, certified cash and coin/currency count sheet, and cash in a sealed envelope to ASB Bookkeeper in a timely manner. ASB Bookkeeper should compare the amount reported on the coin/currency count sheet with the actual cash. ASB Bookkeeper should then sign off on the coin/currency count sheet. All cash should be kept in a safe until the deposit day.
- Pre-numbered tickets or receipt books should be used on Yearbook sales, PE Clothes sales ASB Card Sales and Ticket sales. An Inventory log should be maintained to keep tracks the beginning and ending numbers of pre-numbered tickets in order to safeguard assets. Whenever ticket sales held, ASB Advisor should prepare the ticket sales report. The ticket stubs, completed ticket sales report, and cash in sealed envelope should be turned in together to the ASB Bookkeeper.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-01 – Significant Deficiencies in Internal Control for ASB Funds (30000) (continued)

Recommendation (continued)

- All deposits should be done on a regular basis. No entry should be posted into the MYOB Accounting system until the actual transaction is performed. In addition, ASB Bookkeeper should reconcile the bank account monthly to ensure data entered into the MYOB agree with the bank statement. ASB Bookkeeper should find out the cause of any discrepancies between the book and bank.
- All cash receipts documents including the copy of pre-numbered receipts, ticket sales stub, coin/currency count sheet, ticket sales reports should be maintained in the ASB Office properly.
- All cash disbursement documents including the invoice along with the check requisition with all the authorized signatures, copy of the check stub should be maintained in the ASB Office properly. No disbursement should be made until all the documents such as invoice, completed check requisition, and student council minutes that reflect the approval of disbursement are provided.
- All the unsold pre-numbered tickets, ASB cards/stickers, pre-numbered receipts and pre-numbered checks should be safeguarded in a locked cabinet and/or safe. ASB Bookkeeper should also perform physical inventory periodically to safeguard assets.
- The minutes should document at a minimum the following information:
 - Name of club holding the meeting
 - Date, time, and place of the meeting
 - Name of those in attendance
 - What was discussed during the meeting
 - What action was taken during the meeting such as the budget was amended or the expenses were approved
 - The results of any votes taken, including who made a motion and who seconded the motion
 - Who prepared the minutes
- ASB Bookkeeper should not be one of the authorized signers of checks in order to segregate of duties. Authorized signers of checks should be someone who does not have the duty of checks processing, record keeping, reconciliation preparation, and custody of checks. All checks should be signed by authorized signers with the presence of the supporting documents.

Current Status: Not implemented. See current year finding 08-1.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-02 – Unreconciled Cash Balances per Bank Statements and per Trial Balances, Non-Existent Accounts/Balances, and Inventory Listings for ASB Fund – Muir High School, Blair High School, Rose City High School, Washington Middle School and Eliot Middle School (30000)

Condition

A) We were provided with trial balances and several bank statements at June 30, 2007 for the following ASBs; however, we noted the following issues:

1) Muir High School

- a) There is a difference of \$84 between the cash balance per bank statement and trial balance
- b) We were informed by the ASB bookkeeper that the bank account did not exist since July 2006. However, the balance was still carried on the Trial Balance as of June 30, 2007.
- c) We were informed by the ASB Bookkeeper that the bank account is closed in June 2006. The balance still appears on the Trial Balance because she could not fix the error in the MYOB accounting system.
- d) We were informed by the ASB Bookkeeper that the cash on hand did not exist since July 2006. However, the balance was still carried on the Trial Balance as of June 30, 2007.
- e) We were informed by the ASB Bookkeeper that the incentive fund did not exist in FY07. However, the balance was still carried on the Trial Balance as of June 30, 2007.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-02 – Unreconciled Cash Balances per Bank Statements and per Trial Balances, Non-Existent Accounts/Balances, and Inventory Listings for ASB Fund – Muir High School, Blair High School, Rose City High School, Washington Middle School and Eliot Middle School (30000) (continued)

Condition (continued)

Muir High School

Bank Name	Bank Account	Cash Balance Per			Unreconciled Differences
		Trial Balance as of 06/30/07	Bank Statement as of 06/30/07		
Washington Mutual	ASB	\$ 10,339	\$ 10,423	1a)	\$ (84)
Washington Mutual	ASB	\$ 12,988	Bank statement not provided	1b)	\$ 12,988
Pasadena School Credit Union		\$ 3,109	Bank statement not provided	1c)	\$ 3,109
		<u>\$ 26,436</u>	<u>\$ 10,423</u>		<u>\$ 16,013</u>

Account Name	Balance Per Trial Balance
Cash on Hand-Student Store	\$ 50
Petty Cash	150
Total Cash on Hand	1d) <u>\$ 150</u>
Incentive Funds	1e) \$ (459)

2) Blair High School

- a) No bank statements and bank reconciliations are provided to substantiate the balance on trial balance as of June 30, 2007.

Blair High School

Bank Name	Bank Account	Cash Balance Per			Unreconciled Differences
		Ledger as of 06/30/07	Bank Statement as of 06/30/07		
Pasadena Schools Credit Union	Savings	\$ 22,345	Bank statement & bank reconciliation not provided	2a)	\$ 22,345
Bank of America	Checking	18,886	Bank statement & bank reconciliation not provided	2a)	\$ 18,886
		<u>\$ 41,231</u>			<u>\$ 41,231</u>

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS June 30, 2008

Finding 07-02 – Unreconciled Cash Balances per Bank Statements and per Trial Balances, Non-Existent Accounts/Balances, and Inventory Listings for ASB Fund – Muir High School, Blair High School, Rose City High School, Washington Middle School and Eliot Middle School (30000) (continued)

Condition (continued)

3) Rose City High School

- a) There is a difference of \$(436) between the cash balance per bank statement and trial balance.
- b) We received the bank statement. However, the balance did not enter into the MYOB accounting system.

Rose City High School

Bank Name	Bank Account	Cash Balance Per			Difference
		Bank Reconciliation as of 06/30/07	Bank Statement as of 06/30/07		
Pasadena Service Fed Credit Union	Checking	\$ (443)	\$ 7	3a)	\$ (436)
Pasadena Service Fed Credit Union	Saving	\$ 0	\$ 57	3b)	\$ 57

4) Washington Middle School

- a) There is a difference on the beginning cash and trust fund balance.

Washington Middle School

		Cash	Trust Fund
Audited Balance as of 06/30/06	4a)	\$ 8,437	\$ 1,030
Balance Per MYOB as of 06/30/06	4a)	\$ 7,292	\$ 232
Difference		\$ 1,145	\$ 798

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-02 – Unreconciled Cash Balances per Bank Statements and per Trial Balances, Non-Existent Accounts/Balances, and Inventory Listings for ASB Fund – Muir High School, Blair High School, Rose City High School, Washington Middle School and Eliot Middle School (30000) (continued)

Condition (continued)

B) We were not provided with inventory listings that reconciled with book balances for the following ASB:

1) Muir High School

a) We were informed by the ASB Bookkeeper that there is no inventory since fiscal year 2005-06. However, the balance still carrying on the trial balance as of June 30, 2007.

2) Eliot Middle School

a) No inventory detail list provided to substantiate the balance of inventory reflected on trial balance as of June 30, 2007.

<u>School</u>		<u>Inventory Balance</u> <u>Per Ledger</u> <u>as of 06/30/07</u>	
Muir High School ASB	1a)	\$	1,584
Eliot M.S. ASB	2a)		1,350
		\$	<u>2,934</u>

Inventory detail list not provide.

C) We were not provided with the summary trial balance for Blair High School as at June 30, 2007. As a result, we are not able to present the accurate breakdown of additions and deletions of each account as required on the Combining Statement of Changes in Assets and Liabilities – Agency Fund.

Criteria

As part of good internal control, all cash on hand and in bank accounts should be reconciled/analyzed on a regular basis to properly control and monitor cash balances and facilitate timely investigation of unreconciled balances and recording of expenditures. Corrective adjustment should be made for non-existent accounts/balances on timely basis. Proper maintenance and retention of pertinent records such as bank statements and bank reconciliations should be observed and implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-02 – Unreconciled Cash Balances per Bank Statements and per Trial Balances, Non-Existent Accounts/Balances, and Inventory Listings for ASB Fund – Muir High School, Blair High School, Rose City High School, Washington Middle School and Eliot Middle School (30000) (continued)

Effect

Any unreconciled balances between the GL and bank statements, if not regularly investigated, analyzed, and corrected, would result in inaccurate reporting of cash balances; untimely recording of expenditures and delay in detection and correction of errors. Any non-existent accounts/balances, if not regularly investigated, adjusted, would lead to misstatement of financial position and potential fraud.

Recommendation

We suggest that the District prepare bank reconciliations for all funds on a regular basis to facilitate proper control and monitoring of cash balances, timely investigation/detection of any errors for unreconciled balances and unrecorded expenditures. Non-existent accounts/balances should be timely reported to supervisor and the District personnel, and removed from the book with proper adjustment to ensure the financial statements are fairly stated. Accounting staff should consult with the District personnel for proper adjustments regarding the non-existent accounts/balances especially cash accounts, if necessary. Proper maintenance and retention of pertinent records such as bank statements and bank reconciliation analysis should be observed and implemented. Any missing bank statements should be investigated to ensure that this is just an isolated case and not intentional to cover any possible fraud.

We also suggest that inventory details be maintained to ensure the existence, proper accounting and valuation of inventory items as of a given date.

Current Status: Not implemented. See current year finding 08-1.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-03 – Improper Recording of Accounts Payable and Accrued Expenses (30000)

Condition

- A) We noted a duplication of entry other charges/fees amounting to \$84,326 which was not detected by the District. The duplicated entry was posted under manual accounts payable – Account 9520.

Misstatement amount: \$84,236

- B) We noted that overestimated liabilities were not timely adjusted to the ledger when the book was closing.

**Estimated
Amount**
\$386,298

**Actual
Amount**
\$173,705

- C) We also noted that the District's cut-off review system was not fully implemented to ensure that all expenditures have been recorded/accrued in the proper period.

- 1) The following expenditures relate to fiscal year 2006-2007 which were recorded by the District in fiscal year 2007-2008.

Misstatement amount: \$99,654

- 2) The following expenditure relates to fiscal year 2007-2008 which was recorded by the district in fiscal year 2006-2007 under account 9520.

Misstatement amount: \$65,000

Criteria

Good internal control requires regular monitor, analysis and review accounts payable schedule and transactions. Proper cut-off procedures should be observed and implemented.

Effect

Absence of monitor, analysis and review accounts payable schedule and transactions would result to non-detection of possible errors and overstated/understated liabilities. Lack of cut-off review system would result in erroneous posting of expenditures.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

**Finding 07-03 – Improper Recording of Accounts Payable and Accrued Expenses (30000)
(continued)**

Recommendation

We suggest that the District regular monitor, analysis and review accounts payable schedule and transactions to identify and adjust any balances that require adjustment in the District's books at timely basis. Proper cut-off procedures in recording expenditures should be implemented to ensure recording of expenses in the proper period.

Current Status: Not implemented. See current year finding 08-10.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS June 30, 2008

Finding 07-04 Bank Reconciliations for Revolving Funds – Fund 67 – Self Insurance Fund (30000) – Prior Year Finding

Condition

During the audit of the revolving funds of Fund 67 – Self Insurance Fund, we noted that there were no bank reconciliation analysis being prepared between the cash balances per general ledger (GL) and per bank statements on a regular basis for the following revolving funds:

Funds	Cash Balance per GL as of 6/30/07	Cash Balance per Bank Statements as of 6/30/07	Difference GL over (under)
67.2- Health and Welfare Fund			
GL balance	\$ 500,000		
Bank statements balances:			
1054043005- Trust-Dental Plan		\$ 169,534	
1054043201- Trust- PCS		306,422	
253040045- PCS- INC Account		100	
253024945- Delta Dental			
Account		22,942	
253040037- Blue Shield			
Account		9,403	
Total	<u>\$ 500,000</u>	<u>\$ 508,401</u>	<u>\$ (8,401)</u>
67.1- Workers' Compensation Fund			
GL balance	\$ 388,254		
Bank statements balances:			
1054043103- Trust-Workers			
Comp		\$ 174,750	
711420505-Union Bank of CA-			
c/o Hazelrigg		250,000	
Total	<u>\$ 388,254</u>	<u>\$ 424,750</u>	<u>\$ (36,496)</u>

Criteria

As part of good internal control, all cash on hand and in bank accounts should be reconciled/analyzed on a regular basis to properly control and monitor cash balances and facilitate timely investigation of unreconciled balances and recording of expenditures.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-04 Bank Reconciliations for Revolving Funds – Fund 67 – Self Insurance Fund (30000) – Prior Year Finding (continued)

Effect

Any unreconciled balances between the GL and bank statements, if not regularly investigated, analyzed, and corrected, would result in inaccurate reporting of cash balances; untimely recording of expenditures and delay in detection and correction of errors.

Recommendation

We suggest that the District prepare bank reconciliations for all funds on a regular basis to facilitate proper control and monitoring of cash balances, timely investigation/detection of any errors for unreconciled balances and unrecorded expenditures.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

07-05 Inadequate Indication of Authorization and Signature for Payment Approval (30000)

Condition

During our testing of internal control for the National School Lunch Program, we noted that 10 payment vouchers/invoices did not have any authorization initials or signature to indicate payment approval. It was noted that there was an interim staff in the position of Food Services Director during the first half of the school year during which 90% of the invoices not authorized for payment were issued.

Criteria

As part of good internal control over financial reporting process, all financial information reported should be properly supported.

Effect

There is no indication that invoices are being reviewed before payment is made by someone other than the accounting technician. This presents a lack of segregation of duties and thus produces a high risk for fraud, weakening internal control.

Recommendation

The Food Services Director should emphasize the importance of authorizing invoices before payment is issued with his accounting staff. With everyone having awareness of the issue at hand, the chance of payments issued before signature of approval will be minimized and will therefore strengthen internal control.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

07-06 Cafeteria Fund Inventory Overstated (30000)

Condition

During our testing of warehouse inventory, we noted that there were duplicate entries for both food amount and supply amount on 6 items:

Description	Inv	Price per Unit	Food Amount Reported	Supply Amount Reported	Food Amount Adj	Supply Amount Adj
Bowl, 12oz Styro	16	17.17	274.72	274.72	(274.72)	
Italian Dressing 100-1.5 oz	6	4.06	24.36	24.36		(24.36)
Napkins, Low Fold	1	24.94	24.94	24.94	(24.94)	
Spoon #117	5	20.75	103.75	103.75	(103.75)	
Spoons #115 small	5	6.56	32.8	32.8	(32.80)	
Tray, Boat 1#	16	13.13	210.08	210.08	(210.08)	
Total					(646.29)	(24.36)

Criteria

As part of good internal control, all inventory on hand is reconciled to the inventory list.

Effect

As a result of double booking expense for several items in inventory, both the food and supply amount inventory were overstated.

Recommendation

The District should implement a policy to ensure the inventory on hand are reconciled to the inventory list. Physical inventory count should be performed periodically. The personnel should compare the actual inventory on hand with the list. Any discrepancies should be investigated and adjusted to agree with the total inventory on hand.

Current Status: Not considered a significant deficiency

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-07 – Inadequate Supporting Documentation for Daily Attendance Records – Wilson Middle School, Blair Magnet School, John Muir High School, Burbank Elementary School, and Webster Elementary School (10000)

Condition

Attendance procedures used to record daily attendance include the teacher manually recording daily attendance to the Teacher's Attendance Roster. During audit work at those schools, we noted the following incompliance conditions:

School	Exception(s)	Total Teachers Tested	Description
Wilson Middle School	1	29	Teacher's attendance roster was not submitted to clerk
Wilson Middle School	13	29	Teacher's roster could not be verified as signed in ink
Blair Magnet School	1	41	Teacher's attendance roster was missing
Blair Magnet School	5	41	Teacher's roster could not be verified as signed in ink
John Muir High School	6	14	Teacher's attendance roster was not signed
John Muir High School	16	41	Teacher's attendance roster was missing
Burbank Elementary School	12	14	Teacher's attendance roster was not signed
Webster Elementary School	3	16	Teacher's attendance roster was not signed
Webster Elementary School	4	16	Teacher's attendance roster was signed in pencil

Criteria

According to *Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421(b)* and *Education Code 44809*, each Local Educational Agency must develop and maintain accurate and adequate attendance records to support the attendance reported to the State. In addition, California Department of Education School Fiscal Services Division requires that the initial documents used by the district employees to record the attendance must be signed and the signatures dated, certifying the accuracy of the information reported.

Effect

The District is not in compliance with Education Code 44809. There is no effect on attendance.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-07 – Inadequate Supporting Documentation for Daily Attendance Records – Wilson Middle School, Blair Magnet School, John Muir High School, Burbank Elementary School, and Webster Elementary School (10000) (continued)

Recommendation

The school district should emphasize compliance with the state requirement for accurate attendance records and the District's policies and procedures requiring teachers to sign and date attendance record on a daily basis. The District should advise and/or provide training to teachers about the importance of proper accounting of attendance and emphasize to the teachers that attendance can not be considered complete without the teachers' signatures and date.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-08 – Inaccurate Recording of Attendance for Daily Attendance Records – Wilson Middle School , Blair Magnet School, and Burbank Elementary School ~~Condition~~ (10000)

Condition

During our test of attendance procedures at Wilson Middle School, Blair Magnet School, and Burbank Elementary School, we noted that 9 out of the 254 attendance days tested, the reported attendance in the school attendance register does not agree with the Teacher's Attendance Roster.

Criteria

According to Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421(b) and Education Code 44809, each Local Educational Agency must develop and maintain accurate and adequate attendance records to support the attendance reported to the State.

Effect

From the noted test exceptions, the discrepancy in number of absences from the School Register to the Teacher's Attendance Roster had no effect on the ADA due to the student's presence in other periods.

Recommendation

The school district should ensure that reported average daily attendance is based on the attendance certified by the teachers. Any discrepancies should be reconciled and corrected in the school's register, and corrections made after the teachers' reports should be properly documented. The responsible school district official should also ensure that policies and procedures in attendance keeping are properly implemented in all of the schools within the district.

Current Status: Partially implemented. See current year finding 08-2.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-09 – Inadequate Supporting Documentation for Excused Absences - Wilson Middle School, John Muir High School, Burbank Elementary School, and Jackson Elementary School (10000)

Condition

During our test of attendance procedures at Wilson Middle School, John Muir High school, Burbank Elementary School, and Jackson Elementary School, we noted the following incompliance conditions:

School	Exception(s)	Absent days tested	Description
Wilson Middle School	1	7	No parent note or documentation in phone log on file
John Muir High School	2	14	No parent note or documentation in phone log on file
Burbank Elementary School	3	14	No parent note or documentation in phone log on file
Jackson Elementary School	2	14	No parent note or documentation in phone log on file

Criteria

Per *California Code of Regulation, Tile 5 Education §16025 and §16026*, class 3—Disposable records shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code Section 41020 or of any other legally required audit, or after the ending date of any retention period required by any agency other than the State of California, whichever date is later.

Effect

The District is not complying with *California Code of Regulation, Tile 5 Education §16025 and §16026*. There is no effect on earned ADA.

Recommendation

The district should comply with the education code requiring school sites to retain all attendance records and supporting documentation for excused absences for a period of 3 years.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-10 – Inadequate Supporting Documentation For Continuation Education Attendance Records – Rose City High School (10000)

Condition

Attendance procedures used to record daily attendance at Rose City High School include the teacher manually recording daily attendance to the Teacher's Attendance Roster. It was noted that for 9 out of 11 teachers, the Teacher's Attendance Rosters selected for testing were missing. Therefore, 114.18 hours of apportionment out of 4,110 ADA hours claimed could not be verified.

Criteria

According to Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421(b) and Education Code 44809, each Local Educational Agency must develop and maintain accurate and adequate attendance records to support the attendance reported to the State.

Effect

Questionable High School attendance of 38.06 days (114.18 hours/3 hours per day) or 0.30ADA (38.06 days / 127days)

Questionable cost: \$1,664.19 (0.30 X \$5,547.31 per ADA).

Recommendation

The district should comply with the education code requiring school sites to keep track of all attendance records and supporting documentation for a period of 3 years.

Current Status: Not implemented. See current year finding 08-3.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-11 – Attendance Clerks Need Continuous Training to Enhance Their Knowledge of Attendance Software (30000)

Condition

During our visit school sites and test attendance system, we noted attendance clerks at school sites were not able to provide or generate attendance reports for the purpose of auditing and we also noted that no training has taken place since the attendance system has been in use for three years.

Criteria

Good internal control requires proper training of the attendance staff on a continuous basis to enhance their knowledge and skills in order to contribute to the accuracy of attendance system.

Effect

Staff members who are not given proper orientation and not well trained on their tasks/current posts would continue to commit errors and might potentially remained undetected. Therefore, P2 report and ADA revenue limits would not be accurately presented.

Recommendation

In order to fully utilize and maximize the employees working hours and hold them accountable for the correctness of their work, the District should find ways to provide continuous trainings to the staff. Such trainings will enable the staff to strengthen their skill and capabilities. This will help the District in its goal of producing timely and accurate attendance information. Also, the District should make sure that the IT department can fully understand and explain the nature of the attendance system to all attendance clerks at school sites.

Current Status: Not implemented. See current year finding 08-2 and 08-5.

PASADENA UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-12 – Inaccurate Reporting of Attendance (10000)

Condition

- A) During our audit procedures, it was observed the P2 Report of District Attendance incorrectly understated the elementary and high school ADAs for Special Education.
- B) During our audit procedures, the District was unable to provide adequate supporting documentation to support the supplemental hours reported on the Annual Report of District Attendance.

Criteria

According to *Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421(b)* and *Education Code 44809*, each Local Educational Agency must develop and maintain accurate and adequate attendance records to support the attendance reported to the State.

Effect

- A) The ADA apportionment was understated for the following categories:

	<u>Elementary</u>	<u>High School</u>
Special Ed - Nonpublic, Nonsectarian Schools	0.72	1.12
Special Ed - Nonpublic, Nonsectarian Schools - Licensed Institutions	2.28	1.01
TOTAL ADA:	<u>3.00</u>	<u>2.13</u>
 (ADA X \$5,547.31 Base Revenue Limit Per ADA)		
Understatement of apportionment:	\$ <u>16,651.93</u>	\$ <u>11,815.77</u>

PASADENA UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding 07-12 – Inaccurate Reporting of Attendance (10000) (continued)

Effect (continued)

B) Questionable cost for supplemental instruction is as follows:

	<u>Elementary</u>	<u>High School</u>
Questionable Supplemental Hours	<u>383,434</u>	<u>200,899</u>
(Supplemental hours x \$3.90 Estimated average hourly reimbursement rate for all supplemental instruction programs)		
Questionable Cost:	<u>\$1,495,392.60</u>	<u>\$783,506.10</u>

Recommendation

The District should ensure the attendance is accurately reported.

Current Status:

- A) Implemented.
- B) Implemented, errors noted, see current year finding 08-15.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-13 – Inadequate Supporting Documentation for Independent Study Attendance – Pasadena High School and Rose City High School (10000)

Condition

During our audit of Independent Study, we noted the following:

A) Attendance reported is inconsistent with the source attendance records.

- 1) Pasadena High School: 2 out of 30 pupils' annual summary illustrated a different figure from the monthly summary.
- 2) Rose City High School:
 - a) 2 out of 10 pupils' annual summary illustrated a total that included holidays and non-instructional days, which should be excluded from attendance.
 - b) 2 out of 10 pupils' monthly summary for the selected test month were not available on fieldwork date.

School	Annual Summary	Monthly Summary Submitted to Attendance	Amount reported to the State	Allowable Days	Unallowable Days
P.H.S.	16	17	17	17	0 0
P.H.S.	16	17	17	17	
Rose City	22	No monthly summary available	22	19	3
Rose City	21	No monthly summary available	21	19	2

Criteria

According to Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421(b) and Education Code 44809, it is the responsibility of each local district or county to maintain accurate and adequate attendance records to support the attendance reported to the California Department of Education.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-13 – Inadequate Supporting Documentation for Independent Study Attendance – Pasadena High School and Rose City High School (10000) (continued)

Effect

Inconsistent collection of data for attendance reporting will increase the risk of misapportionment of credit for ADA.

Recommendation

The school district should implement a policy to ensure all attendance records are accurately maintained. The Independent Study Programs at the different school sites should be advised of the importance of verifying the accuracy of data submitted to the district for P-2 and Annual attendance reporting. All attendance documents, generated by teachers, should be reviewed by a school administrator before submitting to the District. Furthermore, all changes made at the school sites should be reported to the District personnel in a timely manner so that the information reported to the state is in consistent with the information being kept at the schools.

Current Status: Not implemented. See current year finding 08-5.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-14 – Independent Study Student Files Not Completed (40000)

Condition

During our audit, we noted that out of the 10 samples selected for Rose City High School, only 6 student files for the selected test month (month 4) were available for review. Furthermore, the following issues were noted of the files available for examination:

- A) 3 out of the 6 student files examined for the selected test month were missing program exit date as required on the master agreement.
- B) 2 out of the 6 student files examined did not have any work samples for the selected test month as required.

Criteria

- A) According to *Education Code 51747(c)(5)*, a current written agreement for each independent study pupil shall be maintained on file to include but not limited to the duration of the independent study agreement, including beginning and ending dates for the pupil's participation in independent study under the agreement.
- B) According to *California Code of Regulations, Title 5, Sections 11700 (b)(2)*, to be compliant with the law and regulations as the California Department of Education understands them, teachers are responsible for a work file of samples for students original work that they have evaluated and making sure the samples reasonably reflect the total scope of work assignments.

Effect

The District is not in compliance with *Education Code 51747(c)(5)* and *California Code of Regulations, Title 5, Sections 11700 (b)(2)*.

Recommendation

The District should implement a policy to ensure that every pupil enrolled in independent study has a written agreement signed and dated by the student, parent or guardian, instructor, and administrator before the agreement is executed. In addition, the District should provide training to attendance clerks to broaden their knowledge and the documents retention on independent study program and attendance reporting requirements. It was recommended that Rose City retain all student files for a minimum of three years.

Current Status: Not implemented. See current year finding 08-5.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-15 – System Error in Instructional Minutes– Rose City High School (40000)

Condition

During our audit procedures, it was noted that the bell schedule reflects class sessions of 39 minutes on Mondays, and 51 minutes on Tuesdays through Fridays; however, the attendance system for the continuing education school is set-up such that each session attended results in a recording of 55 minutes per period in the system.

Criteria

According to Education Code 46170, in continuation high schools and continuation education classes, a day of attendance is 180 minutes of attendance but no pupil shall be credited with more than 15 hours of attendance per school week, proportionately reduced for those school weeks having weekday holidays on which classes are not held. Additionally, actual student attendance is recorded in clock hour for purposes of calculating apportionment credit. Accurate and complete records are required. Each class period of attendance must be separately reported, and each class period earns only actual schedule minutes.

Effect

The effect could not be determined.

Recommendation

The district should correct the system error to reflect the actual minutes of attendance.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-16 – Instructional Time Not in Compliance (40000)

Condition

During our audit of instructional time, it was noted that Don Benito Fundamental School failed to comply with the state requirement of an annual minimum of 36,000 instructional minutes for kindergarten classes. During Fiscal year 2006-07, the elementary school offered a total of 35,075 instructional minutes for kindergarten classes, which is 925 minutes less than the requirement.

Criteria

According to *Education Code 46201(c)(d)* for each school district that receives an apportionment pursuant to subdivision (a) in the 1986-87 fiscal year and that reduces the amount of instructional time offered below the minimum amounts specified in either paragraph (3) of subdivision (a) or paragraph (1) of subdivision (b), whichever is applicable, in the 2001-02 fiscal year, or any fiscal year thereafter, the Superintendent of Public Instruction shall withhold from the district's revenue limit apportionment for the average daily attendance of each affected grade level, the sum of that apportionment multiplied by the percentage of the minimum offered minutes at that grade level that the district failed to offer.

Effect

The District is not in compliance with Education Code 46201(c)(d).
Questionable cost: \$216,010

Recommendation

The District should return the questionable cost of \$216,010 or file a waiver. The District should perform internal review of all bell schedules to ensure schools meet the minimum instructional minutes requirements.

Current Status: Implemented at this school site, however errors still noted. See current year finding 08-4.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-17 – Noncompliance with Instructional Materials Funding Realignment Program Fund Requirements (40000)

Condition

Based on our audit procedures, it was observed the notice of public hearing for the resolution of sufficiency of textbooks for fiscal year 2006-2007 was not posted for the district, which had increase of over one percent (1%) in the base revenue limit per ADA from the prior fiscal year.

Criteria

Pursuant to *Education Code 60119*, in order to be eligible for the Instructional Materials Funding Realignment Program fund, when there is an increase of over one percent (1%) in the base revenue limit per ADA from the prior fiscal year, the governing board will provide ten (10) days' notice of the public hearing to determine, through a resolution, if the district provide sufficient textbooks.

Effect

The District is not in compliance with the Instructional Material Funding requirements.
Questionable cost: \$1,391,155

Recommendation

The District should return the questioned cost of \$1,391,155 or file a waiver with the California Department of Education. The District in the future should implement a policy to ensure the district is in compliance with the requirements by posting a ten-day advance notice of public hearing for the sufficiency of textbooks at three different locations. The District should also properly maintain the records to provide an audit trail.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-18 – Inappropriate use of Instruction Materials Funding Realignment Program (IMFRP) Funds (40000)

Condition

Based on our audit procedures, it was determined that Instructional Materials Funding Realignment Program funds were inappropriately use for various expenditures totaling \$185,822.95. The details of the expenditures are as follows:

Description	Invoice Amount
Copier service	\$ 97,861.73
Library management system	\$ 75,269.41
Label protectors	\$ 4,475.10
Unapproved textbook	\$ 8,216.71
Total	\$ 185,822.95

Criteria

According to *Education Code 60242* the Instructional Materials Funding Realignment Program fund is to be used to purchase instructional material approved by the state board for grades K-8, board adopted instructional material for grades 9-12, supplementary instructional materials, tests, in-service training, classroom library materials for grades 1-4. Instructional material funds may also be used to bind basic textbooks if they are otherwise usable and on the recent adopted list of instructional material.

Effect

Overstatement of Instructional Materials Funding Realignment Program expenditures by \$185,822.95.

No effect to overall expenditures.

Recommendation

The district should comply with the code by ensuring that the IMFRP funds are used only for applicable expenditures.

Current Status: Not implemented. See current year finding 08-17.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-19 – Inadequate reporting of School Accountability Report Card (SARC) (40000)

Condition

During the performance of audit procedures, the following were observed:

- A) The SARC for Wilson International Baccalaureate Middle School did not have sufficient supporting document to support the reported Teacher Misassignments and Teacher Vacancies.
- B) The SARC for Jackson Elementary School did not report any facilities inspection data, even though it is a decile 3 school.
- C) The SARC for Burbank Elementary School did not have a facilities inspection date, and the facilities inspection data reported under the "Other" category did not agree with the supporting documents.

Criteria

- A) According to *Education Code Section 35186(d)*, a school district is to report summarized data on the nature and resolution of all complaints on a quarterly basis to the county superintendent of schools and the governing board of the school district.
- B) According to *Education Code Section 33126(b) (8)*, the school accountability report card is to include an assessment of the safety, cleanliness and adequacy of school facilities.
- C) According to the elements and definitions of the CDE website and *Education code Section 33126*, the school accountability report card is to include an assessment of the safety, cleanliness and adequacy of school facilities with a date of the assessment.

Effect

The district is not in compliance with school accountability report card requirements.

Recommendation

The district should ensure they comply with school accountability report card requirements and the SARC for each school is comprised of all essential elements.

Current Status: Partially implemented. See current year finding 08-14.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Finding 07-20 – Inaccurate Reporting of Morgan Hart Class Size Reduction (40000)

Condition

During the performance of audit testing, a procedural error was noted in the district's calculation of Morgan Hart Class Size Reduction in which periods with more than 22 students enrolled were not excluded from the overall average enrollment for the class.

Criteria

According to *Education Code 52084(c)*, any classes participating in Morgan Hart Class Size Reduction will not have more than 22 students.

Effect

The effect could not be determined.

Recommendation

The district should accurately calculate the average enrollment for classes eligible for Morgan Hart Class Size Reduction reporting.

Current Status: Implemented.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Original Finding 06-1 – Complete and updated fixed assets listing and accumulated depreciation schedule not maintained (40000)

Finding: During our audit of capital assets balances and transactions as of and for the year ended June 30, 2006, we noted the following:

The District does not monitor and maintain complete and updated capital asset register as of and for the year ended June 30, 2006.

The independent appraisal company report on completed capital assets at June 30, 2006 resulted to an unaccounted net addition to capital asset of \$20.6 million which was not reconciled with the Districts' records. The independent appraisal company indicated in its report that there was no attempt made or contemplated to reconcile the estimated original costs and the estimated dates of acquisition with the District's existing records. We also noted that the appraisal company report does not specifically indicate the date the assets were acquired and put into service.

There was no regular physical count of the capital assets under construction in progress status.

Construction in progress (CIP) account balance of \$128 million at June 30, 2006 was not reconciled with the Measure Y Financial Report. The CIP report/summary does not include relevant information such as individual asset's date of acquisition, date put into service, and vendor reference invoice numbers. We also noted that the available CIP asset schedules do not show any specific asset tag numbers or other identification reference numbers assigned to each asset.

The District maintains a summary/report of the year-to-date capital expenditures of the District projects for all locations. However, such summary does not provide enough details/information that specifically identifies those assets items that were completed and transferred to buildings and improvements and those asset items that remained in the construction-in-progress account. Such report does not also indicate the dates that the individual assets costs/expenditures were incurred.

The District's schedule of CIP at June 30, 2006 shows various projects that were already approved as completed by the Board as at June 30, 2006 per Facilities report (Measure Y report). However, such completed projects have still existing CIP balance at June 30, 2006.

We also noted instances whereby the amounts transferred to completed projects per appraisal report were higher than the actual expenditures incurred for the related projects per Facilities report. This resulted to a negative CIP balance at June 30, 2006.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Original Finding 06-1 – Complete and updated fixed assets listing and accumulated depreciation schedule not maintained (40000) (continued)

Finding: (continued)

The cumulative soft costs (such as management fees, environmental fee, inspection fee, consulting, etc.) of \$71.8 million at June 30, 2006 associated with the District's construction were not properly allocated to respective projects on a reasonable and timely manner. This amount was still included in the CIP balance under district-wide location at June 30, 2006. Accordingly, certain completed project costs might be understated by the amount relating to soft costs. Also, the related depreciation expense might be understated due to understatement of related capitalized cost.

During our audit, we noted about 133 items of capital assets with total cost and related accumulated depreciation of \$1,213,440 and \$1,100,860, respectively, that were retired during the fiscal year ended June 30, 2006 based on the fixed assets retirement report of an appraiser company contracted by the District. However, there were no appropriate documents supporting the proper authorization and approval of the capital asset retirements and disposal.

Recommendation: We suggest that the District consider the following:

1. The District should ensure that appropriate policies and procedures in safeguarding the District's assets and adequate internal control are in place and are fully implemented to ensure proper accounting for capital assets. Internal control should include policies and procedures that would ensure proper and timely recording and monitoring of fixed assets, both completed and construction-in-progress.
2. Maintain a complete and updated fixed assets register to properly monitor and account for all the capitalized fixed assets of the District. Such register should include relevant information such as individual asset's date of acquisition, date put into service, reference vendor name and invoices, estimated life of each asset and related calculated accumulated depreciation of each asset. Such complete and updated register would facilitate immediate reconciliation of the recorded assets with those assets physically counted/inspected. Material discrepancies between the listing and actual assets/equipment located at the sites should be investigated.
3. Assign specific asset tag numbers or other identification reference numbers to each asset in the fixed asset register for easy identification of the assets. This identification process would help the District in determining and relieving in the books the cost of the certain assets that require disposals and/or write-off in the future and in calculating the related gain/loss on disposal/write-off.

PASADENA UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2008

Original Finding 06-1 – Complete and updated fixed assets listing and accumulated depreciation schedule not maintained (40000) (continued)

Recommendation: (continued)

4. Aside from maintaining fixed assets register, physical count of these assets should be conducted on a regular basis, and result of count should be reconciled with the District's records.
5. Capital assets transaction such as purchases, construction, transfer and retirements should be properly accounted for and authorized by responsible District official.
6. Certain soft cost incurred relating to the construction projects should be allocated to completed projects on a reasonable and timely manner. Completed projects should be capitalized as part of depreciable assets and related depreciation expense be amortized upon use.
7. Unlocated assets should be properly reviewed and investigated before recording them as asset retirement.

Current Status: Although not implemented in 2006-07, the finding was implemented in 2007-08.

Original Finding 06-3 – Fund 76 – Payroll Clearing Fund not regularly reconciled/analyzed (30000)

Finding: The Fund 76 – Payroll Clearing Fund trial balance at June 30, 2006 shows various debit and credit balances on certain payable accounts which has not been analyzed. This is a reiteration of a prior year finding. We were informed by the payroll staff that the significant portion of the remaining balances on Fund 76 were unreconciled differences from prior years which were carried over to the current year and have not yet been reconciled.

Recommendation: The District should require an analysis/reconciliation of the existing account balances on Fund 76 on a regular basis. All those long outstanding unreconciled balances from prior years should be analyzed and adjusted in order to maintain correct balances in the District's books.

Current Status: Not implemented in 2006-07 or 2007-08. See current year finding 08-12.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

Board of Education
Pasadena Unified School District
Pasadena, California

Pasadena Unified School District
2009 General Obligation Bonds (Election of 2008)
Series 2009A-1 (Tax-Exempt)

and

Pasadena Unified School District
2009 General Obligation Bonds (Election of 2008)
Series 2009A-2
(Federally Taxable Build America Bonds)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Pasadena Unified School District (the "District"), which is located in the County of Los Angeles, California (the "County"), in connection with the issuance by the County on behalf of the District of \$40,320,000 aggregate principal amount of bonds designated as "Pasadena Unified School District 2009 General Obligation Bonds (Election of 2008) Series 2009A-1 (Tax-Exempt)" (the "Series 2009A-1 Bonds"), and \$84,680,000 aggregate principal amount of bonds designated as "Pasadena Unified School District 2009 General Obligation Bonds (Election of 2008) Series 2009A-2 (Federally Taxable Build America Bonds)" (the "Series 2009A-2 Bonds", and together with the Series 2009A-1 Bonds, the "Bonds"), representing a portion of the \$350,000,000 of bonds authorized at an election held in the District on November 4, 2008. The Bonds are issued under and pursuant to a resolution of the Board of Supervisors of the County adopted on August 18, 2009 (the "County Resolution"), at the request of the District pursuant to a resolution of the Board of Education of the District adopted on July 21, 2009 (the "District Resolution").

In such connection, we have reviewed the District Resolution, the County Resolution, the tax certificate of the District for the Series 2009A-1 Bonds dated the date hereof (the "Tax Certificate"), certificates of the District, the County, and others, the opinion of counsel to the County, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District and the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the District Resolution, the County Resolution, and the Tax Certificate, including (without limitation) covenants and agreements compliance

with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2009A-1 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the District Resolution, the County Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the District.
2. The District Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The County Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the County.
4. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.
5. Interest on the Series 2009A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series 2009A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$125,000,000
PASADENA UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
2009 GENERAL OBLIGATION BONDS
(ELECTION OF 2008)

consisting of:

\$40,320,000
SERIES 2009A-1 (TAX-EXEMPT)

\$84,680,000
SERIES 2009A-2 (FEDERALLY
TAXABLE BUILD AMERICA BONDS)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Pasadena Unified School District (the "District") in connection with the issuance of the above-named bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution (the "Resolution") adopted by the Board of Supervisors of the County of Los Angeles (the "County") on August 18, 2009, at the request of the Board of Education of the District by its resolution adopted on July 21, 2009. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist RBC Capital Markets Corporation (Participating Underwriter) in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"Participating Underwriter" shall mean RBC Capital Markets Corporation, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which shall be March 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2008-09 fiscal year (which is due not later than March 31, 2010), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

- * Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- * Adopted budget of the District for the current fiscal year, including any interim budget reports adopted prior to the date of filing the Annual Report or a summary thereof.
- * District average daily attendance.
- * District outstanding debt.
- * Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.
- * Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities,

which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders;
8. Unscheduled or contingent Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements,

change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Los Angeles or in U.S. District Court in or nearest to the County. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____.

PASADENA UNIFIED SCHOOL DISTRICT

By _____ [to be signed upon delivery of the Bonds]
Authorized District Representative

CONTINUING DISCLOSURE EXHIBIT A

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of District: PASADENA UNIFIED SCHOOL DISTRICT

Name of Bond Issue: PASADENA UNIFIED SCHOOL DISTRICT
2009 GENERAL OBLIGATION BONDS
(ELECTION OF 2008, SERIES A)

Date of Issuance: _____

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Issuance. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

PASADENA UNIFIED SCHOOL DISTRICT

By _____ [to be signed only if filed]

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APPENDIX E

COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR INVESTMENT POLICY

ADOPTED MARCH 31, 2009

The following information has been furnished by the Office of the Treasurer and Tax Collector of the County of Los Angeles (together with all authorized deputies thereof, the "County Treasurer"). It describes the composition, carrying amount, market value and other information relating to the investment pool. Additional information may be obtained from the website of the County Treasurer: http://ttc.lacounty.gov/Proptax/investor_info.asp.

See following page.

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COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR



MARK J. SALADINO
TREASURER AND TAX COLLECTOR

500 WEST TEMPLE STREET
437 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012

March 31, 2009

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

TELEPHONE
(213) 974-2101
TELECOPIER
(213) 626-1812

25

MAR 31 2009

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

**DEPARTMENT OF TREASURER AND TAX COLLECTOR
DELEGATION OF AUTHORITY TO INVEST AND
ANNUAL ADOPTION OF THE TREASURER AND TAX COLLECTOR
INVESTMENT POLICY
(ALL DISTRICTS) (3-VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Delegate the authority to invest and reinvest County funds and funds of other depositors in the County Treasury, to the Treasurer.
2. Adopt the attached Treasurer and Tax Collector Investment Policy (Investment Policy).

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The requested actions are required by the California Government Code (Government Code) to permit the Treasurer to invest County funds and funds of other depositors in the County Treasury pursuant to the Investment Policy. Government Code Section 53646 permits your Board to approve annually the Investment Policy.

We have revised the Investment Policy approved by your Board on March 11, 2008 as follows:

On November 12, 2008, your Board approved the Treasurer's recommendation to disband the Treasury Oversight Committee due to its limited functions and the removal of any statutory requirement to have such a committee. Therefore, we have removed references to the Treasury Oversight Committee.

We have made some minor revisions to reflect changes to governing statutes or regulations.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This Investment Policy is in accordance with the Countywide Strategic Plan Goal #4: Fiscal Responsibility in investing County funds and funds of other depositors in the County Treasury.

FISCAL IMPACT/FINANCING

There is no fiscal impact from this action.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Government Code Section 27000.1 provides that your Board may annually delegate the authority to invest and reinvest funds of the County and funds of other depositors in the County Treasury to the Treasurer.

Government Code Section 53646 permits the Treasurer to render annually to your Board a statement of Investment Policy, to be reviewed and approved at a public meeting. This Code Section also requires that any change in the Investment Policy also be submitted to your Board for review and approval at a public hearing.

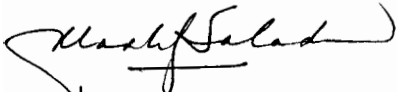
IMPACT ON CURRENT SERVICES

There is no impact on current services.

CONCLUSION

Upon approval, please return the adopted, stamped Board Letter to my office for further processing.

Respectfully submitted,



MARK J. SALADINO
Treasurer and Tax Collector

MJS:JK:tf

Attachments

c: Chief Executive Officer
County Counsel
Auditor-Controller

**COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR
INVESTMENT POLICY**

Authority to Invest

Pursuant to Government Code Section 27000.1 and Los Angeles County Code 2.52.025, the Los Angeles County Board of Supervisors has delegated to the Treasurer the authority to invest and reinvest the funds of the County and the funds of the depositors in the County Treasury.

Fundamental Investment Policy

The Treasurer, a trustee, is inherently a fiduciary and subject to the prudent investor standard. Accordingly, when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing investments, the investment decisions SHALL be made with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity would use with like aims.

All investments SHALL be governed by the Government Code and comply with the specific limitations set forth within this Investment Policy. Periodically, it may be necessary and prudent to make investment decisions beyond the limitations set forth in the Investment Policy that are otherwise permissible by California Government Code. In these special circumstances, ONLY the Treasurer is permitted to give written approval to operate outside the limitations set forth within this Investment Policy.

Pooled Surplus Investment Portfolio

The Treasurer SHALL establish and maintain a Pooled Surplus Investment (PSI) portfolio. The PSI portfolio SHALL be used to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury.

The investment policies of the PSI portfolio SHALL be directed by and based on three prioritized objectives. The primary objective SHALL be to ensure the safety of principal. The secondary objective SHALL be to meet the liquidity needs of the PSI participants, which might be reasonably anticipated. The third objective SHALL be to achieve a return on funds invested, without undue compromise of the first two objectives.

PSI revenue/loss distribution SHALL be shared on a pro-rata basis with the PSI participants. PSI revenue/loss distribution will be performed monthly, net of administrative costs authorized by Government Code Section 27013 which includes employee salaries and benefits and services and supplies, for investing, depositing or handling funds, and the distribution of interest income, based on the PSI participants' average daily fund balance as recorded on the Auditor-Controller's accounting records. Administrative costs SHALL be deducted from the monthly PSI revenue/loss distribution on the basis of one-twelfth of the budgeted costs and adjusted to actual costs.

Investments purchased with the intent to be held to maturity SHALL be accounted for in the Non-Trading partition of the PSI portfolio. Investments purchased with the intent to be sold prior to maturity SHALL be accounted for in the Trading partition of the PSI portfolio. The investments

in the Trading partition SHALL NOT exceed \$150 million without specific written approval of the Treasurer.

In the event that a decision is made to transfer a given security from one partition to another, it MAY be transferred at cost; however, the difference between the market value, exclusive of interest, at the time of transfer and the purchase price, exclusive of interest, SHALL be computed and disclosed as unrealized profit or loss.

All PSI investments SHALL be categorized according to the period of time from settlement date to maturity date as follows:

- SHORT-TERM investments are for periods of up to ONE YEAR.
- INTERMEDIATE-TERM investments are for periods of ONE YEAR to THREE YEARS.
- MEDIUM-TERM investments are for periods of over THREE YEARS to FIVE YEARS.
- LONG-TERM investments are for periods of over FIVE YEARS.

PSI investments SHALL be limited to the short-term category except that the Investment Office of the Treasurer's Office MAY make PSI investments in accordance with the limitations imposed in Attachments I, II, and III (all of which are attached hereto and incorporated by this reference.)

The weighted average maturity target of the PSI portfolio is 1.5 years. For purposes of maturity classification, the maturity date shall be the nominal maturity date or the unconditional put option date, if one exists.

The total PSI portfolio investments with maturities in excess of one year SHALL NOT exceed 75% of the last three years' average minimum total cash and investments, after adjustments, as indicated in Attachment II.

Liquidity of PSI Investments

Short-term liquidity SHALL further be maintained and adjusted monthly so that sufficient anticipated cash is available to fully meet unanticipated withdrawals of discretionary deposits, adjusted for longer-term commitments, within ninety days.

Such liquidity SHALL be monitored where, at the beginning of each month, the par value for maturities in the next ninety days plus projected PSI deposits for ninety days, divided by the projected PSI withdrawals for ninety days plus discretionary PSI deposits is equal to or greater than one.

The liquidation of investments is not required solely because the discretionary liquidity withdrawal ratio is less than one; however, investments SHALL be limited to a maximum maturity of thirty days until such time as the discretionary liquidity withdrawal ratio is equal to or greater than one.

The sale of any PSI instrument purchased in accordance with established policies is not required solely because an institution's credit rating is lowered after the purchase of the instrument.

Specific Purpose Investment Portfolio

The Treasurer SHALL maintain a Specific Purpose Investment (SPI) portfolio to manage specific investment objectives of the SPI participants. Specific investments may be made with the approval of the requesting entity's governing body and the approval of the Treasurer. Revenue/loss distribution of the SPI portfolio SHALL be credited to the specific entity for which the investment was made. The Treasurer reserves the right to establish and charge the requesting entity fees for maintaining the entity's SPI portfolio.

Investments SHALL be limited to the short-term category, as defined above in the previous section for PSI investments, except when requested by a depositing entity and with the approval of the Treasurer, a longer term investment MAY be specifically made and held in the SPI portfolio.

The sale of any SPI instrument purchased in accordance with established policies is not required solely because an institution's credit rating is lowered after the purchase of the instrument.

Execution, Delivery, and Monitoring of Investments

The Treasurer SHALL designate, in writing, personnel authorized to execute investment transactions.

All transactions SHALL be executed on a delivery versus payment basis.

The Treasurer or financial advisor, consultant or manager acting on behalf of the Treasurer, in purchasing or obtaining any securities in a negotiable, bearer, registered, or nonregistered format, requires delivery of the securities to the Treasurer or designated custodial institution, by book entry, physical delivery, or by third party custodial agreement.

All investment transactions made by the Investment Office SHALL be reviewed by the Internal Controls Office to assure compliance with this Investment Policy.

Reporting Requirements

The Treasurer SHALL provide the Board of Supervisors with a monthly report consisting of, but not limited to, the following:

- All investments detailing each by type, issuer, date of maturity, par value, historical cost,

market value and the source of the market valuation.

- Month-end bank balances for accounts under the control of the Treasurer.
- A description of funds, investments, or programs that are under the management of contracted parties, including lending programs for the Treasurer.
- A description of all investment exceptions, if any, to the Investment Policy.
- A statement denoting the ability of the PSI portfolio to meet the anticipated cash requirements for the participants for the next six months.

In accordance with Government Code Section 53646(j), the Treasurer SHALL provide the Treasurer's Investment Policy to the California Debt and Investment Advisory Commission no later than 60 days after the second quarter of each calendar year and subsequent amendments thereto no later than 60 days after the approval of any such amendments.

Discretionary Treasury Deposits and Withdrawal of Funds

At the sole direction of the Treasurer, PSI deposits may be accepted from local agencies not required to deposit their funds with the Los Angeles County Treasurer, pursuant to Government Code Section 53684.

At the time such deposits are made, the Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Such projections may be adjusted periodically as prescribed by the Treasurer but in no event less than semi-annually.

In accordance with Government Code Section 27136, all requests for withdrawal of such funds, for the purpose of investing or depositing these funds elsewhere SHALL be evaluated, prior to approving or disapproving the request, to ensure that the proposed withdrawal will not adversely affect the principal deposits of the other PSI participants.

If it is determined that the proposed withdrawal will negatively impact the principal deposits of the other PSI participants, the Treasurer may delay such withdrawals until the impact can be mitigated.

Broker/Dealer Section

Broker/Dealer SHALL be limited to primary government dealers as designated by the Federal Reserve Bank or institutions meeting one of the following:

- A. Broker/Dealer with minimum capitalization of \$500 million and who meets all five of the below listed criteria;

1. Be licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporations Code or a member of a Federally regulated securities exchange and;
 2. Be a member of the National Association of securities Dealers and;
 3. Be registered with the Securities and Exchange Commission and;
 4. Have been in operation for more than five years; and
 5. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.
- B. Emerging firms with office(s) in California licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporations Code or a member of a Federally regulated exchange with a minimum capitalization of \$200,000 to a maximum capitalization of \$5 million and have met the quality criteria of the Treasurer.

Commercial Paper and Negotiable Certificates of Deposit may be purchased directly from issuers approved by the Treasurer.

An approved Treasurer Broker/Dealer list SHALL be maintained. Firms SHALL be removed from the approved Broker/Dealer list and trading suspended with firms failing to accurately and timely provide the following information:

- A. Confirmation of daily trade transactions and all open trades in effect at month-end.
- B. Responses to auditor requests for confirmation of investment transactions.
- C. Responses to the Internal Controls Office requests for needed information.

Honoraria, Gifts, and Gratuities Limitations

The Treasurer, Chief Deputy Treasurer and Tax Collector and designated Treasurer and Tax Collector employees SHALL be governed by the provision of the State's Political Reform Act, the Los Angeles County Code relating to Lobbyists, and the Los Angeles County Code relating to postgovernment employment of County officials.

Investment Limitations

The Investment Office SHALL NOT invest in inverse floating rate notes, range notes, or interest only strips that are derived from a pool of mortgages.

The Investment Office SHALL NOT invest in any security that could result in zero interest if held to maturity.

For investment transactions in the PSI portfolio, the Investment Office SHALL obtain approval of the Treasurer before recognizing any loss exceeding \$100,000 per transaction, calculated using amortized cost.

Proceeds from the sale of notes or funds set aside for the repayment of notes SHALL NOT be invested for a term that exceeds the term of the notes.

Permitted Investments

Permitted Investments SHALL be limited to the following:

A. Obligations of the United States Government, its agencies and instrumentalities.

1. Maximum maturity: None.
2. Maximum total par value: None.
3. Maximum par value per issuer: None.
4. Federal agencies: Additional limits in Section G apply if investments are Floating Rate Instruments.

B. Municipal Obligations from the approved list of municipalities (Attachment III)

1. Maximum maturity: As limited in Attachment III.
2. Maximum total par value: 10% of the PSI portfolio.

C. Asset-Backed Securities

1. Maximum maturity: Five years.
2. Maximum total par value: 20% of the PSI portfolio.
3. Maximum par value per issuer: Per limits outlined in Attachment I for issuer's current credit rating.
4. All Asset-Backed securities must be rated at least AA and the issuer's corporate debt rating must be at least A.

D. Bankers' Acceptance Domestic and Foreign

1. Maximum maturity: 180 days and limits outlined in Attachment I for issuer's current credit rating.
2. Maximum total par value: 40% of the PSI portfolio.
3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.
4. The aggregate total of Bankers' Acceptances and Negotiable Certificates of Deposits SHALL NOT exceed:
 - a) The total shareholders' equity of depository bank.
 - b) The total net worth of depository bank.

E. Negotiable Certificates of Deposit (CD)

1. Maximum maturity: Three years and limits outlined in Attachment I for issuer's current credit rating.
2. Maximum total par value: Aggregate total of Domestic and Euro CD's are limited to 30% of the PSI portfolio.
3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.
4. Must be issued by:
 - a) National or State-chartered bank, or
 - b) State-licensed branch of a foreign bank.
5. Euro CD's:
 - a) Maximum maturity: One year and limits outlined in Attachment I for issuer's current credit rating.
 - b) Maximum total par value: 10% of the PSI portfolio.
 - c) Maximum par value per issuer: Per limits outlined in Attachment I for issuer's current credit rating.

- d) Limited to London branch of National or State-chartered banks.
- 6. The aggregate total of Bankers Acceptances and Negotiable Certificates of Deposits SHALL NOT exceed:
 - a) The total shareholders' equity of depository bank.
 - b) The total net worth of the depository bank.

F. Corporate and Depository Notes

- 1. Maximum maturity: Three years and limits outlined in Attachment I for the issuer's current credit rating.
- 2. Maximum total par value: 30% of the PSI portfolio.
- 3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.
- 4. Notes MUST be issued by:
 - a) Corporations organized and operating within the United States.
 - b) Depository institutions licensed by the United States or any State and operating within the United States.
- 5. Additional limits in Section G apply if note is a Floating Rate Note Instrument.

G. Floating Rate Notes

Floating Rate Notes included in this category are defined as any instrument that has a coupon or interest rate that is adjusted periodically due to changes in a base or benchmark rate.

- 1. Maximum maturity: Seven years, provided that Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of \$100 million par value may be greater than five years to maturity.
- 2. Maximum total par value: 10% of the PSI portfolio.
- 3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.
- 4. Benchmarks SHALL be limited to commercially available U.S. Dollar denominated indexes.

5. The Investment Office SHALL obtain the prospectus or the issuer term sheet prior to purchase for all Floating Rate Notes and SHALL include the following on the trade ticket:
 - a) Specific basis for the benchmark rate.
 - b) Specific computation for the benchmark rate.
 - c) Specific reset period.
 - d) Notation of any put or call provisions.

H. Commercial Paper

1. Maximum maturity: 270 days and limits outlined in Attachment I for the issuer's current credit rating.
2. Maximum total par value: 40% of the PSI portfolio.
3. Maximum par value per issuer: The lesser of 10% of the PSI portfolio or the limits outlined in Attachment I for the issuer's current credit rating.
4. Credit: Issuing Corporation - Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
 - (a) The entity meets the following criteria:
 - 1) Is organized and operating in the United States as a general corporation.
 - 2) Has total assets in excess of \$500MM.
 - 3) Has debt other than commercial paper, if any, that is rated "A" or higher by NRSRO.
 - (b) The entity meets the following criteria:
 - 1) Is organized in the United States as a Limited Liability Company or Special Purpose Corporation.
 - 2) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.

- 3) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

I. Shares of Beneficial Interest

1. Money Market Fund (MMF) - Shares of beneficial interest issued by diversified management companies known as money market mutual funds, registered with the Securities and Exchange Commission in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulation. The company SHALL have met either of the following criteria:

- a) Attained the highest possible rating by not less than two NRSRO.
- b) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized in Government Code Section 53601 and with assets under management in excess of five hundred million dollars (\$500,000,000).

Maximum total par value: 15% of the PSI portfolio. However, no more than 10% of the PSI may be invested in any one fund.

2. State of California's Local Agency Investment Fund (LAIF) pursuant to Government Code Section 16429.1.
3. Trust Investments – Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities and obligations authorized in Section 53601 (a) to (o) of the Government Code. To be eligible, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - b) The adviser has not less than five years of experience investing in the securities and obligations authorized in Section 53601 (a) to (o) of the Government Code.
 - c) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

J. Repurchase Agreement

1. Maximum maturity: 30 days.

2. Maximum total par value: \$1.0 billion.
3. Maximum par value per dealer: \$500 million.
4. Agreements must be in accordance with approved written master repurchase agreement.
5. Agreements must be fully secured by obligations of the United States Government, its agencies and instrumentalities. The market value of these obligations that underlay a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than monthly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. If a repurchase agreement matures the next business day after purchase, the repurchase agreement is not out of compliance with this collateralization requirement if the value of the collateral falls below the 102% requirement at the close of business on settlement date.

K. Reverse Repurchase Agreement

1. Maximum term: One year.
2. Maximum total par value: \$500 million.
3. Maximum par value per broker: \$250 million.
4. Dealers limited to those primary dealers or those nationally or State chartered banks that have a significant banking relationship with the County as defined in Government Code Section 53601(i)(4)(B) approved specifically by the Treasurer.
5. Agreements SHALL only be made for the purpose of enhancing investment revenue.
6. Agreements must be in accordance with approved written master repurchase agreement.
7. Securities eligible to be sold with a simultaneous agreement to repurchase SHALL be limited to obligations of the United States Government and its agencies and instrumentalities.
8. The security to be sold on reverse repurchase agreement SHALL have been owned and fully paid for by the Treasurer for a minimum of 30 days prior to sale.

9. The proceeds of the reverse repurchase agreement SHALL be invested in authorized instruments with a maturity less than 92 days unless the agreement includes a codicil guaranteeing a minimum earning or spread to maturity.
10. The proceeds of the reverse repurchase agreement SHALL be invested in instruments with maturities occurring at or before the maturity of the reverse repurchase agreement.
11. In no instance SHALL the investment from the proceeds of a reverse repurchase agreement be sold as part of a subsequent reverse repurchase agreement.

L. Forwards, Futures and Options

Forward contracts are customized contracts traded in the Over The Counter Market where the holder of the contract is OBLIGATED to buy or sell a specific amount of an underlying asset at a specific price on a specific future date.

Future contracts are standardized contracts traded on recognized exchanges where the holder of the contract is OBLIGATED to buy or sell a specific amount of an underlying asset at a specific price on a specific future date.

Option contracts are those traded in either the Over The Counter Market or recognized exchanges where the purchaser has the RIGHT but not the obligation to buy or sell a specific amount of an underlying asset at a specific price within a specific time period.

1. Maximum maturity: 90 days.
2. Maximum aggregate par value: \$100 million.
3. Maximum par value per counterparty: \$50 million. Counterparties for Forward and Option Contracts limited to those on the approved Treasurer and Tax Collector list and must be rated A or better from at least one nationally recognized rating agency.
4. The underlying securities SHALL be an obligation of the United States Government and its agencies and instrumentalities.
5. Premiums paid to an option seller SHALL be recognized as an option loss at the time the premium is paid and SHALL not exceed \$100,000 for each occurrence or exceed a total of \$250,000 in any one quarter. Premiums received from an option purchase SHALL be recognized as an option gain at the time the premium is received.
6. Complex or hybrid forwards, futures or options defined as agreements combining two or more categories are prohibited unless specific written approval of the

Treasurer is obtained PRIOR to entering into the agreement.

7. Open forward, future, and option contracts SHALL be marked to market weekly and a report SHALL be prepared by the Internal Controls Office.
8. In conjunction with the sale of bonds, the Treasurer MAY authorize exceptions to maturity and par value limits for forwards, futures and options.

M. Interest Rate Swaps

Interest Rate Swaps SHALL be used only in conjunction with the sale of bonds approved by the Board of Supervisors. In accordance with Government Code Section 53534, these agreements SHALL be made only if all bonds are rated in one of the three highest rating categories by two nationally recognized rating agencies and only upon receipt, from any rating agency rating the bonds, of written evidence that the agreement will not adversely affect the rating.

Further, the counterparty to such an agreement SHALL be rated A or better from at least one nationally recognized rating agency selected by the Treasurer, or the counterparty SHALL provide an irrevocable letter of credit from an institution rated A or better from at least one nationally recognized rating agency acceptable to the Treasurer.

N. Securities Lending Agreement

Securities lending agreements are agreements under which the Treasurer agrees to transfer securities to a borrower who, in turn agrees to provide collateral to the Treasurer. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the Treasurer in return for the collateral.

1. Maximum term: 180 days.
2. Maximum par value: Maximum par value is limited to a combined total of reverse repurchase agreements and loaned securities of 20% of the base value of the portfolio.
3. Dealers limited to those primary dealers or those nationally or State chartered banks that have a significant banking relationship with the County as defined in Government Code Section 53601(i)(4)(B) approved specifically by the Treasurer.
4. Agreements SHALL only be made for the purpose of enhancing investment revenue.
5. Securities eligible to be sold with a simultaneous agreement to repurchase SHALL

be limited to obligations of the United States Government and its agencies and instrumentalities.

6. The security to be sold on reverse repurchase agreement SHALL have been owned and fully paid for by the Treasurer for a minimum of 30 days prior to sale.
7. The proceeds of the reverse repurchase agreement SHALL be invested in authorized instruments with a maturity less than 92 days unless the agreement includes a codicil guaranteeing a minimum earning or spread to maturity.
8. In no instance SHALL the investment from the proceeds of a reverse repurchase agreement be sold as part of a subsequent reverse repurchase agreement.

O. Investment of Bond Proceeds

Funds from bond proceeds may be invested in accordance with Government Code Section 53601(m), which permits investment according to the statutory provisions governing the issuance of those bonds, or in lieu of any statutory provisions to the contrary, in accordance with the approved financing documents for the issuance.

**MINIMUM CREDIT RATING
DOMESTIC ISSUERS**

Bankers' Acceptance	Certificates of Deposit	Corporate Notes, Asset Backed Securities (ASB) and Floating Rate Notes (FRN)		Limit
Maximum maturity 180 days	Maximum maturity 3 years	Corporate: 3 years ASB: 5 years FRN: 5 years (1)		
Moody's	Moody's	S&P	Moody's	
P-1/Aaa	P-1/Aaa	A-1/AAA	P-1/Aaa	\$500MM maximum, of which \$300MM may be over 180 days.
P-1/Aa	P-1/Aa	A-1/AA	P-1/Aa	\$375MM maximum, of which \$175MM may be over 180 days.
P-1/A	P-1A	A-1/A	P-1/A	\$250MM maximum, of which \$125MM may be over 90 days to a maximum of 180 days.

Commercial Paper		Limit
Maximum maturity 270 days		
S&P	Moody's	
A-1/AAA	P-1/Aaa	\$750MM maximum, of which \$450MM may be over 180 days.
A-1/AA	P-1/Aa	\$575MM maximum, of which \$250MM may be over 180 days.
A-1/A	P-1/A	\$375MM maximum, of which \$175MM may be over 90 days to a maximum of 180 days.

(1) Seven years, if Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of \$100 million par value may be greater than five years to maturity.

**MINIMUM CREDIT RATING
FOREIGN ISSUERS**

Bankers' Acceptance		Commercial Paper		Certificates of Deposit		Corporate Notes, Asset Backed Securities (ASB) and Floating Rate Notes (FRN)		Limit
Maximum maturity 180 days		Maximum maturity 270 days		Maximum maturity 3 years		Corporate: 3 years ASB: 5 years FRN: 5 years (1)		
IBCA	Moody's	S&P	Moody's	IBCA	Moody's	S&P	Moody's	
2-A	P-1/Aaa	A-1/AAA	P-1/Aaa	2-A	P-1/Aaa	A-1/AAA	P-1/Aaa	\$425MM maximum, of which \$175MM may be over 180 days
2-A/B				2-A/B				\$375MM maximum, of which \$175MM may be over 180 days
2-B	P-1/Aa	A-1/AA	P-1/Aa	2-B	P-1/Aa	A-1/AA	P-1/Aa	\$300MM maximum, of which \$150MM may be over 180 days
2-B/C				2-B/C				\$175MM maximum, of which \$75MM may be over 180 days
	P-1/A	A-1/A	P-1/A		P-1/A	A-1/A	P-1/A	\$175MM maximum, of which \$75MM may be over 90 days to a maximum of 180 days

(1) Seven years, if Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of \$100 million par value may be greater than five years to maturity.

**LIMITATION CALCULATION FOR
INTERMEDIATE-TERM, MEDIUM-TERM AND LONG-TERM HOLDINGS
(Actual \$)**

	2008	2007	2006
Minimum invested balance and available cash	\$18,170,362,473	\$17,468,093,816	\$15,304,590,937
Less:			
▪ Los Angeles County TRANS (required to be Short-Term)	(500,000,000)	(500,000,000)	(500,000,000)
▪ Discretionary deposits	(2,310,142,058)	(1,693,222,739)	(1,396,930,533)
Minimum available balance	\$15,360,220,415	\$15,274,871,077	\$13,407,660,404
Average minimum available balance			\$14,680,917,299
Multiplied by the percent available for investment over one year			75%
Equals the available balance for investment over one year			\$11,010,687,974
Intermediate-Term (from one to three years) ▪ One-third of the available balance for investment			\$3,670,229,325
Medium-Term and Long-Term (greater than three years) ▪ Two-thirds of available balance for investment (1)			\$7,340,458,649

(1) Any unused portion of the Medium-Term and Long-Term available balance may be used for Intermediate-Term investments.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT III

APPROVED LIST OF MUNICIPAL OBLIGATIONS

1. Any obligation issued or caused to be issued by the County of Los Angeles on its behalf or on behalf of other Los Angeles County affiliates. If on behalf of other Los Angeles County affiliates, the affiliate must have a minimum rating of A3 (Moody's) or A- (Standard and Poor's or Fitch). The maximum maturity is limited to 30 years.
2. Any short-term obligation issued by the State of California or a California local agency with a Moody's rating of MIG-1 or A. Maximum maturity limited to five years.

THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

See following page.

THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The Treasurer and Tax Collector (the Treasurer) of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the Treasury Pool). As of June 30, 2009, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

<u>Local Agency</u>	<u>Invested Funds (in billions)</u>
County of Los Angeles and Special Districts	\$ 7.303
Schools and Community Colleges	10.270
Independent Public Agencies	<u>2.161</u>
Total	\$ 19.734

Of these entities, the involuntary participants accounted for approximately 89.05%, and all discretionary participants accounted for 10.95% of the total Treasury Pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 31, 2009, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the Investment Report) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated July 27, 2009, the June 30, 2009 book value of the Treasury Pool was approximately \$19.734 billion and the corresponding market value was approximately \$19.826 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of June 30, 2009:

<u>Type of Investment</u>	<u>% of Pool</u>
U.S. Government and Agency Obligations	36.58
Certificates of Deposit	15.61
Commercial Paper	43.55
Bankers Acceptances	0.00
Municipal Obligations	0.20
Corporate Notes & Deposit Notes	4.06
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.00

The Treasury Pool is highly liquid. As of June 30, 2009 approximately 51.43% of the investments mature within 60 days, with an average of 495.18 days to maturity for the entire portfolio.

TreasPool Update
063009

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the District, and "Agent" means the Paying Agent.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose

accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

APPENDIX G

CUSIP NUMBERS

Copyright, American Bankers Association. CUSIP data here in is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. CUSIP data is included solely for the convenience of the owners of the Bonds. The District and the Underwriter assume no responsibility for the accuracy thereof.

\$40,320,000 SERIES 2009A-1 BONDS

<u>Maturity (August 1)</u>	<u>CUSIP NUMBER</u>	<u>Maturity (August 1)</u>	<u>CUSIP NUMBER</u>
2010	702282 LA0	2017	702282 LH5
2011	702282 LB8	2018	702282 LJ1
2012	702282 LC6	2019	702282 LK8
2013	702282 LD4	2020	702282 LL6
2014	702282 LE2	2021	702282 LM4
2015	702282 LF9	2022	702282 LS1
2016	702282 LG7		

\$84,680,000 SERIES 2009A-2 BONDS

<u>Maturity (August 1)</u>	<u>CUSIP NUMBER</u>
2023	702282 LN2
2024	702282 LP7
2029	702282 LQ5
2034	702282 LR3