

# ORANGE UNIFIED SCHOOL DISTRICT

AUDIT REPORT  
JUNE 30, 2016

San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**ORANGE UNIFIED SCHOOL DISTRICT  
OF ORANGE COUNTY**

**ORANGE, CALIFORNIA**

**JUNE 30, 2016**

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The Orange Unified School District was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Rick Ledesma	President	2018
Alexia Deligianni-Brydges, Ed.D.	Vice President	2016
Kathryn A. Moffat	Clerk	2018
Timothy Surridge	Member	2018
John Ortega	Member	2016
Andrea Yamasaki	Member	2018
Mark D. Wayland	Member	2016

**DISTRICT ADMINISTRATORS**

Michael L. Christensen, MBA

*Superintendent*

Gunn Marie Hansen, Ph.D.

*Deputy Superintendent, Educational Services*

Joe Sorrera

*Assistant Superintendent, Business Services/CBO*

Ed Kisse

*Assistant Superintendent, Human Resources*

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Orange Unified School District  
Orange, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Orange Unified School District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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State Board of Accountancy*

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

### *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 Orange Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of Orange Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange Unified School District's internal control over financial reporting and compliance.

*Christy White Associates*

San Diego, California

October 3, 2016



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

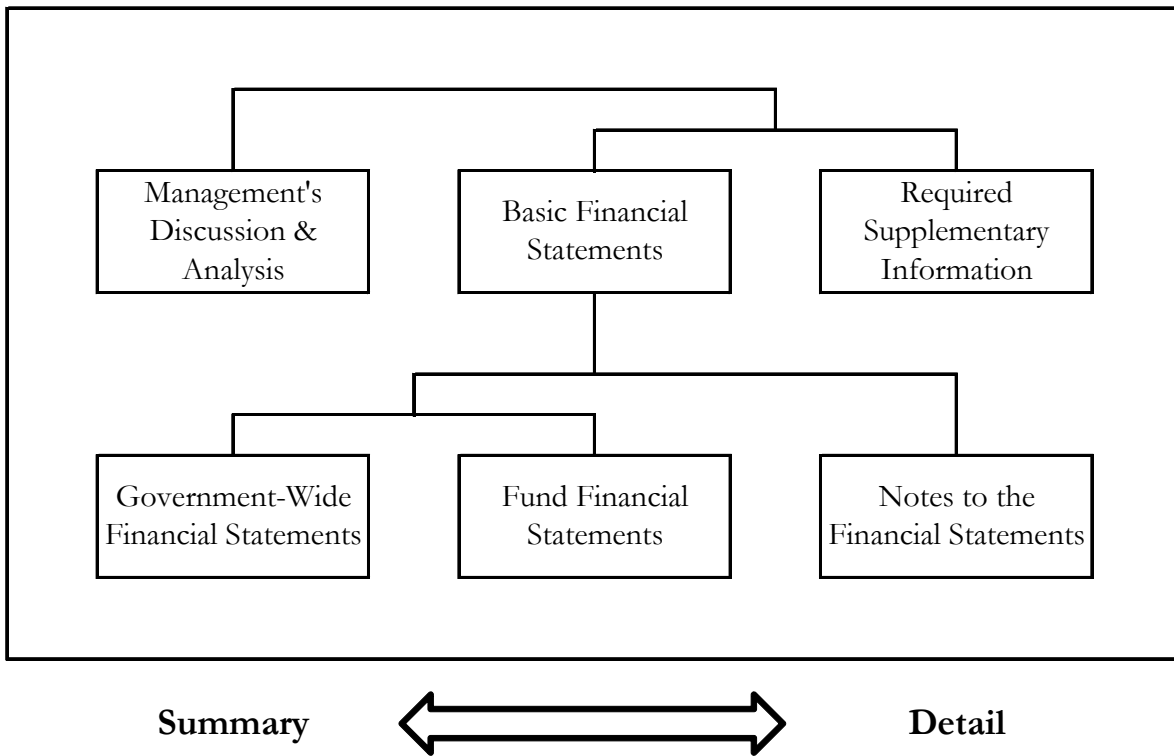
Our discussion and analysis of Orange Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- ▶ The District's total net position was \$80,298,867 at June 30, 2016. This was an increase of \$17,185,918 from the prior year.
- ▶ Overall revenues were \$316,590,457 which exceeded expenses of \$316,156,276. Additionally, the District reported \$16,751,737 in special and extraordinary items related to the sale of the Riverdale location.

## OVERVIEW OF FINANCIAL STATEMENTS

### Components of the Financials Section



**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** 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.
  - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

### **Government-Wide Statements**

The government-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 position includes all of the government'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 government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Position**

The District's combined net position was \$80,298,867 at June 30, 2016, as reflected in the table below. Of this amount, (\$116,832,031) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>ASSETS</b>			
Current and other assets	\$186,816,005	\$153,210,012	\$ 33,605,993
Net OPEB assets	121,125,640	111,051,593	10,074,047
Capital assets	166,308,462	165,291,592	1,016,870
<b>Total Assets</b>	<b>474,250,107</b>	<b>429,553,197</b>	<b>44,696,910</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>22,421,543</b>	<b>15,980,490</b>	<b>6,441,053</b>
<b>LIABILITIES</b>			
Current liabilities	24,029,973	21,112,965	2,917,008
Long-term liabilities	355,854,594	312,138,960	43,715,634
<b>Total Liabilities</b>	<b>379,884,567</b>	<b>333,251,925</b>	<b>46,632,642</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>36,488,216</b>	<b>49,168,813</b>	<b>(12,680,597)</b>
<b>NET POSITION</b>			
Net investment in capital assets	130,145,474	125,026,716	5,118,758
Restricted	66,985,424	37,040,108	29,945,316
Unrestricted	(116,832,031)	(98,953,875)	(17,878,156)
<b>Total Net Position</b>	<b>\$ 80,298,867</b>	<b>\$ 63,112,949</b>	<b>\$ 17,185,918</b>

**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Position**

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 10,903,159	\$ 11,210,916	\$ (307,757)
Operating grants and contributions	56,955,847	50,984,572	5,971,275
General revenues			
Property taxes	153,009,999	137,354,054	15,655,945
Unrestricted federal and state aid	91,051,450	75,191,550	15,859,900
Other	4,670,002	10,783,285	(6,113,283)
<b>Total Revenues</b>	<b>316,590,457</b>	<b>285,524,377</b>	<b>31,066,080</b>
<b>EXPENSES</b>			
Instruction	189,431,807	161,007,808	28,423,999
Instruction-related services	45,989,121	38,758,511	7,230,610
Pupil services	33,954,223	28,582,501	5,371,722
General administration	11,606,360	10,744,921	861,439
Plant services	27,829,174	23,592,566	4,236,608
Ancillary and community services	2,012,580	1,797,998	214,582
Debt service	2,137,460	2,114,216	23,244
Other Outgo	3,195,551	4,636,214	(1,440,663)
<b>Total Expenses</b>	<b>316,156,276</b>	<b>271,234,735</b>	<b>44,921,541</b>
Transfers & special items	16,751,737	-	16,751,737
<b>Change in net position</b>	<b>17,185,918</b>	<b>14,289,642</b>	<b>2,896,276</b>
<b>Net Position - Beginning*</b>	<b>63,112,949</b>	<b>48,823,307</b>	<b>14,289,642</b>
<b>Net Position - Ending</b>	<b>\$ 80,298,867</b>	<b>\$ 63,112,949</b>	<b>\$ 17,185,918</b>

\* Beginning Net Position was restated for the 2015 year only

The cost of all our governmental activities this year was \$316,156,276 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$153,009,999 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$148,007,297).

**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Position (continued)**

In the table below we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	<b>Net Cost of Services</b>	
	<b>2016</b>	<b>2015</b>
Instruction	\$ 150,556,007	\$ 124,609,513
Instruction-related services	37,095,519	31,677,374
Pupil services	24,908,784	17,096,181
General administration	9,997,300	8,825,461
Plant services	23,022,195	23,326,405
Ancillary and community services	1,973,006	1,797,998
Debt service	2,137,460	2,114,216
Transfers to other agencies	(1,393,001)	(407,901)
<b>Total Expenses</b>	<b>\$ 248,297,270</b>	<b>\$ 209,039,247</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$154,132,344, which is more than last year's ending fund balance of \$124,592,357. The District's General Fund had \$13,495,415 more in operating revenues than expenditures for the year ended June 30, 2016. The District's Special Reserve Fund for Capital Outlay Projects had \$1,507,728 less in operating revenues than expenditures for June 30, 2016.

**CURRENT YEAR BUDGET 2015-16**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2015-16 the District had invested \$166,308,462 in capital assets, net of accumulated depreciation.

	<u>Governmental Activities</u>		
	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 19,082,424	\$ 19,530,176	\$ (447,752)
Construction in progress	2,951,352	1,953,539	997,813
Land improvements	10,764,671	14,685,698	(3,921,027)
Buildings & improvements	200,487,280	193,040,351	7,446,929
Furniture & equipment	14,229,490	13,242,115	987,375
Accumulated depreciation	(81,206,755)	(77,160,287)	(4,046,468)
<b>Total Capital Assets</b>	<u>\$166,308,462</u>	<u>\$165,291,592</u>	<u>\$ 1,016,870</u>

As of June 30, 2016, the District had invested \$166,308,462 in a broad range of capital assets, net of accumulated depreciation. During the 2015-16 fiscal year, the District completed construction on the fire alarm project at Running Springs Elementary and construction on the Central Packaging Facility, among other various projects. Additionally in 2015-16, the District completed the sale of the Riverdale location.

**Long-Term Liabilities**

At year-end, the District had \$355,854,594 in long-term liabilities, an increase of 14% from last year – as shown in table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	<u>Governmental Activities</u>		
	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
<b>LONG-TERM LIABILITIES</b>			
Total certificates of participation	\$ 27,837,063	\$ 30,614,699	\$ (2,777,636)
Retirement health benefits funding bonds	82,965,000	84,965,000	(2,000,000)
Capital leases	8,835,162	9,650,177	(815,015)
Compensated absences	4,366,672	4,124,729	241,943
Claims liability	4,272,000	4,366,000	(94,000)
Net pension liability	233,527,072	184,011,006	49,516,066
Less: current portion of long-term debt	(5,948,375)	(5,592,651)	(355,724)
<b>Total Long-term Liabilities</b>	<u>\$355,854,594</u>	<u>\$312,138,960</u>	<u>\$ 43,715,634</u>

**ORANGE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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

All of these factors were considered in preparing the District's budget for the 2016-17 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Office, at Orange Unified School District, 1401 North Handy Street, Orange, California, 92867, or e-mail at [joes@orangeusd.org](mailto:joes@orangeusd.org).

ORANGE UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 168,017,101
Accounts receivable	17,142,302
Inventory	128,669
Prepaid expenses	1,527,933
Net OPEB assets	121,125,640
Capital assets, not depreciated	22,033,776
Capital assets, net of accumulated depreciation	144,274,686
<b>Total Assets</b>	<b>474,250,107</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	21,912,306
Deferred amount on refunding	509,237
<b>Total Deferred Outflows of Resources</b>	<b>22,421,543</b>
<b>LIABILITIES</b>	
Accrued liabilities	17,509,362
Unearned revenue	572,236
Long-term liabilities, current portion	5,948,375
Long-term liabilities, non-current portion	355,854,594
<b>Total Liabilities</b>	<b>379,884,567</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	36,488,216
<b>Total Deferred Inflows of Resources</b>	<b>36,488,216</b>
<b>NET POSITION</b>	
Net investment in capital assets	130,145,474
Restricted:	
Capital projects	56,609,119
Debt service	4,206,092
Educational programs	5,637,550
All others	532,663
Unrestricted	(116,832,031)
<b>Total Net Position</b>	<b>\$ 80,298,867</b>

The accompanying notes are an integral part of these financial statements.



**ORANGE UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 189,431,807	\$ 3,850,722	\$ 35,025,078	\$ (150,556,007)
Instruction-related services				
Instructional supervision and administration	15,780,709	195,512	6,608,518	(8,976,679)
Instructional library, media, and technology	7,469,894	1,866	259,005	(7,209,023)
School site administration	22,738,518	751,129	1,077,572	(20,909,817)
Pupil services				
Home-to-school transportation	9,273,821	-	23,358	(9,250,463)
Food services	8,239,220	1,078,071	4,635,118	(2,526,031)
All other pupil services	16,441,182	79,267	3,229,625	(13,132,290)
General administration				
Centralized data processing	2,193,929	-	2,287	(2,191,642)
All other general administration	9,412,431	189,614	1,417,159	(7,805,658)
Plant services	27,829,174	2,107,650	2,699,329	(23,022,195)
Ancillary services	1,870,555	-	39,574	(1,830,981)
Community services	142,025	-	-	(142,025)
Interest on long-term debt	2,137,460	-	-	(2,137,460)
Other Outgo	3,195,551	2,649,328	1,939,224	1,393,001
<b>Total Governmental Activities</b>	<b>\$ 316,156,276</b>	<b>\$ 10,903,159</b>	<b>\$ 56,955,847</b>	<b>(248,297,270)</b>
General revenues				
Taxes and subventions				
				151,787,520
				1,222,479
				91,051,450
				822,807
				806,839
				3,040,356
				<b>248,731,451</b>
<b>Change in net position before transfers &amp; special items</b>				
				434,181
				16,751,737
				<b>16,751,737</b>
<b>CHANGE IN NET POSITION</b>				
				17,185,918
				63,112,949
				<b>\$ 80,298,867</b>

The accompanying notes are an integral part of these financial statements.

ORANGE UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2016

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 93,956,240	\$ 29,861,776	\$ 29,491,566	\$ 153,309,582
Accounts receivable	14,835,238	8,874	851,637	15,695,749
Due from other funds	1,993,139	13,918,720	4,418,349	20,330,208
Stores inventory	61,658	-	67,011	128,669
Prepaid expenditures	1,527,933	-	-	1,527,933
<b>Total Assets</b>	<b>\$ 112,374,208</b>	<b>\$ 43,789,370</b>	<b>\$ 34,828,563</b>	<b>\$ 190,992,141</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 14,031,412	\$ 323,773	\$ 2,782,899	\$ 17,138,084
Due to other funds	18,559,087	-	590,390	19,149,477
Unearned revenue	493,524	-	78,712	572,236
<b>Total Liabilities</b>	<b>33,084,023</b>	<b>323,773</b>	<b>3,452,001</b>	<b>36,859,797</b>
<b>FUND BALANCES</b>				
Nonspendable	1,689,591	-	102,011	1,791,602
Restricted	4,874,197	43,465,597	18,793,966	67,133,760
Committed	-	-	9,504,959	9,504,959
Assigned	15,875,257	-	2,975,626	18,850,883
Unassigned	56,851,140	-	-	56,851,140
<b>Total Fund Balances</b>	<b>79,290,185</b>	<b>43,465,597</b>	<b>31,376,562</b>	<b>154,132,344</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 112,374,208</b>	<b>\$ 43,789,370</b>	<b>\$ 34,828,563</b>	<b>\$ 190,992,141</b>

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET POSITION  
JUNE 30, 2016**

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**Total Fund Balance - Governmental Funds** \$ 154,132,344

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 247,515,217	
Accumulated depreciation	<u>(81,206,755)</u>	166,308,462

Other postemployment benefits:

In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.

121,125,640

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

509,237

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was:

(148,336)

**ORANGE UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET POSITION, continued  
JUNE 30, 2016**

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Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total certificates of participation	\$ 27,837,063	
Retirement health benefits funding bonds	82,965,000	
Capital leases	8,835,162	
Compensated absences	4,366,672	
Net pension liability	<u>233,527,072</u>	(357,530,969)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 21,912,306	
Deferred inflows of resources related to pensions	<u>(36,488,216)</u>	(14,575,910)

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

10,478,399

**Total Net Position - Governmental Activities**

\$ 80,298,867

**ORANGE UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
LCFF sources	\$ 209,815,315	\$ -	\$ 11,996,066	\$ 221,811,381
Federal sources	13,333,810	-	6,006,865	19,340,675
Other state sources	50,840,322	-	2,725,968	53,566,290
Other local sources	7,448,567	147,139	14,567,027	22,162,733
<b>Total Revenues</b>	<b>281,438,014</b>	<b>147,139</b>	<b>35,295,926</b>	<b>316,881,079</b>
<b>EXPENDITURES</b>				
Current				
Instruction	164,200,909	-	9,756,042	173,956,951
Instruction-related services				
Instructional supervision and administration	14,513,474	-	85,324	14,598,798
Instructional library, media, and technology	6,840,222	-	164,213	7,004,435
School site administration	18,561,647	-	2,408,798	20,970,445
Pupil services				
Home-to-school transportation	9,493,828	-	96,411	9,590,239
Food services	-	-	7,948,435	7,948,435
All other pupil services	14,865,091	-	207,703	15,072,794
General administration				
Centralized data processing	2,152,635	-	-	2,152,635
All other general administration	7,304,199	-	981,857	8,286,056
Plant services	22,088,188	-	4,395,763	26,483,951
Facilities acquisition and maintenance	-	1,654,867	4,202,356	5,857,223
Ancillary services	1,756,153	-	22,499	1,778,652
Community services	130,760	-	-	130,760
Transfers to other agencies	1,840,814	-	1,291,082	3,131,896
Debt service				
Principal	2,815,015	-	2,777,636	5,592,651
Interest and other	1,379,664	-	748,007	2,127,671
<b>Total Expenditures</b>	<b>267,942,599</b>	<b>1,654,867</b>	<b>35,086,126</b>	<b>304,683,592</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>13,495,415</b>	<b>(1,507,728)</b>	<b>209,800</b>	<b>12,197,487</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	14,106,042	533,517	14,639,559
Other sources	-	17,342,500	-	17,342,500
Transfers out	(14,174,983)	-	(464,576)	(14,639,559)
<b>Net Financing Sources (Uses)</b>	<b>(14,174,983)</b>	<b>31,448,542</b>	<b>68,941</b>	<b>17,342,500</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(679,568)</b>	<b>29,940,814</b>	<b>278,741</b>	<b>29,539,987</b>
<b>Fund Balance - Beginning</b>	<b>79,969,753</b>	<b>13,524,783</b>	<b>31,097,821</b>	<b>124,592,357</b>
<b>Fund Balance - Ending</b>	<b>\$ 79,290,185</b>	<b>\$ 43,465,597</b>	<b>\$ 31,376,562</b>	<b>\$ 154,132,344</b>

The accompanying notes are an integral part of these financial statements.

**ORANGE 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, 2016**

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**Net Change in Fund Balances - Governmental Funds** \$ 29,539,987

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

**Capital outlay:**

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 6,844,597	
Depreciation expense:	<u>(4,810,031)</u>	2,034,566

**Debt service:**

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-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:

5,592,651

**Deferred amounts on refunding:**

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(63,655)

**Gain or loss from the disposal of capital assets:**

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(590,763)

**Unmatured interest on long-term debt:**

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

5,787

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF  
ACTIVITIES, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (241,943)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 10,074,047

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (30,330,761)

Cost write-off for canceled capital projects:

If a planned capital project is canceled and will not be completed, costs previously capitalized as Work-in-progress must be written off to expense. Costs written off for canceled projects were: (426,933)

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 1,608,511

**Change in Net Position of Governmental Activities**

**\$ 17,201,494**

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ORANGE UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>ASSETS</b>	
Current assets	
Cash and investments	\$ 14,707,519
Accounts receivable	8,853
Due from other funds	114,569
<b>Total Assets</b>	<b>14,830,941</b>
<b>LIABILITIES</b>	
Current liabilities	
Accrued liabilities	80,111
Due to other funds	431
Total current liabilities	80,542
Non-current liabilities	4,272,000
<b>Total Liabilities</b>	<b>4,352,542</b>
<b>NET POSITION</b>	
Unrestricted	10,478,399
<b>Total Net Position</b>	<b>\$ 10,478,399</b>

The accompanying notes are an integral part of these financial statements.



ORANGE UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>OPERATING REVENUE</b>	
Charges for services	\$ 3,967,598
Other local revenues	4,554
<b>Total operating revenues</b>	<u>3,972,152</u>
<b>OPERATING EXPENSE</b>	
Salaries and benefits	213,724
Supplies and materials	3,293
Professional services	2,233,669
<b>Total operating expenses</b>	<u>2,450,686</u>
<b>Operating income/(loss)</b>	<u>1,521,466</u>
<b>NON-OPERATING REVENUES/(EXPENSES)</b>	
Interest income	87,045
<b>Total non-operating revenues/(expenses)</b>	<u>87,045</u>
<b>CHANGE IN NET POSITION</b>	1,608,511
<b>Net Position - Beginning</b>	<u>8,869,888</u>
<b>Net Position - Ending</b>	<u>\$ 10,478,399</u>

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>Cash flows from operating activities</b>	
Cash received (paid) from assessments made to (from) other funds	\$ 3,954,068
Cash payments for payroll, insurance, and operating costs	(2,480,828)
Net cash provided by (used for) operating activities	<u>1,473,240</u>
<b>Cash flows from investing activities</b>	
Interest received	87,045
Net cash provided by (used for) investing activities	<u>87,045</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,560,285</u>
 <b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	13,147,234
End of year	<u>\$ 14,707,519</u>
 <b>Reconciliation of operating income (loss) to cash provided by (used for) operating activities</b>	
Operating income (loss)	\$ 1,521,466
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,080)
(Increase) decrease in due from other funds	(14,004)
Increase (decrease) in accounts payable	63,677
Increase (decrease) in due to other funds	181
Increase (decrease) in claims liabilities	(94,000)
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 1,473,240</u>

The accompanying notes are an integral part of these financial statements.

ORANGE UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

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	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Retiree Benefit</u>	<u>Student Body</u>
	<u>Fund</u>	<u>Fund</u>
<b>ASSETS</b>		
Cash and investments	\$ 134,402,305	\$ 1,754,327
Accounts receivable	13,426	-
Due from other funds	142,831	-
<b>Total Assets</b>	<u>134,558,562</u>	<u>\$ 1,754,327</u>
<b>LIABILITIES</b>		
Accrued liabilities	394	\$ -
Due to other funds	1,437,700	-
Due to student groups	-	1,754,327
<b>Total Liabilities</b>	<u>1,438,094</u>	<u>\$ 1,754,327</u>
<b>NET POSITION</b>		
Unrestricted	<u>133,120,468</u>	
<b>Total Net Position</b>	<u>\$ 133,120,468</u>	

The accompanying notes are an integral part of these financial statements.

ORANGE UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

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	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
<b>ADDITIONS</b>	
Contributions	\$ 4,540,892
Investment earnings	1,965,915
<b>Total Additions</b>	<u>6,506,807</u>
<b>DEDUCTIONS</b>	
Other trust activities	6,509,981
<b>Total Deductions</b>	<u>6,509,981</u>
<b>CHANGE IN NET POSITION</b>	(3,174)
<b>Net Position - Beginning</b>	<u>133,123,642</u>
<b>Net Position - Ending</b>	<u>\$ 133,120,468</u>

The accompanying notes are an integral part of these financial statements.

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Orange Unified School District (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).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

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 Orange Unified School Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund and the Special Reserve Fund for Capital Outlay Projects. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. The Orange Unified School District Public Financing Authority's (the CFDs) financial activity is presented in the financial statements as the Capital Project for Blended Component Units. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation or the CFDs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. **Basis of Presentation**

**Government-Wide Statements.** The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

**Major Governmental Funds**

**General Fund:** The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

**Special Reserve Fund for Capital Outlay Projects:** This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds

**Special Revenue Funds:** Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Charter Schools Special Revenue Fund:** This fund may be used by authorizing District's to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

**Adult Education Fund:** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b] and 52501.5[a]*).

**Child Development Fund:** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

**Cafeteria Special Revenue Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

**Deferred Maintenance Fund:** This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

**Capital Project Funds:** Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund:** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

**County School Facilities Fund:** This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

**Capital Projects Fund for Blended Component Units:** This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Debt Service Funds:** Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

**Debt Service Fund:** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Proprietary Funds

**Internal Service Funds:** Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

**Self-Insurance Fund:** Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fiduciary Funds

**Trust and Agency Funds:** Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Retiree Benefit Fund:** This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

**Student Body Fund:** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

**Government-Wide, Proprietary, and Fiduciary Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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 funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

**D. Basis of Accounting – Measurement Focus (*continued*)**

**Governmental Funds**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified 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 or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, “available” means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

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.

**Revenues – Exchange and Non-Exchange Transactions (*continued*)**

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.

**Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Accounting – Measurement Focus (*continued*)

**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 service 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. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

**Cash and Cash Equivalents**

The District's cash and cash equivalents consist of 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.

**Investments**

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

**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 historical cost and consist of expendable supplies held for consumption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

**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 position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$50,000. The District does not own any infrastructure as defined in GASB Statement 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 estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	20 – 50 years
Improvements/Infrastructure	5 – 50 years
Equipment	5 – 20 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from 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.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

**Premiums and Discounts**

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

**Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

**Fund Balance** (*continued*)

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

J. New Accounting Pronouncements

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

**GASB Statement No. 73** – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard’s primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

**GASB Statement No. 80** – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard’s primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Fiduciary Funds
Investment in county treasury	\$ 150,376,238	\$ 14,607,129	\$ 164,983,367	\$ 22,288,788
Cash on hand and in banks	907,088	100,390	1,007,478	1,754,327
Cash with fiscal agent	1,891,256	-	1,891,256	112,113,517
Cash in revolving fund	135,000	-	135,000	-
<b>Total cash and investments</b>	<b>\$ 153,309,582</b>	<b>\$ 14,707,519</b>	<b>\$ 168,017,101</b>	<b>\$ 136,156,632</b>

B. 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; collateralized mortgage obligations; and the County Investment Pool.



ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (*continued*)

**B. Policies and Practices (continued)**

**Investment in County Treasury** – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Orange County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

**C. General Authorizations**

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

**D. 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. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation as of year-end for each investment is provided by the following schedule:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Maturity</u>
County Treasury	\$ 187,272,155	339 days
Mutual Fund - Domestic Equity		
Alger Funds Small Cap Focus Z	3,384,168	N/A
Alger Funds Spectra Z	5,671,319	N/A
Columbia Contrarian Core	4,566,740	N/A
Oakmark Select	4,569,930	N/A
Hartford Funds Midcap Class Y	2,300,102	N/A
Undiscovered Managers Behavioral Value R6	2,247,351	N/A
Vanguard Group Mid Cap Index	17	N/A
Mutual Fund - Fixed Income		
Blackrock Total Return - K	8,865,135	N/A
Blackrock Total Return	19,063	N/A
Blackrock Strategic Income Fund	10,885	N/A
Blackrock Strategic Income Opps - K	4,434,083	N/A
Guggenheim Investments Investment Grade Bond Fund	8,865,135	N/A
Hartford World Bond - Y	4,433,792	N/A
Legg Mason BW Global Opportunities Bond IS	4,498,760	N/A
Legg Mason BW Alternative Credit	3,324,198	N/A
Prudential Funds Total Return Bond CL Q	10,013,684	N/A
Franklin Templeton Mutual Fds Global Bond R6	6,682,939	N/A
Legg Mason Western Asset Core Plus Bond	26,603	N/A
Legg Mason Core Plus Bond IS	9,985,719	N/A
Mutual Fund - International Equity		
Brandes Funds International Equity - R6	4,473,117	N/A
Brandes Funds International Small Cap Equity	2,259,105	N/A
Brandes Funds Emerging Markets Fund Class I	1,710,773	N/A
Hartford International Value - Y	3,355,468	N/A
Clearbridge International CM Cap - IS	2,237,648	N/A
American Funds New Perspective F2	2,282,924	N/A
American Funds New World F2	1,706,872	N/A
Thornburg Investment Income Builder I	3,428,789	N/A
Mutual Fund - Real Estate		
Cohen and Steers Real Estate Securities - Z	3,355,505	N/A
Prudential Funds Global Real Estate Cl Q	3,403,604	N/A

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (*continued*)

E. 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 investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were rated AAA, all other investments were not rated.

F. Custodial Credit Risk – Deposits

This 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. 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, 2016, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

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

The District's fair value measurements at June 30, 2016 were as follows:

	Quoted Prices		
	Level 1	Uncategorized	Total
Investment in county treasury	\$ -	\$ 187,272,155	\$ 187,272,155
Various money market investments	112,113,428	-	112,113,428
<b>Total leveled investments</b>	<b>\$ 112,113,428</b>	<b>\$ 187,272,155</b>	<b>\$ 299,385,583</b>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities	Total Fiduciary
Federal Government							
Categorical aid	\$ 6,718,170	\$ -	\$ 321,928	\$ -	\$ -	\$ 7,040,098	\$ -
State Government							
Apportionment	1,904,394	-	43,332	-	-	1,947,726	-
Categorical aid	711,284	-	227,944	-	-	939,228	-
Lottery	3,026,537	-	133,184	-	-	3,159,721	-
Local Government							
Other local sources	2,474,853	8,874	125,249	8,853	-	2,617,829	13,426
Due from fiduciary funds	-	-	-	-	1,437,700	1,437,700	-
<b>Total</b>	<b>\$ 14,835,238</b>	<b>\$ 8,874</b>	<b>\$ 851,637</b>	<b>\$ 8,853</b>	<b>\$ 1,437,700</b>	<b>\$ 17,142,302</b>	<b>\$ 13,426</b>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 01, 2015	Reclassification	Additions	Deletions	Balance June 30, 2016
<b>Governmental Activities</b>					
Capital assets not being depreciated					
Land	\$ 19,530,176	\$ -	\$ -	\$ 447,752	\$ 19,082,424
Construction in progress	1,953,539	-	5,857,222	4,859,409	2,951,352
Total Capital Assets not Being Depreciated	21,483,715	-	5,857,222	5,307,161	22,033,776
Capital assets being depreciated					
Land improvements	14,685,698	(3,800,251)	116,442	237,218	10,764,671
Buildings & improvements	193,040,351	3,800,251	4,316,034	669,356	200,487,280
Furniture & equipment	13,242,115	-	987,375	-	14,229,490
Total Capital Assets Being Depreciated	220,968,164	-	5,419,851	906,574	225,481,441
Less Accumulated Depreciation					
Land improvements	12,097,048	(2,374,013)	113,877	108,228	9,728,684
Buildings & improvements	56,561,995	2,374,013	3,492,710	655,335	61,773,383
Furniture & equipment	8,501,244	-	1,203,444	-	9,704,688
Total Accumulated Depreciation	77,160,287	-	4,810,031	763,563	81,206,755
<b>Governmental Activities</b>					
<b>Capital Assets, net</b>	<b>\$ 165,291,592</b>	<b>\$ -</b>	<b>\$ 6,467,042</b>	<b>\$ 5,450,172</b>	<b>\$ 166,308,462</b>

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 2,940,148
Instructional supervision and administration	159,235
Instructional library, media, and technology	86,599
School site administration	342,727
Home-to-school transportation	143,207
Food services	150,542
All other pupil services	197,112
Centralized data processing	26,670
All other general administration	126,362
Plant services	602,438
Ancillary services	29,625
Community services	5,366
	<u>\$ 4,810,031</u>

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2016 were as follows:

Due To Other Funds	Due From Other Funds					Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Retiree Benefit Trust Fund	
General Fund	\$ -	\$ 13,918,720	\$ 4,418,136	\$ 98,361	\$ 123,870	\$ 18,559,087
Non-Major Governmental Funds	555,400	-	213	16,208	18,569	590,390
Internal Service Fund	39	-	-	-	392	431
Retiree Benefit Trust Fund	1,437,700	-	-	-	-	1,437,700
<b>Total Due From Other Funds</b>	<b>\$ 1,993,139</b>	<b>\$ 13,918,720</b>	<b>\$ 4,418,349</b>	<b>\$ 114,569</b>	<b>\$ 142,831</b>	<b>\$ 20,587,608</b>

The General Fund owed the Special Reserve Fund for Capital Outlay Projects for the copier lease and mandated cost reimbursements.	\$ 13,918,720
The General Fund owed the Non-Major Charter Schools Fund for tier III transfers and P2 in-lieu of property taxes.	360,036
The General Fund owed the Non-Major Deferred Maintenance Fund for the district match and maintenance expenses.	4,058,100
The General Fund owed the Internal Service Fund for employee benefits.	98,361
The General Fund owed the Retiree Benefit Trust Fund for retirement benefits.	123,870
The Non-Major Charter Schools Fund owed the General Fund for payroll taxes, oversight fee, waste service, work order, legal fee, postage and printing charges.	176,265
The Non-Major Adult Education Fund owed the General Fund for indirect cost, stores issues and payroll taxes.	174
The Non-Major Child Development Fund owed the General Fund for payroll taxes, indirect cost, transportation, postage, printing and bank charges.	80,347
The Non-Major Cafeteria Fund owed the General Fund for payroll & taxes, indirect cost, fuel, postage, waste service, work orders, tech support and bank charges.	298,611
The Non-Major Capital Facilities Fund owed the General Fund for postage.	3
The Non-Major Cafeteria Fund owed the Non-Major Child Development Fund for payroll.	213
The Non-Major Charter Schools Fund owed the Internal Service Fund for workers' compensation.	1,167
The Non-Major Child Development Fund owed the Internal Service Fund for workers' compensation.	8,042
The Non-Major Cafeteria Fund owed the Internal Service Fund for workers' compensation.	6,999
The Non-Major Charter Schools Fund owed the Retiree Benefit Trust Fund for retirement benefits.	1,274
The Non-Major Child Development Fund owed the Retiree Benefit Trust Fund for retirement benefits.	9,254
The Non-Major Cafeteria Fund owed the Retiree Benefit Trust Fund for retirement benefits.	8,041
The Internal Service Fund owed the General Fund for payroll taxes, insurance waiver, and bank charges.	39
The Internal Service Fund owed the Retiree Benefit Trust Fund for retirement benefits.	392
The Retiree Benefit Trust Fund owed the General Fund for retiree costs and payroll taxes.	1,437,700
<b>Total</b>	<b>\$ 20,587,608</b>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 5 – INTERFUND TRANSACTIONS (continued)**

**B. Operating Transfers**

Interfund transfers for the year ended June 30, 2016 consisted of the following:

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>		
	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
	General Fund	\$ 14,106,042	\$ 68,941
Non-Major Governmental Funds	-	464,576	464,576
<b>Total Interfund Transfers</b>	<b>\$ 14,106,042</b>	<b>\$ 533,517</b>	<b>\$ 14,639,559</b>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for Emergency Repair Program and mandated cost reimbursement.	\$ 14,106,042
The General Fund transferred to the Non-Major Cafeteria Fund for sales tax.	260
The General Fund transferred to the Non-Major Capital Facilities Fund for Emergency Repair Program.	68,681
The Non-Major Capital Projects Fund for Blended Component Units transferred to the Non-Major Deferred Maintenance Fund for modernization projects.	464,576
<b>Total</b>	<b>\$ 14,639,559</b>

**NOTE 6 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2016 consisted of the following:

	<u>Special Reserve Fund for Capital Outlay Projects</u>		<u>Non-Major Governmental Funds</u>		<u>Internal Service Funds</u>		<u>Total Governmental Activities</u>		<u>Total Fiduciary</u>
	<u>General Fund</u>	<u>Outlay Projects</u>	<u>Funds</u>	<u>Funds</u>	<u>District-Wide</u>	<u>Activities</u>			
Payroll	\$ 9,491,864	-	\$ 856,213	\$ 18,681	-	\$ 10,366,758	-	-	
Construction	-	323,773	1,449,597	-	-	1,773,370	-	-	
Vendors payable	4,539,548	-	477,089	61,430	-	5,078,067	-	394	
Unmatured interest	-	-	-	-	148,336	148,336	-	-	
Due to fiduciary funds	-	-	-	-	142,831	142,831	-	-	
<b>Total</b>	<b>\$ 14,031,412</b>	<b>\$ 323,773</b>	<b>\$ 2,782,899</b>	<b>\$ 80,111</b>	<b>\$ 291,167</b>	<b>\$ 17,509,362</b>	<b>\$ 394</b>	<b>\$ 394</b>	

**NOTE 7 – UNEARNED REVENUE**

Unearned revenue at June 30, 2016, consisted of the following:

	<u>Non-Major Governmental Funds</u>		<u>Total Governmental Activities</u>	
	<u>General Fund</u>	<u>Funds</u>	<u>General Fund</u>	<u>Activities</u>
State categorical sources	\$ 488,524	-	\$ 488,524	-
Local sources	5,000	78,712	83,712	-
<b>Total</b>	<b>\$ 493,524</b>	<b>\$ 78,712</b>	<b>\$ 572,236</b>	<b>-</b>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 8 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance		Balance		Balance Due
	July 01, 2015	Additions	Deductions	June 30, 2016	In One Year
<b>Governmental Activities</b>					
Certificates of participation	\$ 30,614,699	\$ -	\$ 2,777,636	\$ 27,837,063	\$ 2,988,918
Retirement health benefits funding					
bonds	84,965,000	-	2,000,000	82,965,000	2,100,000
Capital leases	9,650,177	-	815,015	8,835,162	859,457
Compensated absences	4,124,729	241,943	-	4,366,672	-
Claims liability	4,366,000	-	94,000	4,272,000	-
Net pension liability	184,011,006	49,516,066	-	233,527,072	-
<b>Total</b>	<b>\$ 317,731,611</b>	<b>\$ 49,758,009</b>	<b>\$ 5,686,651</b>	<b>\$ 361,802,969</b>	<b>\$ 5,948,375</b>

Payments on certificates of participation are made in the Debt Service Fund. Payments for the retirement health benefits funding bonds are made in the General Fund. Payments for capital lease obligations are made in the General Fund. Payments for compensated absences are typically paid by the fund for which the employee worked. Payments for claims liability are made from the Internal Service Fund.

**A. Certificates of Participation**

On September 27, 2012, the Orange Schools Financing Corporation issued the 2012 Refunding Certificates of Participation in the amount of \$38,069,161. The certificates have a final maturity to occur on June 1, 2024, with an interest rate of 2.50 percent. Proceeds from the sale of the certificates were used to provide for the current refunding of the residual balance of the District’s 2003 Certificates of Participation. The refunding resulted in a cumulative cash flow savings of \$3,384,944 over the life of the new debt and an economic gain of \$9,437,500 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.50 percent. As of June 30, 2016, the principal balance outstanding was \$27,837,063.

The certificates mature through 2024 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,988,918	\$ 677,246	\$ 3,666,164
2018	2,889,920	603,142	3,493,062
2019	3,095,010	529,612	3,624,622
2020	3,311,831	450,881	3,762,712
2021	3,534,790	366,692	3,901,482
2022 - 2024	12,016,594	537,959	12,554,553
<b>Total</b>	<b>\$ 27,837,063</b>	<b>\$ 3,165,532</b>	<b>\$ 31,002,595</b>



ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

**B. Retirement Health Benefits Funding Bonds**

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (the Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562 percent). Proceeds from the sale of bonds were used to refinance a portion of the District’s obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2016, the principal balance of \$82,965,000 remained outstanding.

The bonds mature through 2043 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,100,000	\$ 1,066,998	\$ 3,166,998
2018	2,100,000	1,039,933	3,139,933
2019	2,000,000	1,012,975	3,012,975
2020	2,000,000	987,199	2,987,199
2021	1,900,000	961,531	2,861,531
2022 - 2026	13,800,000	4,328,757	18,128,757
2027 - 2031	14,700,000	3,424,342	18,124,342
2032 - 2036	19,500,000	2,359,793	21,859,793
2037 - 2041	19,400,000	1,055,635	20,455,635
2042 - 2043	5,465,000	97,621	5,562,621
Total	\$ 82,965,000	\$ 16,334,784	\$ 99,299,784

**C. Capital Leases**

The District entered into various capital leases with options to purchase for school buses, vans, computers, and energy retrofit equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The capital leases have minimum lease payments as follows:

Year Ended June 30,	Total
2017	\$ 1,226,615
2018	1,247,066
2019	971,183
2020	894,611
2021	918,285
2022 - 2026	4,990,114
2027 - 2028	956,675
Total minimum lease payments	11,204,549
Less amount representing interest	(2,369,387)
Present value of minimum lease payments	\$ 8,835,162

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (*continued*)

D. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$4,366,672. This amount is included as part of long-term liabilities in the government-wide financial statements.

E. Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2016, amounted to \$4,272,000, using a discount factor of two percent.

F. Net Pension Liability

The District's beginning net pension liability was \$184,011,006 and increased by \$49,516,066 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$233,527,072. See Note 11 for additional information regarding the net pension liability.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 9 – FUND BALANCES**

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>				
Revolving cash	\$ 100,000	\$ -	\$ 35,000	\$ 135,000
Stores inventory	61,658	-	67,011	128,669
Prepaid expenditures	1,527,933	-	-	1,527,933
Total non-spendable	<u>1,689,591</u>	<u>-</u>	<u>102,011</u>	<u>1,791,602</u>
<b>Restricted</b>				
Educational programs	4,874,197	-	763,353	5,637,550
Capital projects	-	43,465,597	13,143,522	56,609,119
Debt service	-	-	4,354,428	4,354,428
All others	-	-	532,663	532,663
Total restricted	<u>4,874,197</u>	<u>43,465,597</u>	<u>18,793,966</u>	<u>67,133,760</u>
<b>Committed</b>				
Other commitments	-	-	9,504,959	9,504,959
Total committed	<u>-</u>	<u>-</u>	<u>9,504,959</u>	<u>9,504,959</u>
<b>Assigned</b>				
Non-resident tuition	84,295	-	-	84,295
School site carryover	165,817	-	-	165,817
School site/department donations	967,810	-	-	967,810
Credential support contracts	20,821	-	-	20,821
MediCal administrative activities	250,718	-	-	250,718
CSR grade span	1,716,690	-	-	1,716,690
FY17-FY20 STRS/PERS increases	12,570,595	-	-	12,570,595
School site lottery	98,511	-	-	98,511
Building donations	-	-	199,017	199,017
Building funds	-	-	2,343,959	2,343,959
Reserve for economic uncertainties	-	-	432,650	432,650
Total assigned	<u>15,875,257</u>	<u>-</u>	<u>2,975,626</u>	<u>18,850,883</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	8,463,528	-	-	8,463,528
Remaining unassigned	48,387,612	-	-	48,387,612
Total unassigned	<u>56,851,140</u>	<u>-</u>	<u>-</u>	<u>56,851,140</u>
<b>Total</b>	<u>\$ 79,290,185</u>	<u>\$ 43,465,597</u>	<u>\$ 31,376,562</u>	<u>\$ 154,132,344</u>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three percent of General Fund expenditures and other financing uses.

**ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016**

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**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**A. Plan Description and Contribution Information**

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Orange Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	891
Active plan members	1,517
Total*	2,408
 Number of participating employers	1

\*As of March 1, 2015 actuarial study

**B. Funding Policy**

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, OUEA, CSEA and the unrepresented groups.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB asset to the Plan:

Annual required contribution	\$ 66,035
Interest on net OPEB obligation	(6,663,096)
Adjustment to annual required contribution	1,063,906
Annual OPEB cost (expense)	<u>(5,533,155)</u>
Contributions made	<u>(4,540,892)</u>
Increase (decrease) in net OPEB asset	10,074,047
Net OPEB asset, beginning of the year	111,051,593
Net OPEB asset, end of the year	<u>\$ 121,125,640</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Asset</u>
2016	\$ (5,533,155)	82%	\$ (121,125,640)
2015	\$ (5,062,631)	84%	\$ (111,051,593)
2014	\$ 533,019	1069%	\$ (101,719,453)

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2015	\$ 114,154,694	\$ (32,333,156)	\$ (146,487,850)	128%	\$ 170,886,570	-86%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	3/1/2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, closed 30 year
Remaining Amortization Period	21
Asset Valuation	\$ 114,154,694
Actuarial Assumptions:	
Investment rate of return	6.0%
Discount rate	6.0%
Health care trend rate	4.0%
Inflation rate	2.75%

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 11 – PENSION PLANS**

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 178,309,476	\$ 13,515,699	\$ 28,352,984	\$ 37,291,314
PERS Pension	55,217,596	8,396,607	8,135,232	11,795,986
<b>Total</b>	<u>\$ 233,527,072</u>	<u>\$ 21,912,306</u>	<u>\$ 36,488,216</u>	<u>\$ 49,087,300</u>

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

**Benefits provided**

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

***CalSTRS 2% at 60***

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Benefits provided (continued)**

*CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

**Contributions**

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$13,515,699 for the year ended June 30, 2016.

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$7,680,765 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 178,309,476
States's proportionate share of the net pension liability associated with the District	94,305,803
Total	<u>\$ 272,615,279</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.265 percent, which was an increase of 0.018 percent from its proportion measured as of June 30, 2014.



ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$37,291,314. In addition, the District recognized pension expense and revenue of \$7,303,098 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 14,535,120
Differences between expected and actual experience	-	2,979,593
Changes in proportion and differences between District contributions and proportionate share of contributions	-	10,838,271
District contributions subsequent to the measurement date	13,515,699	-
	<u>\$ 13,515,699</u>	<u>\$ 28,352,984</u>

The \$13,515,699 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 5,936,757
2018	5,936,757
2019	5,936,757
2020	5,936,757
2021	2,302,977
2022	2,302,979
	<u>\$ 28,352,984</u>

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

\* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

\* 10-year geometric average

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Discount rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 269,233,430	\$ 178,309,476	\$ 102,744,333

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 11 – PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS)**

**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 Laws. 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, CA 95811.

**Benefits provided**

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

**Contributions**

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$5,240,840 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$55,217,596 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.375 percent, which was an increase of 0.026 percent from its proportion measured as of June 30, 2014.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$11,795,986. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 1,890,697
Differences between expected and actual experience	3,155,767	-
Changes in assumptions	-	3,392,723
Changes in proportion and differences between District contributions and proportionate share of contributions	-	2,851,812
District contributions subsequent to the measurement date	5,240,840	-
	<u>\$ 8,396,607</u>	<u>\$ 8,135,232</u>

The \$5,240,840 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 1,088,196	\$ 2,625,962
2018	1,088,196	2,625,962
2019	979,375	2,410,633
2020	-	472,675
	<u>\$ 3,155,767</u>	<u>\$ 8,135,232</u>

ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

\* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions (continued)**

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

\* An expected inflation of 2.5% used for this period

\*\* An expected inflation of 3.0% used for this period

**Discount rate**

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
District's proportionate share of the net pension liability	\$ 89,871,238	\$ 55,217,596	\$ 26,400,777

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

C. Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to unfinished capital projects:

	<u>Remaining Construction Commitment</u>
Capital Projects	
El Rancho Construction Project (Athletic & Classroom Building)	\$ 22,500
Data Center	14,120
Single Mode Fiber Systems	185,742
Fletcher Upgrades	15,248
Total	<u>\$ 237,610</u>



**NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) public entity risk pools. The District pays an annual premium for its property and liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

SoCal ReLiEF has budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between SoCal ReLiEF and the District are included in these statements. The audited financial statements are generally available from the respective entities.

**NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

**Refunded Debt**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2016, the deferred amount on refunding was \$509,237.

**NOTE 15 – EXTRAORDINARY ITEM**

During the year ended June 30, 2016, the District received \$17,342,500 in proceeds for the sale of the Riverdale location. The proceeds were deposited into the Special Reserve Fund for Capital Outlay Projects. The gain on the sale of property of \$16,751,737 was classified as an extraordinary item in the Statement of Activities.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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ORANGE UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
<b>REVENUES</b>				
LCFF sources	\$ 201,029,679	\$ 209,815,314	\$ 209,815,315	\$ 1
Federal sources	14,189,188	15,247,162	13,333,810	(1,913,352)
Other state sources	29,622,011	51,966,922	50,840,322	(1,126,600)
Other local sources	7,799,015	6,621,089	7,448,567	827,478
<b>Total Revenues</b>	<b>252,639,893</b>	<b>283,650,487</b>	<b>281,438,014</b>	<b>(2,212,473)</b>
<b>EXPENDITURES</b>				
Certificated salaries	123,407,669	127,647,551	123,981,928	3,665,623
Classified salaries	42,582,730	44,606,095	43,314,561	1,291,534
Employee benefits	51,470,639	61,284,157	60,574,577	709,580
Books and supplies	16,428,162	17,196,623	12,818,527	4,378,096
Services and other operating expenditures	24,467,842	27,258,676	20,722,532	6,536,144
Capital outlay	1,531,676	1,054,488	993,679	60,809
Other outgo				
Excluding transfers of indirect costs	7,170,186	6,693,482	6,035,493	657,989
Transfers of indirect costs	(496,097)	(512,294)	(498,698)	(13,596)
<b>Total Expenditures</b>	<b>266,562,807</b>	<b>285,228,778</b>	<b>267,942,599</b>	<b>17,286,179</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(13,922,914)</b>	<b>(1,578,291)</b>	<b>13,495,415</b>	<b>15,073,706</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(400,309)	(14,175,032)	(14,174,983)	49
<b>Net Financing Sources (Uses)</b>	<b>(400,309)</b>	<b>(14,175,032)</b>	<b>(14,174,983)</b>	<b>49</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(14,323,223)</b>	<b>(15,753,323)</b>	<b>(679,568)</b>	<b>15,073,755</b>
<b>Fund Balance - Beginning</b>	<b>77,020,500</b>	<b>79,969,753</b>	<b>79,969,753</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 62,697,277</b>	<b>\$ 64,216,430</b>	<b>\$ 79,290,185</b>	<b>\$ 15,073,755</b>

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a Percentage of Covered Payroll</b>
March 1, 2015	\$ 114,154,694	\$ (32,333,156)	\$ (146,487,850)	128%	\$ 170,886,570	-86%
March 1, 2013	\$ 104,639,822	\$ (47,842,502)	\$ (152,482,324)	146%	\$ 146,786,996	-104%
June 1, 2011	\$ 106,455,005	\$ (52,725,881)	\$ (159,180,886)	150%	\$ 145,602,932	-109%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
CALSTRS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.265%	0.247%
District's proportionate share of the net pension liability	\$ 178,309,476	\$ 144,402,030
States's proportionate share of the net pension liability associated with the District	94,305,803	87,196,180
Total	<u>\$ 272,615,279</u>	<u>\$ 231,598,210</u>
District's covered-employee payroll	\$ 129,820,436	\$ 122,389,401
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.4%	118.0%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
CALPERS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.375%	0.349%
District's proportionate share of the net pension liability	\$ 55,217,596	\$ 39,608,976
District's covered-employee payroll	\$ 45,081,117	\$ 41,508,908
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	122.5%	95.4%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 13,515,699	\$ 10,589,609
Contributions in relation to the contractually required contribution*	(13,515,699)	(10,589,609)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 129,820,436	\$ 122,389,401
Contributions as a percentage of covered-employee payroll	10.41%	8.65%

\*Amounts do not include on behalf contributions

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 5,240,840	\$ 4,817,989
Contributions in relation to the contractually required contribution	(5,240,840)	(4,817,989)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 45,081,117	\$ 41,508,908
Contributions as a percentage of covered-employee payroll	11.63%	11.61%

See accompanying note to required supplementary information.



**ORANGE UNIFIED SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedule**

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

**Schedule of Funding Progress**

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

**Schedule of the District's Proportionate Share of the Net Pension Liability**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

**Schedule of District Contributions**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2016, the District incurred no excesses of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule.

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**SUPPLEMENTARY  
INFORMATION**

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**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Indian Education	84.060	*	\$ 57,638
<i>Passed through California Department of Education:</i>			
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	4,936,428
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	15,334
Title II, Part A, Teacher Quality	84.367	14341	834,397
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	712,012
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	4,973,899
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	21,968
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	445,450
Part B, Preschool Grants	84.173	13430	121,356
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	245,457
Supporting Inclusive Practices	84.027A	13693	36,358
Preschool Staff Development	84.173A	13431	1,726
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	4,051
Subtotal Special Education Cluster			5,850,265
IDEA Early Intervention Grants	84.181	23761	86,305
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	224,708
<b>Total U. S. Department of Education</b>			12,717,087
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	4,231,350
Basic School Breakfast Program	10.553	13390	6,733
Especially Needy School Breakfast Program	10.553	13526	1,141,633
USDA Commodities	10.555	*	468,072
Meal Supplements	10.555	*	152,097
Subtotal Child Nutrition Cluster			5,999,885
<b>Total U. S. Department of Agriculture</b>			5,999,885
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Youth Risk Behavior Survey Participation	93.079	*	400
Child Development - State Preschool Program	93.596	13609, 15136	6,980
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	685,433
Medi-Cal Administrative Activities	93.778	10060	274,700
Subtotal Medicaid			960,133
<b>Total U. S. Department of Health &amp; Human Services</b>			967,513
<b>Total Federal Expenditures</b>			\$ 19,684,485

\* - Pass-Through Entity Identifying Number not available or not applicable

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Second Period Report</b>	<b>Annual Report</b>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	8,339.09	8,339.98
Extended Year Special Education	17.55	17.55
Special Education - Nonpublic Schools	3.05	3.48
Extended Year Special Education - Nonpublic Schools	0.64	0.64
Total TK/K through Third	8,360.33	8,361.65
Fourth through Sixth		
Regular ADA	6,439.52	6,435.88
Extended Year Special Education	9.43	9.43
Special Education - Nonpublic Schools	12.89	13.08
Extended Year Special Education - Nonpublic Schools	1.49	1.75
Total Fourth through Sixth	6,463.33	6,460.14
Seventh through Eighth		
Regular ADA	2,161.26	2,157.88
Extended Year Special Education	3.93	3.93
Special Education - Nonpublic Schools	6.31	7.66
Extended Year Special Education - Nonpublic Schools	0.65	0.65
Community Day School	4.77	6.41
Total Seventh through Eighth	2,176.92	2,176.53
Ninth through Twelfth		
Regular ADA	8,785.72	8,712.72
Extended Year Special Education	8.90	8.90
Special Education - Nonpublic Schools	19.58	19.93
Extended Year Special Education - Nonpublic Schools	2.07	2.07
Community Day School	22.70	23.73
Total Ninth through Twelfth	8,838.97	8,767.35
TOTAL SCHOOL DISTRICT	25,839.55	25,765.67

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA), continued  
 FOR THE YEAR ENDED JUNE 30, 2016**

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**EL RANCHO CHARTER SCHOOL**

	<b>Second Period Report</b>	<b>Annual Report</b>
	<hr/>	<hr/>
CHARTER SCHOOL		
Seventh through Eighth		
Regular ADA	1,124.59	1,122.58
TOTAL CHARTER SCHOOL	<hr/> 1,124.59	<hr/> 1,122.58
	<hr/>	<hr/>
CLASSROOM-BASED CHARTER SCHOOL		
Classroom-based Seventh through Eighth		
Regular ADA	1,124.35	1,122.41
TOTAL CLASSROOM-BASED CHARTER SCHOOL	<hr/> 1,124.35	<hr/> 1,122.41
	<hr/>	<hr/>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Grade Level</b>	<b>Minutes Requirement</b>	<b>2015-16</b>		<b>Status</b>
		<b>Actual Minutes</b>	<b>Number of Days</b>	
Kindergarten	36,000	48,600	180	Complied
Grade 1	50,400	50,750	180	Complied
Grade 2	50,400	50,750	180	Complied
Grade 3	50,400	50,750	180	Complied
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	62,104	180	Complied
Grade 7	54,000	62,104	180	Complied
Grade 8	54,000	62,104	180	Complied
Grade 9	64,800	64,832	180	Complied
Grade 10	64,800	64,832	180	Complied
Grade 11	64,800	64,832	180	Complied
Grade 12	64,800	64,832	180	Complied

**EL RANCHO CHARTER SCHOOL**

<b>Grade Level</b>	<b>Minutes Requirement</b>	<b>2015-16</b>		<b>Status</b>
		<b>Actual Minutes</b>	<b>Number of Days</b>	
Grade 7	54,000	63,966	182	Complied
Grade 8	54,000	63,852	181	Complied

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 278,451,230	\$ 281,438,014	\$ 243,545,279	\$ 227,933,040
Expenditures And Other Financing Uses	295,654,029	282,117,582	246,351,338	220,563,365
Net change in Fund Balance	\$ (17,202,799)	\$ (679,568)	\$ (2,806,059)	\$ 7,369,675
Ending Fund Balance	\$ 62,087,386	\$ 79,290,185	\$ 79,969,753	\$ 82,775,812
Available Reserves*	\$ 49,170,367	\$ 56,851,140	\$ 71,431,562	\$ 71,756,271
Available Reserves As A Percentage Of Outgo	16.63%	20.15%	29.00%	32.53%
Long-term Debt	\$ 355,854,594	\$ 361,802,969	\$ 317,731,611	\$ 138,624,447
Average Daily Attendance At P-2	25,671	25,840	26,301	26,517

The General Fund balance has decreased by \$3,485,627 over the past two years. The fiscal year 2016-17 budget projects a further decrease of \$17,202,799. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$223,178,522 over the past two years.

Average daily attendance has decreased by 677 ADA over the past two years. Additional decrease of 169 ADA is anticipated during the 2016-17 fiscal year.

\*Available reserves consist of all unassigned fund balance within the General Fund.

**ORANGE UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements for the year ended June 30, 2016.



**ORANGE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Charter School</b>	<b>Status</b>	<b>Included in Audit Report</b>
El Rancho Charter School	Active	Yes
Santiago Middle School	Active	No

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 JUNE 30, 2016

	Charter Schools	Adult Education	Child Development	Cafeteria Fund
	Fund	Fund	Fund	
<b>ASSETS</b>				
Cash and investments	\$ 2,783,882	\$ 219	\$ 1,143,632	\$ 1,229,687
Accounts receivable	240,307	-	203,119	347,948
Due from other funds	360,036	-	213	-
Stores inventory	-	-	-	67,011
<b>Total Assets</b>	<b>\$ 3,384,225</b>	<b>\$ 219</b>	<b>\$ 1,346,964</b>	<b>\$ 1,644,646</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 138,089	\$ 45	\$ 474,060	\$ 721,108
Due to other funds	178,706	174	97,643	313,864
Unearned revenue	-	-	78,712	-
<b>Total Liabilities</b>	<b>316,795</b>	<b>219</b>	<b>650,415</b>	<b>1,034,972</b>
<b>FUND BALANCES</b>				
Non-spendable	25,000	-	-	77,011
Restricted	66,804	-	696,549	532,663
Committed	-	-	-	-
Assigned	2,975,626	-	-	-
<b>Total Fund Balances</b>	<b>3,067,430</b>	<b>-</b>	<b>696,549</b>	<b>609,674</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,384,225</b>	<b>\$ 219</b>	<b>\$ 1,346,964</b>	<b>\$ 1,644,646</b>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET, continued  
JUNE 30, 2016**

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Debt Service Fund	Non-Major Governmental Funds
\$ 6,821,873	\$ 6,834,043	\$ 67,371	\$ 6,259,063	\$ 4,351,796	\$ 29,491,566
50,450	4,204	42	2,935	2,632	851,637
4,058,100	-	-	-	-	4,418,349
-	-	-	-	-	67,011
<b>\$ 10,930,423</b>	<b>\$ 6,838,247</b>	<b>\$ 67,413</b>	<b>\$ 6,261,998</b>	<b>\$ 4,354,428</b>	<b>\$ 34,828,563</b>
\$ 1,425,464	\$ 123	\$ 7,863	\$ 16,147	\$ -	\$ 2,782,899
-	3	-	-	-	590,390
-	-	-	-	-	78,712
<b>1,425,464</b>	<b>126</b>	<b>7,863</b>	<b>16,147</b>	<b>-</b>	<b>3,452,001</b>
-	-	-	-	-	102,011
-	6,838,121	59,550	6,245,851	4,354,428	18,793,966
9,504,959	-	-	-	-	9,504,959
-	-	-	-	-	2,975,626
<b>9,504,959</b>	<b>6,838,121</b>	<b>59,550</b>	<b>6,245,851</b>	<b>4,354,428</b>	<b>31,376,562</b>
<b>\$ 10,930,423</b>	<b>\$ 6,838,247</b>	<b>\$ 67,413</b>	<b>\$ 6,261,998</b>	<b>\$ 4,354,428</b>	<b>\$ 34,828,563</b>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Charter Schools	Adult Education	Child Development	Cafeteria Fund
	Fund	Fund	Fund	Fund
<b>REVENUES</b>				
LCFF sources	\$ 7,991,619	\$ -	\$ -	\$ -
Federal sources	-	-	6,980	5,999,885
Other state sources	1,180,715	7,004	1,105,883	432,366
Other local sources	86,032	9	5,802,481	1,603,433
<b>Total Revenues</b>	<b>9,258,366</b>	<b>7,013</b>	<b>6,915,344</b>	<b>8,035,684</b>
<b>EXPENDITURES</b>				
Current				
Instruction	4,368,977	6,774	5,380,291	-
Instruction-related services				
Instructional supervision and administration	62,377	-	22,947	-
Instructional library, media, and technology	159,888	-	4,325	-
School site administration	1,204,471	1	1,204,326	-
Pupil services				
Home-to-school transportation	96,411	-	-	-
Food services	-	-	-	7,948,435
All other pupil services	207,703	-	-	-
General administration				
All other general administration	483,145	238	206,749	291,710
Plant services	609,458	-	33,758	72
Facilities acquisition and maintenance	377,697	-	-	2,939,372
Ancillary services	22,499	-	-	-
Transfers to other agencies	1,291,082	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<b>8,883,708</b>	<b>7,013</b>	<b>6,852,396</b>	<b>11,179,589</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>374,658</b>	<b>-</b>	<b>62,948</b>	<b>(3,143,905)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	260
Transfers out	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>260</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>374,658</b>	<b>-</b>	<b>62,948</b>	<b>(3,143,645)</b>
<b>Fund Balance - Beginning</b>	<b>2,692,772</b>	<b>-</b>	<b>633,601</b>	<b>3,753,319</b>
<b>Fund Balance - Ending</b>	<b>\$ 3,067,430</b>	<b>\$ -</b>	<b>\$ 696,549</b>	<b>\$ 609,674</b>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES, continued**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Debt Service Fund	Non-Major Governmental Funds
\$ 4,004,447	\$ -	\$ -	\$ -	\$ -	\$ 11,996,066
-	-	-	-	-	6,006,865
-	-	-	-	-	2,725,968
90,527	1,954,178	1,500	35,145	4,993,722	14,567,027
4,094,974	1,954,178	1,500	35,145	4,993,722	35,295,926
-	-	-	-	-	9,756,042
-	-	-	-	-	85,324
-	-	-	-	-	164,213
-	-	-	-	-	2,408,798
-	-	-	-	-	96,411
-	-	-	-	-	7,948,435
-	-	-	-	-	207,703
-	15	-	-	-	981,857
3,752,475	-	-	-	-	4,395,763
-	4,785	341,408	539,094	-	4,202,356
-	-	-	-	-	22,499
-	-	-	-	-	1,291,082
-	-	-	-	2,777,636	2,777,636
-	-	-	-	748,007	748,007
3,752,475	4,800	341,408	539,094	3,525,643	35,086,126
342,499	1,949,378	(339,908)	(503,949)	1,468,079	209,800
464,576	68,681	-	-	-	533,517
-	-	-	(464,576)	-	(464,576)
464,576	68,681	-	(464,576)	-	68,941
807,075	2,018,059	(339,908)	(968,525)	1,468,079	278,741
8,697,884	4,820,062	399,458	7,214,376	2,886,349	31,097,821
\$ 9,504,959	\$ 6,838,121	\$ 59,550	\$ 6,245,851	\$ 4,354,428	\$ 31,376,562

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT  
 NOTES TO SUPPLEMENTARY INFORMATION  
 JUNE 30, 2016**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2016 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2016.

	CFDA	
	Number	Amount
	<hr/>	
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 19,340,675
Title I, Part G, Advanced Placement (AP)		
Test Fee Reimbursement Program	84.330B	15,137
Medi-Cal Billing Option	93.778	393,100
Medi-Cal Administrative Activities	93.778	<u>(64,427)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$19,684,485</u>

**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**

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 46208*. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION, continued**  
**JUNE 30, 2016**

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**NOTE 1 – PURPOSE OF SCHEDULES (continued)**

**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.

**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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

**Combining Statements – Non-Major Funds**

These statements provide information on the District's non-major funds.

**Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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**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**

Independent Auditors' Report

Governing Board  
Orange Unified School District  
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Orange Unified School District's basic financial statements, and have issued our report thereon dated October 3, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Orange Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orange Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
October 3, 2016

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board  
Orange Unified School District  
Orange, California

**Report on Compliance for Each Major Federal Program**

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's major federal programs for the year ended June 30, 2016. Orange Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Orange Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Orange Unified School District's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Orange Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Orange Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Christy White Associates*

San Diego, California  
October 3, 2016

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board  
Orange Unified School District  
Orange, California

#### **Report on State Compliance**

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Orange Unified School District's state programs for the fiscal year ended June 30, 2016, as identified below.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Orange Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards 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 the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Orange 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 on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

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State Board of Accountancy*

### *Opinion on State Compliance*

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as item #2016-1. Our opinion on state compliance is not modified with respect to these matters.

Orange Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Orange Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### *Procedures Performed*

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

<b>PROGRAM NAME</b>	<b>PROCEDURES PERFORMED</b>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

<b>PROGRAM NAME</b>	<b>PROCEDURES PERFORMED</b>
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Yes
Mode of Instruction; for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study; for charter schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Yes
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study or Nonclassroom-Based Instruction/Independent Study; for charter schools because the total amount of ADA claimed did not exceed the threshold required for testing.

*Christy White Associates*

San Diego, California  
October 3, 2016

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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**ORANGE UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

**STATE AWARDS**

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**ORANGE UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FIVE DIGIT CODE**

20000  
30000

**AB 3627 FINDING TYPE**

Inventory of Equipment  
Internal Control

*There were no financial statement findings for the year ended June 30, 2016.*

ORANGE UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

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FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

*There were no federal award findings or questioned costs for the year ended June 30, 2016.*

**ORANGE UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)**

**Criteria:** Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the 2015-16 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**Condition:** 1 of 60 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as English Learner (EL) did not have proper supporting documentation to support their designation. When the error is extrapolated over the impacted population (1,304 students), 22 students were identified as ineligible.

**Cause:** While the District does have procedures in place to identify changes as they are made and update the CALPADS records, an error occurred and the student record was not updated.

**Effect:** The District is not in compliance with State requirements.

**Context:** 22 of 40,844 (13,252 for 2015-16, 13,615 for 2014-15, and 13,977 for 2013-14) students reported in the District’s Unduplicated Pupil Count did not have proper supporting documentation to support their EL designation.

**ORANGE UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

**FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000),  
continued**

**Questioned Costs:**

<b>UPP Audit Adjustment</b>		<b>Section 1: Regular UPP</b>	<b>Section 2: Alternate UPP</b>
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	82,099	81,826
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	40,844	40,482
3	Number of Unduplicated Pupil Count audit adjustment		(22)
4	Revised Adjusted Unduplicated Pupil Count	40,822	40,460
5	UPP calculated as of P-2	0.4975	0.4947
6	Revised UPP for audit finding	0.4972	0.4945
7	Greater of Revised UPP for audit finding from Section 1 or 2		<b>0.4972</b>
8	<b>Charter Schools Only:</b> Determinative School District Concentration Cap		
9	Revised UPP adjusted for Concentration Cap		<b>0.4972</b>
<b>LCFF Target Base Grant Funding</b>		<b>Estimated Values</b>	
10	Total Base Grant Funding as of P-2	\$210,395,269	
<b>LCFF Target Supplemental Grant Funding Audit Adjustment</b>			
11	Target Supplemental Grant Funding calculated as of P-2	\$20,934,329	
12	Revised Target Supplemental Grant Funding for audit finding	\$20,921,706	
13	Target Supplemental Grant Funding audit adjustment	<b>(\$12,623)</b>	
<b>LCFF Target Concentration Grant Funding Audit Adjustment</b>			
14	Target Concentration Grant Funding calculated as of P-2	\$0	
15	Revised Target Concentration Grant Funding for audit finding	\$0	
16	Target Concentration Grant Funding audit adjustment	<b>\$0</b>	
<b>Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target</b>			
17	Total Target Supplemental and Concentration audit adjustment	<b>(\$12,623)</b>	
<b>Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap</b>			
18	Statewide Gap Funding Rate as of P-2	0.5255761597	
21	Estimated Cost of Unduplicated Pupil Count audit adjustment	<b>(\$6,634)</b>	

**Recommendation:** We recommend that the District ensure that all students listed as EL in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have proper documentation to support their CALPADS designation.

**District Response:** In September 2016, new procedures were implemented to validate Reclassified dates across multiple years of language fluency data. District personnel will be monitoring and auditing the language fluency status changes in CALPADS after changes are made in the student information system. District staff will be working to validate all the language fluency status changes before submitting into the CALPADS system.

**ORANGE UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINDING #2015-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)**

**Criteria:** Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**Condition:** 1 of 120 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as FRPM did not have proper supporting documentation to support their designation. Upon further testing of 100% of the FRPM eligible population, we identified an additional 24 students without proper supporting documentation for a total of 25 ineligible students.

**Cause:** The District had previously implemented an automated process that would allow the student information system and the food service system to automatically update for status changes. A glitch in the system allowed the 25 identified students' statuses to update erroneously.

**Effect:** The District is not in compliance with State requirements.

**Context:** 25 of 27,619 (13,640 for 2014-15 and 13,979 for 2013-14) students reported in the District's Unduplicated Pupil Count did not have proper supporting documentation to support their FRPM designation.

ORANGE UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS , continued  
FOR THE YEAR ENDED JUNE 30, 2016

**FINDING #2015-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000), continued**

**Questioned Costs:**

<b>LCFF Target Base Grant Amount and Pupil Counts</b>		
1) Total Base Grant Amount		210,763,874
	<b>Section 1: UPP</b>	<b>Section 2: UPP</b>
2) Total Enrollment Count from Unduplicated Pupil Percentage Exhibit	54,970	55,243
3) Unduplicated Pupil Count from Unduplicated Pupil Percentage Exhibit	27,280	27,619

<b>Unduplicated Pupil Percentage Adjustment</b>		
4) Unduplicated Pupil Count	27,280	27,619
5) Number of Unduplicated Pupil Count Adjustment (plus or minus)	(25)	(25)
6) Adjusted Unduplicated Pupil Count	27,255	27,594
7) Unduplicated Pupil Percentage calculated at P-2	0.4963	0.5
8) Adjusted Unduplicated Pupil Percentage	0.4958	0.4995
<b>9) Funded UPP (Greater of Section 1 or 2)</b>		<b>0.4995</b>

<b>Target Supplemental Audit Adjustment</b>		
10) Target supplemental grant funding calculated at P-2	-	21,076,387
11) Adjusted target supplemental grant funding	-	21,055,311
12) Target supplemental audit adjustment	-	(21,076)

<b>Target Concentration Audit Adjustment</b>		
13) Target Concentration grant funding calculated at P-2	-	-
14) Adjusted target concentration grant funding	-	-
15) Target concentration audit adjustment	-	-

<b>Value of Adjustment in Current Year</b>		
16) Total target supplemental and concentration audit adjustment	-	(21,076)
17) Statewide gap funding rate	0.3016000000	0.3016000000
18) Estimated value of unduplicated pupil count audit adjustment for 2014-15	-	<b>(6,357)</b>

**Recommendation:** We recommend that the District ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have proper documentation to support their CALPADS designation.

**Current Year Status:** Partially implemented, see current year finding and recommendation #2016-1.