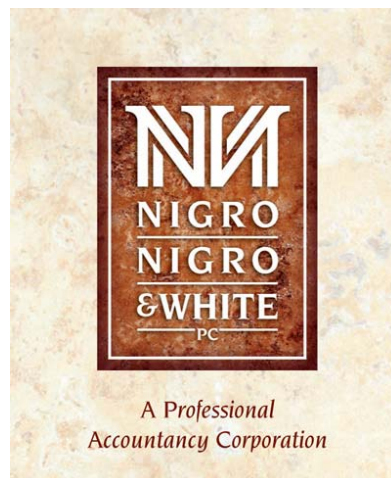


**SOUTH PASADENA UNIFIED
SCHOOL DISTRICT**

**COUNTY OF LOS ANGELES
SOUTH PASADENA, CALIFORNIA**

AUDIT REPORT

June 30, 2007



**SOUTH PASADENA UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2007**

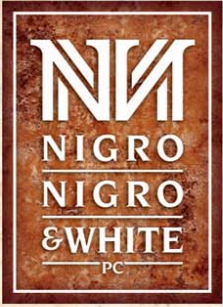
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**SOUTH PASADENA UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2007**

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Board of Trustees
South Pasadena Unified School District
South Pasadena, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Pasadena Unified School District, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Pasadena Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Pasadena Unified School District, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008 on our consideration of the South Pasadena Unified School District's internal control over financial reporting and 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 on pages 3 through 12 and budgetary comparison information on page 46 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. 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 performed for the purpose of forming opinions on the financial statements that collectively comprise South Pasadena Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

San Diego, California
January 31, 2008

Management's Discussion and Analysis

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

This discussion and analysis of South Pasadena Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets increased 7 percent over the course of the year.
- Overall revenues were \$39.4 million, \$2.8 million more than expenses.
- The total cost of basic programs was \$36.5 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$29.4 million.
- The District decreased its outstanding long-term debt \$0.6 million or 1 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

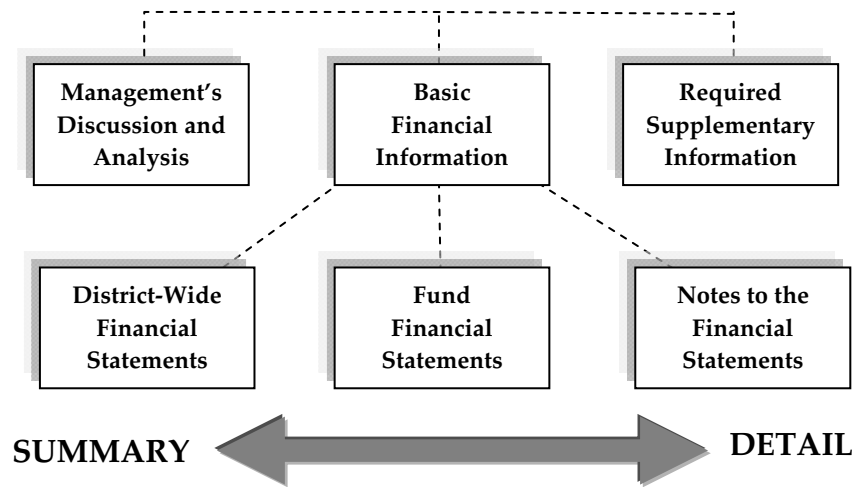
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short – and long-term financial information about the District's self-insurance funds.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of South Pasadena Unified School District's Annual Financial Report



SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

Figure A-2 summarizes the major features of the District's financials statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
 - We use *Enterprise funds* to report activities related to the child care programs.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were larger on June 30, 2007, than they were the year before – increasing 7% to \$41.3 million for governmental activities and \$501,715 for business-type activities (a new activity in 2006-07) (See Table A-1).

Table A-1
South Pasadena Unified School District's Net Assets
(In dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2006	2007	2006-07	2006	2007	2006-07
Current and other assets	\$ 34,263,180	\$ 32,700,833	-5%	\$ -	\$ 589,315	-
Capital assets	59,129,726	60,659,258	77%	-	-	-
Total assets	<u>93,392,906</u>	<u>93,360,091</u>	0%	<u>-</u>	<u>589,315</u>	-
Other liabilities	6,137,894	3,879,058	-37%	-	87,600	-
Long-term liabilities	48,764,395	48,168,549	-1%	-	-	-
Total liabilities	<u>54,902,289</u>	<u>52,047,607</u>	-5%	<u>-</u>	<u>87,600</u>	-
Total net assets	<u>\$ 38,490,617</u>	<u>\$ 41,312,484</u>	7%	<u>\$ -</u>	<u>\$ 501,715</u>	-

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

Changes in net assets, governmental activities. The District's total revenues were \$39.4 million for governmental activities and \$1.4 for business-type activities (See Table A-2).

Table A-2
Changes in South Pasadena Unified School District's Net Assets
(In dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2006	2007	2006-07	2006	2007	2006-07
Revenues:						
Program revenues						
Charges for services	\$ 688,288	\$ 717,030	100%	\$ -	\$ 1,019,764	-
Operating grants and contributions	5,354,328	6,234,021	16%	-	-	-
Capital grants and contributions	-	248,321	-	-	-	-
General revenues						
Property taxes	7,469,788	7,337,246	-2%	-	-	-
State formula aid	18,515,767	21,645,974	17%	-	-	-
Other revenues	4,064,730	3,195,336	-21%	-	351,778	-
Total revenues	<u>36,092,901</u>	<u>39,377,928</u>	9%	<u>-</u>	<u>1,371,542</u>	-
Expenses:						
Instruction-related	22,784,220	23,302,607	2%	-	-	-
Student support services	2,738,508	2,961,299	8%	-	-	-
Maintenance & operations	3,733,684	2,965,621	-21%	-	-	-
Administration	1,913,489	2,722,692	42%	-	-	-
Other expenses	5,116,090	4,603,842	-10%	-	869,827	-
Total expenses	<u>36,285,991</u>	<u>36,556,061</u>	1%	<u>-</u>	<u>869,827</u>	-
Increase (decrease in net assets)	<u>\$ (193,090)</u>	<u>\$ 2,821,867</u>	-1561%	<u>\$ -</u>	<u>\$ 501,715</u>	-

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

Table A-3 presents the cost of five major District activities: instruction and instruction related; pupil support services; general administration; maintenance and operations; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The Statement of Activities categorizes the activities presented in Table A-3 by revenue source:

- The cost of all *governmental* activities this year was \$36,556,061 and \$869,828 for business-type activities.
- Some of the cost was paid by the users of the District's programs (\$717,030).
- Operating and capital grants and contributions funded categorical programs (\$6,482,342).
- Most of the District's costs (\$29,356,689) for governmental activities and (\$869,827) for business-type activities, however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

Table A-3
Net Costs of South Pasadena Unified School District's Governmental and Business-Type Activities
(In dollars)

	Governmental Activities		Business-Type Activities	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	23,302,607	\$ (17,902,320)	\$ -	\$ -
Pupil support services	2,961,299	(1,513,603)	-	-
Maintenance & operations	2,965,621	(2,782,662)	-	-
Administration	2,722,692	(2,667,984)	-	-
Other expenses	4,603,842	(4,490,120)	869,828	869,827
Total expenses	\$ 36,556,061	\$ (29,356,689)	\$ 869,828	\$ 869,827

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed this year, its governmental funds reported a combined fund balance of \$29,284,094, which is more than last year's ending fund balance of \$28,050,078.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. While the District's final budget for the General Fund anticipated revenues would fall short of expenditures by about \$302,855, the actual results for the year show that revenues actually exceeded expenditures by roughly \$2.7 million. Actual revenues were \$900,323 more than anticipated, but expenditures were \$2,121,096 less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2007 that will be carried over into the 2007-08 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006-07 the District had invested over \$3.1 million in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

Table A-4
South Pasadena Unified School District's Capital Assets
(In dollars)

	Governmental Activities		Total Percentage
	2006	2007	Change
			2006-07
Land	\$ 3,038,764	\$ 3,038,764	0%
Site Improvements	1,554,955	1,554,955	0%
Buildings	61,505,717	62,088,247	1%
Equipment and furniture	827,282	861,865	4%
Work in progress	3,525,760	5,978,812	100%
Total	\$ 70,452,478	\$ 73,522,643	4%

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

Long-Term Debt

At year-end the District had \$48.2 million in general obligation bonds, and compensated absences – a decrease of 1% from last year – as shown in Table A-4. (More detailed information about the District’s long-term liabilities is presented in Note 7 to the financial statements.)

Table A-5
South Pasadena Unified School District’s Long-Term Debt
(In dollars)

	<u>2006</u>	<u>2007</u>	<u>Total Percentage Change 2006-07</u>
General obligation bonds	\$ 48,764,395	\$ 48,003,330	-2%
Compensated absences	-	165,219	-
Total	<u>\$ 48,764,395</u>	<u>\$ 48,168,549</u>	<u>-1%</u>

FACTORS BEARING ON THE DISTRICT’S FUTURE

To close an estimated \$14.5 billion budget shortfall, the administration proposes more than \$17 billion in corrective actions, including reducing K–14 education spending in the current year (\$400 million) and suspending the Proposition 98 minimum guarantee in 2008–09 (\$4 billion).

For the current year, the Governor proposes to reduce total Proposition 98 funding for K–12 schools and California Community Colleges (CCC) by roughly \$400 million. Proposition 98 funding would decline from the 2007–08 Budget Act level of \$57.1 billion to \$56.7 billion. The administration’s estimate of state tax revenues in the current year is significantly lower than what was assumed when the budget was enacted. As a result, the administration’s estimate of the Proposition 98 minimum guarantee also has dropped. The estimated minimum guarantee is now almost \$1.5 billion lower than the Proposition 98 budget act funding level. The Governor’s budget proposes to reduce current–year Proposition 98 spending by \$400 million—leaving spending more than \$1 billion above the required funding level. The proposed reduction is made to K–12 and CCC apportionments (\$360 million and \$40 million, respectively). The administration, however, has stated that it hopes to identify one–time funds that could partly backfill those reductions, thereby lessening the impact on apportionments. Even with the Governor’s proposal to reduce current–year spending by \$400 million, General Fund spending for Proposition 98 still increases by almost \$230 million. This is because of a reduction in local property tax revenue—a decline of \$645 million compared to what was assumed when the budget was enacted. The bulk of this decline is due to an overestimate of property taxes in 2006–07, with the discrepancy carrying forward into the current year. Because school property taxes generally offset the General Fund share of Proposition 98 funding, the downward adjustment results in an automatic increase in General Fund spending.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

FACTORS BEARING ON THE DISTRICT'S FUTURE, continued

The administration proposes to suspend Proposition 98 in 2008–09 and provide about \$4 billion, or 6.7 percent, less than its estimate of the minimum guarantee. Suspending Proposition 98 requires the Legislature pass a separate piece of legislation by a two-thirds vote. Suspension has taken place only once since Proposition 98 was enacted—in 2004–05. While suspending the minimum guarantee would allow the Legislature to fund K–14 education at whatever level it chooses in 2008–09, Proposition 98 contains a requirement that the base K–14 funding level be restored in future years. This would be done through a “deficit factor.” Once funding has been restored and the deficit factor eliminated, revenue limit funding would be up to the level it otherwise would have been absent the proposed reductions. The budget provides no funding for the statutory COLA (estimated to be 4.94%) and applying a deficit factor of 6.99%, thus fully eliminating the COLA and resulting in a revenue limit cut of 2.4%.

Enrollment can fluctuate due to factors such as population growth or decline, 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (626) 441-5810.

Financial Section

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

ASSETS	Governmental Activities	Business-type Activities	Total
Cash	\$ 29,166,220	\$ 673,309	\$ 29,839,529
Accounts receivable	3,412,893	17,294	3,430,187
Due from (to) other funds	103,000	(103,000)	-
Stores	9,363	-	9,363
Prepaid expenses	9,357	1,712	11,069
Total current assets	<u>32,700,833</u>	<u>589,315</u>	<u>33,290,148</u>
Capital assets:			
Land	3,038,764	-	3,038,764
Improvement of sites	1,554,955	-	1,554,955
Buildings	62,088,247	-	62,088,247
Furniture and equipment	861,865	-	861,865
Work in progress	5,978,812	-	5,978,812
Less accumulated depreciation	(12,863,385)	-	(12,863,385)
Total capital assets, net of depreciation	<u>60,659,258</u>	<u>-</u>	<u>60,659,258</u>
Total assets	<u>\$ 93,360,091</u>	<u>\$ 589,315</u>	<u>\$ 93,949,406</u>
 LIABILITIES			
Accounts payable and current liabilities	\$ 3,843,600	\$ 87,600	\$ 3,931,200
Deferred revenues	35,458	-	35,458
Long-term liabilities:			
Portion due or payable within one year	1,183,665	-	1,183,665
Portion due or payable after one year	46,984,884	-	46,984,884
Total liabilities	<u>52,047,607</u>	<u>87,600</u>	<u>52,135,207</u>
 NET ASSETS			
Invested in capital assets, net of related debt	28,638,378	-	28,638,378
Restricted for:			
Capital projects	4,428,780	-	4,428,780
Categorical programs	2,579,388	250,000	2,829,388
Debt service	2,211,273	248,002	2,459,275
Unrestricted	3,454,665	3,713	3,458,378
Total Net Assets	<u>\$ 41,312,484</u>	<u>\$ 501,715</u>	<u>\$ 41,814,199</u>

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities							
Instructional Services:							
Instruction	\$ 20,209,085	\$ 25,303	\$ 4,591,623	\$ 248,321	\$ (15,343,838)	\$ -	\$ (15,343,838)
Instruction-Related Services:							
Supervision of instruction	527,573	2,253	312,664	-	(212,656)	-	(212,656)
Instructional library, media and technology	601,350	-	51,180	-	(550,170)	-	(550,170)
School site administration	1,964,599	-	168,943	-	(1,795,656)	-	(1,795,656)
Pupil Support Services:							
Home-to-school transportation	336,145	43	112,468	-	(223,634)	-	(223,634)
Food services	911,329	640,547	141,082	-	(129,700)	-	(129,700)
All other pupil services	1,713,825	5,591	547,965	-	(1,160,269)	-	(1,160,269)
General Administration Services:							
Data processing	52,681	-	-	-	(52,681)	-	(52,681)
Other general administration	2,670,011	25,748	28,960	-	(2,615,303)	-	(2,615,303)
Plant services	2,965,621	16,029	166,930	-	(2,782,662)	-	(2,782,662)
Ancillary services	22,998	-	21,710	-	(1,288)	-	(1,288)
Community services	111,359	-	1,111	-	(110,248)	-	(110,248)
Interest on long-term debt	2,450,020	-	-	-	(2,450,020)	-	(2,450,020)
Other outgo	478,832	1,516	89,385	-	(387,931)	-	(387,931)
Depreciation (unallocated)	1,540,633	-	-	-	(1,540,633)	-	(1,540,633)
Total Governmental Activities	\$ 36,556,061	\$ 717,030	\$ 6,234,021	\$ 248,321	\$ (29,356,689)	\$ -	\$ (29,356,689)
Business-type activities							
Enterprise activities	766,827	-	-	-	-	(766,827)	(766,827)
Other outgo	103,000	-	-	-	-	(103,000)	(103,000)
Total Business-type activities	\$ 869,827	\$ -	\$ -	\$ -	\$ -	\$ (869,827)	\$ (869,827)
General Revenues:							
Taxes:							
Taxes levied for general purposes					4,670,813	-	4,670,813
Taxes levied for debt service					2,658,656	-	2,658,656
Taxes levied for other specific purposes					7,777	-	7,777
Federal and state aid not restricted							
to specific purpose					21,645,974	-	21,645,974
Interest and investment earnings					1,453,358	28,772	1,482,130
Interagency Revenues					103,000	-	103,000
Miscellaneous					1,961,984	1,019,764	2,981,748
Internal transfers					(323,006)	323,006	-
Total general revenues					32,178,556	1,371,542	33,550,098
Change in net assets					2,821,867	501,715	3,323,582
Net assets - July 1, 2006, originally stated					38,490,617	-	38,490,617
Net assets - June 30, 2007					\$ 41,312,484	\$ 501,715	\$ 41,814,199

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2007

	General Fund	Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 4,257,898	\$ 15,644,818	\$ 3,655,482	\$ 5,608,022	\$ 29,166,220
Accounts receivable	2,817,207	379,421	101,178	115,087	3,412,893
Due from other funds	212,285	-	-	-	212,285
Inventory	-	-	-	9,363	9,363
Prepaid Expenditures	9,357	-	-	-	9,357
Other current assets	84,020	-	-	-	84,020
Total Assets	\$ 7,380,767	\$ 16,024,239	\$ 3,756,660	\$ 5,732,472	\$ 32,894,138
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,168,964	\$ 41,789	404,489	\$ 215,137	\$ 2,830,379
Due to Other Funds	-	-	-	109,285	109,285
Deferred revenue	194,458	-	-	-	194,458
Total Liabilities	2,363,422	41,789	404,489	324,422	3,134,122
Fund Balances					
Reserved for:					
Inventories	-	-	-	9,363	9,363
Revolving Cash	15,250	-	-	950	16,200
Prepaid Expenditures	9,357	-	-	-	9,357
Categorical Programs	1,655,388	-	-	-	1,655,388
Other Purposes (expendable)	924,000	-	-	-	924,000
Unreserved:					
General fund	2,413,350	-	-	-	2,413,350
Debt Service Funds	-	-	-	2,211,273	2,211,273
Special Revenue Fund	-	-	-	2,109,854	2,109,854
Capital project funds	-	15,982,450	3,352,171	1,076,610	20,411,231
Total Fund Balances	5,017,345	15,982,450	3,352,171	5,408,050	29,760,016
Total Liabilities and Fund Balances	\$ 7,380,767	\$ 16,024,239	\$ 3,756,660	\$ 5,732,472	\$ 32,894,138

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007

Total fund balances - governmental funds \$ 29,760,016

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$73,522,643 and the accumulated depreciation is \$12,863,385. 60,659,258

Interest on long-term debt is not recognized until the period in which it matures and is paid in the governmental funds. In the government-wide statement of activities, it is recognized in the period that it is incurred. (1,097,241)

Long-term liabilities, including bonds payable, 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	48,003,330	
Compensated absences	<u>165,219</u>	(48,168,549)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available", meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivable for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements, is: 159,000

Total net assets - governmental activities \$ 41,312,484

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
General Revenues:					
Taxes levied for general purposes	\$ 4,670,814	\$ -	\$ -	\$ 2,666,591	\$ 7,337,405
Federal and state aid not restricted to specific purpose	21,545,975	-	-	-	21,545,975
Earnings on investments	289,694	938,047	2	225,459	1,453,202
Miscellaneous	1,173,882	-	-	788,104	1,961,986
Interagency Revenues	103,000	-	-	-	103,000
Program Revenues:					
Charges for services	34,705	-	-	682,324	717,029
Operating grants and contributions	6,032,425	-	-	201,593	6,234,018
Capital grants and contributions	-	-	248,321	-	248,321
Total revenues	33,850,495	938,047	248,323	4,564,071	39,600,936
EXPENDITURES					
Instructional Services:					
Instruction	20,145,563	-	-	63,522	20,209,085
Instruction-Related Services:					
Supervision of instruction	527,572	-	-	-	527,572
Instructional library, media and technolog	601,351	-	-	-	601,351
School site administration	1,964,599	-	-	-	1,964,599
Pupil Support Services:					
Home-to-school transportation	336,145	-	-	-	336,145
Food services	-	-	-	911,329	911,329
All other pupil services	1,713,825	-	-	-	1,713,825
General Administration Services:					
Data processing services	52,681	-	-	-	52,681
Other general administration	2,027,090	-	-	34,285	2,061,375
Plant services	2,918,586	428	-	81,189	3,000,203
Facility acquisition and construction	55	1,287,451	1,081,846	1,109,649	3,479,001
Ancillary services	22,998	-	-	-	22,998
Community services	111,359	-	-	-	111,359
Other outgo:					
Transfers between agencies	378,832	-	-	-	378,832
Debt service - principal	-	-	-	1,116,003	1,116,003
Debt service - interest	-	-	-	1,497,995	1,497,995
Total Expenditures	30,800,656	1,287,879	1,081,846	4,813,972	37,984,353
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,049,839	(349,832)	(833,523)	(249,901)	1,616,583
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	331,275	331,275
Interfund transfers out	(331,275)	-	-	(323,006)	(654,281)
Total Other Financing Sources and Uses	(331,275)	-	-	8,269	(323,006)
Net Change in Fund Balances	2,718,564	(349,832)	(833,523)	(241,632)	1,293,577
Fund Balances, July 1, 2006	2,298,781	16,332,282	4,185,694	5,649,682	28,466,439
Fund Balances, June 30, 2007	\$ 5,017,345	\$ 15,982,450	\$ 3,352,171	\$ 5,408,050	\$ 29,760,016

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

SOUTH 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 Year Ended June 30, 2007

Total net change in fund balances - Governmental Funds \$ 1,293,577

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures (\$3,070,165) and depreciation expense (\$1,540,633) for the period is: 1,529,532

Repayments of long-term debt are reported as expenditures in the governmental funds. In the gov't-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,116,003

Interest on long-term debt is recognized in the period that it becomes due in the governmental funds. In the government-wide statement of activities, it is recognized in the period that it is incurred. (952,026)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*.) (165,219)

Change in net assets of Governmental Activities \$ 2,821,867

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2007

	Governmental Activities: Enterprise Fund
ASSETS	
Cash	\$ 673,309
Accounts receivable	17,294
Prepaid expenses	1,712
	<hr/>
Total Assets	692,315
	<hr/>
LIABILITIES	
Accounts payable	\$ 87,600
Due to other funds	103,000
	<hr/>
Total liabilities	190,600
	<hr/>
NET ASSETS, UNRESTRICTED	\$ 501,715
	<hr/> <hr/>

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds
For the Year Ended June 30, 2007

	Governmental Activities: Enterprise Fund
OPERATING REVENUES	
Fees and contracts	\$ 1,019,764
Total operating revenues	<u>1,019,764</u>
OPERATING EXPENSES	
Payroll costs	682,874
Books and supplies	49,640
Services and other operating expenses	34,312
Other Outgo	103,000
Total operating expenses	<u>869,826</u>
Operating Income	<u>149,938</u>
NON-OPERATING REVENUES	
Interest income	<u>28,771</u>
INCOME BEFORE TRANSFERS	<u>178,709</u>
Transfer in	<u>323,006</u>
Change in net assets	501,715
Net Assets, July 1, 2006	<u>-</u>
Net Assets, June 30, 2007	<u><u>\$ 501,715</u></u>

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Cash Flow – Proprietary Funds
For the Year Ended June 30, 2007

	Governmental Activities: <u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from fees and contracts	\$ 1,002,470
Cash payments for payroll and other operating costs	<u>(680,938)</u>
Net cash provided by operating activities	<u>321,532</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfer from other funds	323,006
Interest income	<u>28,771</u>
Net cash provided by investing activities	<u>351,777</u>
Net increase in cash	673,309
Cash, July 1, 2006	<u>-</u>
Cash, June 30, 2007	<u><u>\$ 673,309</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 149,938
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in accounts payable	87,600
Increase in accounts receivable	(17,294)
Increase in prepaid expenses	(1,712)
Increase in due to other funds	103,000
Net cash provided by operating activities	<u><u>\$ 321,532</u></u>

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2007

	Agency Funds		
	Student	Payroll	Total
	Body Funds	Clearing Fund	
ASSETS			
Cash	\$ 180,969	\$ 428,138	\$ 609,107
Total assets	<u>\$ 180,969</u>	<u>\$ 428,138</u>	<u>\$ 609,107</u>
LIABILITIES			
Due to regulatory agencies	\$ -	\$ 428,138	\$ 428,138
Due to student groups	180,969	-	180,969
Total liabilities	<u>\$ 180,969</u>	<u>\$ 428,138</u>	<u>\$ 609,107</u>

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. 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*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. 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.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. 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.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other fund for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Fiduciary and proprietary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary and proprietary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, fiduciary and proprietary funds, as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three non-major special revenue funds:

1. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
2. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
3. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital project funds:

1. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
2. The State School Building Lease Purchase Fund is used to account for major renovations and construction of new schools funded wholly or in part by the State.
3. The Special Reserve Fund is used to account for funds set aside for capital outlay projects and financial activity for certificates of participation

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:

1. The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Proprietary Funds:

Enterprise Funds are financed and operated in a manner similar to that employed by private business enterprises; that is, the governing board's intent is that the costs of providing continuous goods or services can be financed or recovered through charges to users. The District maintains the childcare and preschool program in the *Other Enterprise Fund*.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The cash account within the payroll clearing fund is used to record dedicated funds for payroll and related expenses due to regulatory agencies, such as the I.R.S. and financial institutions. The District maintains an agency fund for the student body accounts. The District also maintains one student body fund, which is used to account for the raising and the expending of money to promote the general welfare, morale, and the educational experience of the student body. The amounts reported for the student body fund represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the financial statements.

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

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 held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

1. Cash and cash equivalents (continued)

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 held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide 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	15-20 years
Vehicles	8 years

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. 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 exceed qualified expenditures.

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund form which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because 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.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

8. 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.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Use of Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Proprietary Funds</u>
Cash in county treasury	\$ 29,070,093	\$ 428,138	\$ 671,309
Cash on hand and in banks	79,927	180,969	-
Cash in revolving fund	16,200	-	2,000
Total deposits and investments	<u>\$ 29,166,220</u>	<u>\$ 609,107</u>	<u>\$ 673,309</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$29,218,866 and an amortized book value of \$29,268,974. The average weighted maturity for this pool does not exceed one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Los Angeles County Investment Pool is rated at least A by Moody's Investor Service.

Custodial Credit Risk – Deposits

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 policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2007, \$125,772 of the District's bank balance of \$225,772 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 3- ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2007 consist of the following:

	General Fund	Building Fund	County School Facilities Fund	Other Governmental Fund	Total Governmental Funds	Enterprise Fund
Federal Revenues:						
Categorical Programs	\$ 173,348	\$ -	\$ -	\$ 25,974	\$ 199,322	\$ -
State Revenues:						
Categorical Programs	555,127	-	-	34,681	589,808	-
Revenue Limit	1,326,041	-	-	-	1,326,041	-
Lottery	185,368	-	-	-	185,368	-
Local Revenues:						
Interest	29,692	379,421	101,178	54,432	564,723	-
Other	547,631	-	-	-	547,631	17,294
	<u>\$ 2,817,207</u>	<u>379,421</u>	<u>\$ 101,178</u>	<u>\$ 115,087</u>	<u>\$ 3,412,893</u>	<u>\$ 17,294</u>

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2007 are as follows:

	Due From Other Funds	
	General Fund	Total
Other Governmental Funds	\$ 109,285	\$ 109,285
Other Enterprise Fund	103,000	103,000
Total	<u>\$ 212,285</u>	<u>\$ 212,285</u>
Cafeteria Fund due to General Fund to reimburse indirect support costs		\$ 109,285
Other Enterprise Fund due to General Fund to reimburse indirect support costs		103,000
Total		<u>\$ 212,285</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

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

Interfund transfers for the 2006-07 fiscal year are as follows:

	Transfer to Other Funds		Total
	General Fund	Other Governmental Funds	
Other Governmental Funds	\$ 331,275	\$ -	\$ 331,275
Other Enterprise Fund	-	323,006	323,006
	<u>\$ 331,275</u>	<u>\$ 323,006</u>	<u>\$ 654,281</u>

Transfer from the General Fund to the Deferred Maintenance Fund for state match	\$	130,000
Transfer from the General Fund to the Special Reserve Fund for Capital Outlay for starting construction of track and field		101,275
Transfer from the General Fund to the Retiree Benefit Fund for administrative fees		100,000
Transfer from the Child Development Fund to the Other Enterprise Fund for closing the Child Development Fund		323,006
	<u>\$</u>	<u>654,281</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 5 – FUND BALANCES

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

	<u>General Fund</u>
Traffic Safety with City	\$ 25,000
Mandated Costs Pending Audit	350,000
Facility Personnel Costs	149,000
Special Ed Excess Cost Not Billed	250,000
Site Carryover	150,000
Lottery	34,706
English Language Acquisition Carryover	1,718
Classroom Library K-4 Carryover	262
School Safety/Violence	11,343
Arts Music Block 0607	51,554
Arts/Music/PE Equipment	344,167
CAHSEE Instruction Services	8,322
CAHSEE Materials	1,113
Supplemental Counseling Carryover	125,627
EIA Carryover	200
GATE	21,983
IMFRP	189,006
English Language Learner Instructional Material	3,557
Instructional Materials High School	2,016
CA Peer Assistance & Review	6,223
Pupil Retention Block Grant	2,559
Credentialing Block Grant	7,120
Professional Development Block Grant	193,678
Targeted Instruction Improvement Block Grant	198,828
School Library Block Grant	50,538
School Sites Block Grant	171,223
District Block Grant Carryover	64,145
Instructional Materials/Library/Ed Tech	68,378
Routine Maintenance	61,681
Local Restricted	35,441
	<u>\$ 2,579,388</u>
	Other Enterprise
	Fund
Repayment to Capital Facilities	<u>\$ 250,000</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2007 is shown below:

	Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Land	\$ 3,038,764	\$ -	\$ -	\$ 3,038,764
Site improvements	1,554,955	-	-	1,554,955
Buildings and improvements	61,505,717	582,530	-	62,088,247
Furniture and equipment	827,282	34,583	-	861,865
Work in progress	3,525,760	2,453,052	-	5,978,812
Total at historical cost	<u>70,452,478</u>	<u>3,070,165</u>	<u>-</u>	<u>73,522,643</u>
Less accumulated depreciation:	<u>11,322,752</u>	<u>1,540,633</u>		<u>12,863,385</u>
Governmental activities capital assets, net	<u>\$ 59,129,726</u>	<u>\$ 1,529,532</u>	<u>\$ -</u>	<u>\$ 60,659,258</u>

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2007 is shown below:

	Balance July 1, 2006	Additions*	Deductions	Balance June 30, 2007	Due Within One Year
Genral obligation bonds	\$ 48,764,395	\$ 354,938	\$ 1,116,003	\$ 48,003,330	\$ 1,183,665
Compensated absences	-	165,219	-	165,219	-
Totals	<u>\$ 48,764,395</u>	<u>\$ 520,157</u>	<u>\$ 1,116,003</u>	<u>\$ 48,168,549</u>	<u>\$ 1,183,665</u>

* Additions to general obligation bonds are to recognize current period accreted interest on the capital appreciation bonds.

A. 1996 General Obligation Bonds

	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2006	Additions*	Deletions	Outstanding June 30, 2007
Series A	3/1/1996	3.60-5.55%	11/1/2020	\$ 6,500,000	\$ 4,485,000	\$ -	\$ 205,000	\$ 4,280,000
Series B	2/1/1998	3.60-5.55%	11/1/2022	9,999,877	8,447,060	237,999	575,000	8,110,059
Series C	8/1/1999	3.65-5.65%	5/1/2024	9,999,209	13,295,384	50,244	266,003	13,079,625
Series D	6/7/2001	4.00-5.66%	11/1/2025	2,200,890	2,591,951	66,695	70,000	2,588,646
				<u>\$ 28,699,976</u>	<u>\$ 28,819,395</u>	<u>\$ 354,938</u>	<u>\$ 1,116,003</u>	<u>\$ 28,058,330</u>

* Additions are to recognize current period accreted interest on the capital appreciation bonds.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. 1996 General Obligation Bonds (continued)

On November 7, 1995, the voters approved the issuance of bonds, not to exceed \$28,700,000, for the purpose of raising money to finance the acquisition, construction and modernization of school facilities and paying related costs.

The outstanding general obligation bonded debt of South Pasadena Unified School District at June 30, 2007 is:

Series A

On March 1, 1996, the District offered for sale \$6,500,000 of general obligation bonds under the provisions of Title I, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100, and pursuant to the County Resolution dated March 1, 1996. The bonds represent the first issue of a total available of \$28,700,000 of bonds approved by District voters on November 7, 1995. The bonds were issued to finance the implementation of the District's Facilities Master Plan.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 215,000	\$ 234,797	\$ 449,797
2008-09	225,000	224,370	449,370
2009-10	235,000	213,120	448,120
2010-11	245,000	200,078	445,078
2011-12	260,000	186,480	446,480
2012-17	1,535,000	699,022	2,234,022
2017-21	1,565,000	223,110	1,788,110
Total	<u>\$ 4,280,000</u>	<u>\$ 1,980,977</u>	<u>\$ 6,260,977</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. 1996 General Obligation Bonds (continued)

Series B

On February 1, 1998, the District offered for sale \$9,999,877 of general obligation bonds under the provisions of Title I, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100, and pursuant to the County Resolution dated February 3, 1998. The bonds represent the second issue of a total available of \$28,700,000 of bonds approved by District voters on November 7, 1995. The bonds were issued to finance the implementation of the District's Facilities Master Plan.

<u>Fiscal Year</u>	<u>Principal *</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 595,000	\$ 140,715	\$ 735,715
2008-09	620,000	115,725	735,725
2009-10	650,000	89,375	739,375
2010-11	675,000	61,425	736,425
2011-12	705,000	31,725	736,725
2012-17	1,627,230	2,072,770	3,700,000
2017-22	1,231,394	2,483,606	3,715,000
2022-2023	211,253	538,748	750,001
Total	<u>\$ 6,314,877</u>	<u>\$ 5,534,089</u>	<u>\$ 11,848,966</u>

* Does not include accreted interest of \$1,795,182 as of June 30, 2007.

Series C

On August 1, 1999, the District offered for sale \$9,999,209 of general obligation bonds under the provisions of Title I, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100, and pursuant to the County Resolution dated July 29, 1999. The bonds represent the third issue of a total available of \$28,700,000 of bonds approved by District voters on November 7, 1995. The bonds were issued to finance the implementation of the District's Facilities Master Plan.

<u>Fiscal Year</u>	<u>Principal *</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 308,665	\$ 151,335	\$ 460,000
2008-09	342,095	197,905	540,000
2009-10	370,103	249,897	620,000
2010-11	401,394	313,606	715,000
2011-12	424,179	380,821	805,000
2012-17	2,398,960	3,126,040	5,525,000
2017-22	2,799,598	6,145,402	8,945,000
2022-2024	1,835,781	5,399,219	7,235,000
Total	<u>\$ 8,880,775</u>	<u>\$ 15,964,225</u>	<u>\$ 24,845,000</u>

* Does not include accreted interest of \$4,198,850 as of June 30, 2007.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. 1996 General Obligation Bonds (continued)

Series D

On June 7, 2001, the District offered for sale \$2,200,890 of general obligation bonds under the provisions of Title I, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100, and pursuant to the County Resolution dated June 1, 2001. The bonds represent the fourth issue of a total available of \$28,700,000 of bonds approved by District voters on November 7, 1995. The bonds were issued to repair and construct school facilities within the District.

<u>Fiscal Year</u>	<u>Principal *</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 65,000	\$ 5,470	\$ 70,470
2008-09	70,000	2,870	72,870
2009-10	47,932	23,579	71,511
2010-11	44,736	25,264	70,000
2011-12	39,776	26,837	66,613
2012-17	158,530	158,081	316,611
2017-22	86,214	150,026	236,240
2022-2026	1,378,702	4,234,398	5,613,100
Total	<u>\$ 1,890,890</u>	<u>\$ 4,626,525</u>	<u>\$ 6,517,415</u>

* Does not include accreted interest of \$697,756 as of June 30, 2007.

B. 2002 General Obligation Bonds

Series 2003A

On April 24, 2003, the District offered for sale \$20,000,000 of general obligation bonds under the provisions of Title I, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100, and pursuant to the County Resolution. The bonds represent the first issue of a total available of \$29,000,000 of bonds approved by District voters on November 5, 2002. The bonds were issued to finance the implementation, acquisition, construction and modernization of certain District property and facilities.

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2007</u>
Series 2003A	4/24/2003	2.00-5.125%	5/1/2028	\$ 20,000,000	\$ 19,945,000	\$ -	\$ -	\$ 19,945,000

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. 2002 General Obligation Bonds (continued)

Series 2003A (continued)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ -	\$ 989,815	\$ 989,815
2008-09	-	989,815	989,815
2009-10	-	989,815	989,815
2010-11	-	989,815	989,815
2011-12	100,000	989,815	1,089,815
2012-17	1,965,000	4,805,195	6,770,195
2017-22	4,705,000	4,082,100	8,787,100
2022-27	8,875,000	2,520,250	11,395,250
2027-28	4,300,000	302,312	4,602,312
Total	<u>\$ 19,945,000</u>	<u>\$ 16,658,932</u>	<u>\$ 36,603,932</u>

NOTE 8 – EXCESS OF EXPENDITURES OVER FINAL BUDGET

As of June 30, 2007, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Services and Other Operating Expenditures	\$ 11,026
Capital Facilities Fund:	
Services and Other Operating Expenditures	9,733
Special Reserve Fund for Capital Outlay:	
Services and Other Operating Expenditures	31,930
Retiree Benefit Fund:	
Services and Other Operating Expenditures	1,523

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 9 – JOINT VENTURES

The South Pasadena Unified School District participates in three joint powers agreement (JPA) entities, the Schools' Excess Liability Fund (SELF), the Alliance for Schools Collective Insurance Purchasing (ASCIP) and the California Statewide Delinquent Tax Finance Authority (the Authority). The Alliance for Schools Collective Insurance provides property, liability and workers compensation insurance for member districts. The Schools' Excess Liability Fund arranges for and provides excess property and liability insurance for its member school districts. The South Pasadena Unified School District pays a premium commensurate with the level of coverage requested.

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 South 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.

The relationship between the South 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 for the year ended June 30, 2006 is as follows:

	ASCIP 6/30/2006 (Unaudited)	SELF 6/30/2006 (Unaudited)
Assets	\$ 132,904,091	\$ 217,906,001
Liabilities	94,815,362	191,182,670
Net Assets	<u>\$ 38,088,729</u>	<u>\$ 26,723,331</u>
Revenues	\$ 64,992,598	\$ 62,837,181
Expenses	<u>56,984,446</u>	<u>39,336,948</u>
Net Increase/Decrease in Fund Balance	<u>8,008,152</u>	<u>23,500,233</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes 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.

B. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30.

C. Construction Commitments

As of June 30, 2007, the District had commitments with respect to unfinished capital projects.

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

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 comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

Public Employees' Retirement System (PERS) (continued)

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 for fiscal year 2006-07 was 9.124%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$380,455, \$333,468, and \$363,064, respectively, which represents 100% of the required contributions for each fiscal year.

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, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$1,333,896, \$1,269,002, and \$1,219,232, respectively, and equal 100% of the required contributions for each year.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$730,328 to STRS (4.517% of salaries subject to STRS).

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

NOTE 12 –GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the South Pasadena Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

Required Supplementary Information

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Revenue Limit Sources	\$ 23,643,599	\$ 23,747,784	\$ 24,067,307	\$ 319,523
Federal	1,054,030	1,150,466	605,226	(545,240)
Other State	5,310,357	5,097,428	5,312,847	215,419
Other Local	1,199,244	2,954,492	3,865,115	910,623
Total Revenues	<u>31,207,230</u>	<u>32,950,170</u>	<u>33,850,495</u>	<u>900,325</u>
Expenditures				
Certificated Salaries	15,542,187	16,830,498	16,461,477	369,021
Classified Salaries	3,968,730	4,369,962	4,175,491	194,471
Employee Benefits	5,501,887	5,671,256	5,191,853	479,403
Books and Supplies	1,581,414	2,223,209	1,303,358	919,851
Services and Other Operating Expenditures	3,095,756	3,299,665	3,310,691	(11,026)
Capital Outlay	100,000	115,000	34,583	80,417
Other Outgo	609,801	609,801	378,832	230,969
Transfers of indirect-direct support costs	(80,000)	(197,641)	(55,629)	(142,012)
Total Expenditures	<u>30,319,775</u>	<u>32,921,750</u>	<u>30,800,656</u>	<u>2,121,094</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>887,455</u>	<u>28,420</u>	<u>3,049,839</u>	<u>3,021,419</u>
Other Financing Sources and Uses				
Interfund Transfers Out	(230,000)	(331,275)	(331,275)	-
Total Other Financing Sources and Uses	<u>(230,000)</u>	<u>(331,275)</u>	<u>(331,275)</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>657,455</u>	<u>(302,855)</u>	<u>2,718,564</u>	<u>3,021,419</u>
Fund Balances, July 1, 2006	<u>2,440,921</u>	<u>2,240,921</u>	<u>2,298,781</u>	<u>57,860</u>
Adjustments for Restatement	(142,140)	(142,140)	(142,140)	-
Fund Balance, July 1, 2006, restated	<u>2,298,781</u>	<u>2,298,781</u>	<u>2,298,781</u>	<u>-</u>
Fund Balances, June 30, 2007	<u>\$ 2,956,236</u>	<u>\$ 1,995,926</u>	<u>\$ 5,017,345</u>	<u>\$ 3,079,279</u>

Supplementary Information Section

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2007

The elementary and high school systems in South Pasadena were established in 1886. The District was restructured in 1952 when San Marino seceded from the high school and formed its own unified school district. South Pasadena, located in the central section of Los Angeles County, encompasses an area of approximately 3.47 square miles and serves an estimated population of 24,000. The District provides educational facilities for kindergarten through twelfth grade in five schools, consisting of three elementary schools, one middle school, and one senior high school.

<u>GOVERNING BOARD</u>		
<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Joseph Loo	President	November 2007
Dr. Richard Sonner	Clerk	November 2007
Kris Calvin	Member	November 2009
Donald P. Eggleston	Member	November 2009
Elisabeth Eilers	Member	November 2009

DISTRICT ADMINISTRATORS

Brian E. Bristol
Superintendent

Mary Anne McCabe,
Assistant Superintendent, Business Services

Dr. Ellen M. Dougherty,
Assistant Superintendent, Instructional Services

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2007

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	238	241
Grades 1 Through 3	792	797
Grades 4 Through 6	883	884
Grades 7 and 8	732	735
Home and Hospital	1	1
Special Education	59	58
Total Elementary	<u>2,705</u>	<u>2,716</u>
Secondary:		
Grades 9 through 12, regular	1,450	1,443
Continuation Education	1	-
Home and Hospital	1	1
Special Education	46	44
Total Secondary	<u>1,498</u>	<u>1,488</u>
Total Average Daily Attendance	<u>4,203</u>	<u>4,204</u>
	<u>Hours of Attendance</u>	
<u>Supplemental Instruction Hours</u>		
Elementary	13,848	
Secondary	29,955	

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
June 30, 2007

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Minutes Requirement</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	36,000	36,900	180	Complied
Grade 1	47,655	50,400	52,300	180	Complied
Grade 2	47,655	50,400	52,300	180	Complied
Grade 3	47,655	50,400	52,300	180	Complied
Grade 4	52,975	54,000	57,240	180	Complied
Grade 5	52,975	54,000	57,240	180	Complied
Grade 6	52,975	54,000	62,500	180	Complied
Grade 7	52,975	54,000	62,500	180	Complied
Grade 8	52,975	54,000	62,500	180	Complied
Grade 9	64,863	64,800	65,850	180	Complied
Grade 10	64,863	64,800	65,850	180	Complied
Grade 11	64,863	64,800	65,850	180	Complied
Grade 12	64,863	64,800	65,850	180	Complied

See accompanying note to supplementary information.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2007

General Fund	(Budget) 2008 ³	2007	2006	2005
Revenues and other financing sources	\$ 33,060,861	\$ 33,850,495	\$ 31,137,928	\$ 28,313,254
Expenditures	32,978,738	30,800,656	29,862,619	28,236,888
Other uses and transfers out	325,000	331,275	584,145	662,637
Total Outgo	33,303,738	31,131,931	30,446,764	28,899,525
Change in fund balance (deficit)	(242,877)	2,718,564	691,164	(586,271)
Ending fund balance	\$ 4,774,468	\$ 5,017,345	\$ 2,298,781	\$ 1,607,617
Available Reserves ¹	\$ 4,774,468	\$ 2,413,350	\$ 1,573,487	\$ 1,297,162
Available Reserves as a percentage of Total Outgo	14.3%	7.8%	5.2%	4.5%
Total Long-Term Debt	\$ 46,984,884	\$ 48,168,549	\$ 48,764,395	\$ 48,810,519
Average Daily Attendance at P-2	4,203	4,203	4,176	4,125

The General Fund balance has increased by \$3,409,728 over the past two years. The fiscal year 2007-08 adopted budget projects a decrease of \$242,877. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has decreased by \$641,970 over the past two years. ADA has increased 78 or 1.9% over the past two years.

¹ Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

³ As of September 2007.

See accompanying note to supplementary information.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
Title 1 Part A	84.010	03797	\$ 128,963
Title II Improving Teacher Quality	84.367	14341	86,469
Title II Part D. Enhancing Education Through Technology, Formula	84.318	14334	4,324
Title III Limited English Proficient	84.365	10084	25,444
Title III Immigrant Education Program	84.365A	14346	405
Title IV Safe and Drug-Free Schools	84.186	10007	20,303
Title V Innovative Education Strategies	84.298A	13340	3,846
Special Ed: IDEA Local Assistance	84.027	03143	300,625
Special Ed: IDEA Preschool	84.027	13682	81
Special Ed: Local Entitlement	84.027	13682	14,943
Special Ed: Local Staff Development	84.027	13613	277
Special Ed: Preschool Staff Development	84.173A	13431	3
Special Ed: Workability I	N/A	23011	68,403
Vocational and Technological Education Act	84.048	3570	27,477
School to Work	84.278	10009	523
Total U.S. Department of Education			553,123
U.S. Department of Agriculture:			
Pass through Program from California Department of Education			
National School Lunch Program	10.555	13942	138,858
Total Expenditures of Federal Awards			\$ 691,981

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements
Year Ended June 30, 2007

	Schedule of Long-Term Debt	Schedule of Capital Assets
	<u> </u>	<u> </u>
June 30, 2007, annual financial and budget report (SACS) balances	\$ 47,648,392	\$ 61,949,359
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Understatement of general obligation bond liability	<u>354,938</u>	<u>(1,290,101)</u>
Net adjustments and reclassifications	<u>354,938</u>	<u>(1,290,101)</u>
June 30, 2007, audited financial statement balances	<u><u>\$ 48,003,330</u></u>	<u><u>\$ 60,659,258</u></u>

See accompanying note to supplementary information.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Excess Sick Leave
June 30, 2007

Section 19833.5 (a)(3) or (a)(3)(b) disclosure

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

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2007

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

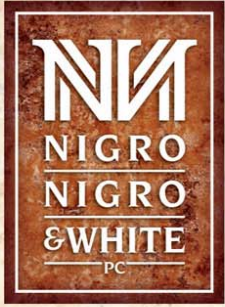
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Excess Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports



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**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**

We have audited the financial statements of South Pasadena Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with generally accepted auditing standards 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 South Pasadena Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Pasadena Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Pasadena Unified School 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.


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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the 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 the 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, we believe that none of the significant deficiencies described above is a material weakness.

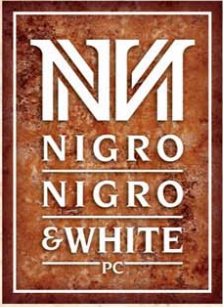
Compliance and Other Matters

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

This report is intended solely for the information and use of the Board, management, 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.



San Diego, California
January 31, 2008



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Elizabeth Nigro, CPA

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

Compliance

We have audited the compliance of South Pasadena Unified School 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, 2007. South Pasadena Unified School District's major federal programs are identified in the summary of auditors' 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 South Pasadena Unified School District's management. Our responsibility is to express an opinion on South Pasadena Unified School 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 South Pasadena Unified School 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 on South Pasadena Unified School District's compliance with those requirements.

In our opinion, South Pasadena Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of South Pasadena Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered South Pasadena Unified School District's internal control over compliance with the 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.

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.

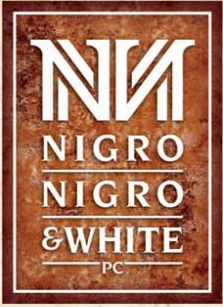
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance.

This report is intended solely for the information and use of the Board, management, 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.

Nigro Nigro & White, PC

San Diego, California
January 31, 2008



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AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the South Pasadena Unified School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 31, 2008. Our audit was made 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07*, 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:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not applicable
Adult Education	9	Not applicable
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Excess Sick Leave	3	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
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

We did not perform testing for independent study because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the South Pasadena Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the South Pasadena Unified School District had not complied with the state laws and regulations.

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

Nigel Nigel & White, PC

San Diego, California
January 31, 2008

Findings and Questioned Costs Section

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	NCLB Title I
<u>84.027 and 84.173A</u>	<u>Special Education - IDEA Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2007

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	Cal STRS
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2007-1: Fixed Asset Accounting and Depreciation Schedule (20000)

The District does not maintain a fixed asset and depreciation schedule. The current year Form ASSET was completed using prior year depreciation expense amounts, per staff, but an audit adjustment was required to bring depreciation expense into line with prior year audited amounts and to a reasonable percentage of total depreciable assets. While it appears the financial statements are materially correct, there is a risk that misstatements might result. Maintenance of a fixed asset and depreciation schedule also help to ensure annually accountability of capital expenditures, i.e., periodic inventories

Recommendations: We recommend that the District develop and maintain a fixed asset and depreciation schedule. Each year the schedule should be updated with new capital expenditures charged to the general ledger. If the project has not been completed it should be accounted for in an itemized work in progress listing.

District Response: The District has had a fixed asset and depreciation schedule but it has not been maintained at a level consistent with reporting. The district is planning prior to June 30, 2008 to re-establish an acceptable and maintainable system that will provide the district with accurate and updated reports to provide the sufficient information necessary.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2007

Section II – Financial Statement Findings

Finding #2007-2: Live Scan Records (40000)

The District does not have evidence that all district employees have been properly fingerprinted using the Live Scan System. The results of the scan cannot be legally kept on file but there should be a log of scans completed to demonstrate compliance with the law.

Recommendation: A log book should be maintained to document the completion of the Live Scan process for all candidates.

District Response: The District does destroy the actual documentation after hiring the employee as is appropriate. The District will establish an appropriate hiring check list that does include the information to demonstrate that the Live Scan System information has been received and reviewed as part of the personnel file.

Finding #2007-3: Unclaimed Paychecks and W-2 Forms (3000)

Unclaimed pay checks and W-2 forms are sent back to the payroll department for handling and distribution by the payroll clerk. For good segregation of duties, unclaimed pay checks and W-2 forms should be handled by someone independent of payroll functions.

Recommendations: Separation of duties should be established to ensure that unclaimed pay checks and W-2 forms are returned to someone not involved in payroll functions.

District Response: The District has employees that do different job duties within the payroll department since we are a small operation. A designation will be made for whom is responsible to distribute the checks and W-2 forms initially and who is responsible to distribute any unclaimed pay check and W-2 form to show the segregation of duties.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2007

Section II – Financial Statement Findings

Finding #2007-4: Payroll Clearing Account Reconciliations (30000)

The payroll clearing and the earned salary advance accounts are not being reconciled. As a result there is the potential for misstatement of payroll expenditures.

Recommendation: A standard procedure should be implemented to ensure that the payroll clearing and earned salary advance accounts are reconciled on a monthly basis.

District Response: The District has noted the proper reconciliation has not been completed and is assigning that responsibility to the Accounting Supervisor position. This will be done on a monthly basis.

Finding #2007-6: Cafeteria Inventory (30000)

Sodexo, the prior management company, was responsible for cafeteria inventory. After their contract was terminated, no current inventory exists for the cafeteria fund.

Recommendation: Implement an inventory tracking system that will track food items, and supplies and equipment. Ensure that commodities from the federal government are part of the inventory process.

District Response: The District hired a management employee to run the Child Nutrition program in August, 2007. Inventory is part of the duties that are being established and we are building the inventory amounts from the actual invoices. Under Sodexo, the district received a bill for food and supplies without the detail.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2007

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal awards findings or questioned costs in 2006-07.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2007

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There are no state award findings or questioned costs in 2006-07.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2006-1:</i> ASB	During examination of South Pasadena Middle School, we noted that revenue potential forms are not completed prior to major fundraisers.	30000	We recommend that both expected and actual revenue forms be completed for major fundraisers and significant variances be investigated.	Implemented.
<i>Finding# 2006-2:</i> District Office	Lack of policy addressing issues in accordance with SAS 99, a standard in assessing fraud risk.	60000	The district needs to implement Board Policies on ethics that contain written protocols to address continuity, training, and employee morale.	Implemented.
<i>Finding# 2006-3:</i> Multi-Year Planning	Multi-year projections showed major variances between projected and actual data.	60000	Continuously track and update budget information, particularly regarding other services, special education encroachment, and long term contractual agreements.	Partially implemented.
<i>Finding# 2006-4:</i> Indirect Costs	The Cafeteria Fund and Child Development Fund were overcharged for indirect cost.	30000	We recommend that the funds be reimbursed charges over the lower of the state approved rate or the district's allowable rate.	Implemented.
<i>Finding# 2006-5:</i> Instructional Materials	Unapproved expenditures were charged to the instructional materials alignment program	70000	Repay the material realignment program attain proper board approval for future purchases.	Implemented.
<i>Finding# 2006-6:</i> Excess Costs	The district rolled forward an unsubstantiated accounts payable for excess tuition costs.	30000	Establish better communication with agencies providing special education services to account for costs in timely and accurate manner.	Implemented.

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding# 2006-7:</i> Direct Support Cost Transfers	The district transferred costs from the Child Development Fund and Cafeteria Fund that conflict with Procedure 910 of the California School Accounting Manual.	40000	Attain written resolution from the California Department of Education to validate these expenditures.	Implemented.
<i>Finding# 2006-8:</i> Interest Earned on Federal Program	Interest earned in excess of \$100 on Federal Program 84.010 was not returned to the grantor agency.	50000	The district should implement a policy tracking and remitting interest in excess of \$100 for federal programs.	Implemented.
<i>Finding# 2006-9:</i> Allocation of Funds	The Title I funds were not allocated based on the 125% rule as instructed for eligible sites falling below the 35% poverty threshold.	50000	Implement procedures to identify schools with greater than the 35% poverty threshold.	Implemented.
<i>Finding# 2006-10:</i> Unallowed Cost: Salaries	Questionable salaries were paid to employees that could not be verified as properly certified.	50000	Implement district wide training to inform all managers and employees about regulations governing federal programs.	Implemented.