SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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; and the *2015-2016 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 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley 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.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District restated its beginning balance for net pension liability to more accurately reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for its enterprise fund. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 72, schedule of other postemployment benefits funding progress on page 73, schedule of the District's proportionate share of the net pension liability on page 74, and the schedule of District contributions on page 75, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Saddleback Valley Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information 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 Schedule of Expenditures of Federal Awards and other accompanying 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 December 2, 2016, on our consideration of the Saddleback Valley 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 Saddleback Valley Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 2, 2016

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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This section of Saddleback Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016, with comparative information for the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental and business-type activities separately. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.
>
> The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Saddleback Valley Unified School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results.* Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

Governmental Activities – Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's community services program is included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, and the receipt of special taxes for the payment of non-obligatory debt. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position* and *Statement of Changes in Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $126,400,973 for the fiscal year ended June 30, 2016, reflecting an increase of 12 percent since June 30, 2015. Of this amount, $(168,367,238) 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. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2016	2015 as restated	2016	2015 as restated	2016	2015 as restated
Assets						
Current and other assets	$ 185,673,129	$ 168,106,548	$ 1,106,105	$ 1,147,260	$ 186,779,234	$ 169,253,808
Capital assets	362,050,933	365,835,413	85,666	85,999	362,136,599	365,921,412
Total Assets	**547,724,062**	**533,941,961**	**1,191,771**	**1,233,259**	**548,915,833**	**535,175,220**
Deferred Outflows of Resources	**55,800,539**	**19,153,141**	**315,299**	**91,558**	**56,115,838**	**19,244,699**
Liabilities						
Current liabilities	24,616,319	20,881,184	838,183	866,814	25,454,502	21,747,998
Long-term obligations	184,887,388	190,932,462	-	-	184,887,388	190,932,462
Aggregate net pension liability	222,815,110	178,829,473	1,124,939	848,458	223,940,049	179,677,931
Total Liabilities	**432,318,817**	**390,643,119**	**1,963,122**	**1,715,272**	**434,281,939**	**392,358,391**
Deferred Inflows of Resources	**44,053,322**	**48,651,028**	**295,437**	**305,306**	**44,348,759**	**48,956,334**
Net Position						
Net investment in capital assets	227,231,074	217,437,137	85,666	85,999	227,316,740	217,523,136
Restricted	67,451,471	65,099,963	-	-	67,451,471	65,099,963
Unrestricted	(167,530,083)	(168,736,145)	(837,155)	(781,760)	(168,367,238)	(169,517,905)
Total Net Position	**$ 127,152,462**	**$ 113,800,955**	**$ (751,489)**	**$ (695,761)**	**$ 126,400,973**	**$ 113,105,194**

The $(168,367,238) in unrestricted net position of the District represents the accumulated results of all past years' operations.

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	$ 3,314,983	$ 3,228,336	$ 2,588,741	$ 2,506,409	$ 5,903,724	$ 5,734,745
Operating grants and contributions	49,492,790	42,770,362	1,097,789	1,198,589	50,590,579	43,968,951
Capital grants and contributions	3,339	-	-	-	3,339	-
General revenues:						
Federal and State aid not restricted	83,969,781	65,689,404	-	-	83,969,781	65,689,404
Property taxes	171,885,723	159,256,814	-	-	171,885,723	159,256,814
Other general revenues	19,709,852	21,770,558	740	1,926	19,710,592	21,772,484
Total Revenues	**328,376,468**	**292,715,474**	**3,687,270**	**3,706,924**	**332,063,738**	**296,422,398**
Expenses						
Instruction	185,270,466	178,153,614	-	-	185,270,466	178,153,614
Instruction-related	26,628,449	23,922,208	-	-	26,628,449	23,922,208
Pupil services	24,953,495	22,953,997	-	-	24,953,495	22,953,997
Administration	12,573,254	10,233,998	-	-	12,573,254	10,233,998
Plant services	23,414,908	21,565,210	-	-	23,414,908	21,565,210
Interest on long-term obligations	6,002,281	5,035,073	-	-	6,002,281	5,035,073
Other	36,117,105	35,030,714	-	-	36,117,105	35,030,714
Enterprise activities	65,003	-	3,742,998	3,715,768	3,808,001	3,715,768
Total Expenses	**315,024,961**	**296,894,814**	**3,742,998**	**3,715,768**	**318,767,959**	**300,610,582**
Change in Net Position	**$ 13,351,507**	**$ (4,179,340)**	**$ (55,728)**	**$ (8,844)**	**$ 13,295,779**	**$ (4,188,184)**

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was $315,024,961. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $171,885,723 because the cost was paid by those who benefited from the programs $(3,314,983) or by other governments and organizations who subsidized certain programs with grants and contributions $(49,496,129). We paid for the remaining "public benefit" portion of our governmental activities with $103,679,633 in Federal and State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction-related programs, pupil services, administration, plant services, interest on long-term obligations, and all other services. As discussed above, 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.

Table 3

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	$ 185,270,466	$ 178,153,614	$ 152,648,140	$ 152,790,306
Instruction-related	26,628,449	23,922,208	23,373,212	21,812,882
Pupil services	24,953,495	22,953,997	16,678,946	15,528,079
Administration	12,573,254	10,233,998	11,208,483	8,677,356
Plant services	23,414,908	21,565,210	23,386,389	20,048,589
Interest on long-term obligations	6,002,281	5,035,073	6,002,281	5,035,073
Other	36,182,108	35,030,714	28,916,398	27,003,831
Total	**$ 315,024,961**	**$ 296,894,814**	**$ 262,213,849**	**$ 250,896,116**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $135,689,804, which is an increase of $13,324,647 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	$ 59,096,842	$ 288,184,429	$ 275,217,529	$ 72,063,742
Capital Facilities Fund	15,406,179	4,879,594	122,278	20,163,495
Debt Service Fund for Blended Component Units	22,841,319	381,869	5,200,246	18,022,942
Special Education Pass-Through Fund	-	2,196,950	2,196,950	-
Adult Education Fund	45,216	1,516,656	608,855	953,017
Child Development Fund	2,472,508	9,418,858	9,518,272	2,373,094
Cafeteria Fund	407,598	6,260,714	6,282,565	385,747
Building Fund	5,562,781	34,003	2,475,071	3,121,713
County School Facilities Fund	243,672	3,338	7,704	239,306
Special Reserve Fund for Capital Outlay Projects	7,932,351	5,100,430	3,175,439	9,857,342
Capital Projects Fund for Blended Component Units	376,479	103,995	183,805	296,669
Bond Interest and Redemption	7,980,212	10,806,131	10,573,606	8,212,737
Total	**$ 122,365,157**	**$ 328,886,967**	**$ 315,562,320**	**$ 135,689,804**

The primary reasons for these increases/decreases are:

a. The General Fund showed an increase of $13 million which was due to increased LCFF funding along with one-time mandate funds. It is important to note that restricted balances and assigned unrestricted balances account for $8 million of the $13 million fund balance increase.
b. The Capital Facilities Fund showed an increase of $4.7 million from increased fees relating to residential home growth within the District boundaries.
c. The Debt Service Fund for Blended Component Units showed a decrease of $4.6 million.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 8, 2016. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 72.)

The key differences between the original budgets, final budget, and actual results is attributable to:

- Re-allocation of carryovers including school site gifts, resource allocation, and categorical programs.
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.
- Negotiated salary agreements.

As has been the practice of the District, Saddleback Valley Unified School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical or school carryover, while the final budget and actual results reflects these carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had $362,050,933 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $3,784,813, or 1.03 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land and construction in progress	$ 61,981,190	$ 58,686,284	$ -	$ -	$ 61,981,190	$ 58,686,284
Buildings and improvements	290,311,224	300,403,374	46,282	71,569	290,357,506	300,474,943
Furniture and equipment	9,758,519	6,745,755	39,384	14,430	9,797,903	6,760,185
Total	**$ 362,050,933**	**$ 365,835,413**	**$ 85,666**	**$ 85,999**	**$ 362,136,599**	**$ 365,921,412**

The $3.8 million decrease in net capital assets is largely due to depreciation in land and building improvements which exceeded capital construction projects completed during the year (see Note 5).

Additional capital projects are planned for the 2016-2017 year. We anticipate capital additions to be approximately $15 million for the 2016-2017 year.

Long-Term Obligations

At the end of this year, the District had $184,887,388 in long-term obligations versus $190,932,462 last year, a decrease of 3.2 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2016	2015
General obligation bonds - net (financed with property taxes)	$ 130,158,218	$ 136,116,593
Public financing authority bonds	18,795,714	22,839,279
Compensated absences	2,022,299	2,000,366
Other postemployment benefits	22,256,898	18,658,163
Claims liability	11,654,259	11,318,061
Total	**$ 184,887,388**	**$ 190,932,462**

Long-term obligations include general obligation bonds, public financing authority bonds, compensated absences, other postemployment benefits, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year end, the District had a net pension liability of $223,940,049 as a result of the implementation of GASB Statement No. 68

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

Curriculum & Instruction

- Over 500 elementary teachers participated in Reflective Learning Walks/Classroom Observations
- Trained an additional 150 elementary teachers in FactsWise on procedural math fluency
- Initiated a new Gate Collaborative for grade K-8 teachers
- STEM Labs grew at several elementary schools and Project Lead the Way was implemented at all intermediate schools.
- New ELA/ELD instructional materials were adopted for grades 7-10.
- A full time academic coach was implemented at each intermediate school – well received by staff and highly successful!
- New Math Placement Policy was established for grades 9-12, as was a new math course sequence

Career Technical Education

- Received $1.8M Career Technical Education Incentive Grant; combined with the Orange County Pathways Grant and CalPerkins funds.
- Several course articulation agreements were created with Saddleback, Orange Coast and Irvine Valley Colleges
- Work continued on completing courses, or creating courses, for CTE Pathways (3-year sequence: introductory, concentration, capstone)

Educational Technology

- Network speed has increased across the district, and will continue to increase
- Continuing to get more devices out to schools; 2000 more chromebooks will go out in 2016-17

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016-2017 year, the governing board and management used the following criteria:

The key revenue forecast assumptions are as follows:

(1) The budget was initially based on the "May Revise", which represents the Governor's final recommended budget to our State Legislature and later revised based on the State adopted budget.

The District's major source of income will be the Local Control Funding Formula. The LCFF is largely based on average daily attendance (ADA). Since the 2003-2004 fiscal year, the District has declined in enrollment by over 6,700 students. Comparing CBEDS, or October census day enrollments, in 2014-2015, the District experienced a decline of 706 students. This was followed in 2015-2016 by an additional decline of 312 students. For 2016-2017, the District's October enrollment declined another 920 students. The most recent decline was largely impacted by a charter school which opened in September 2016 with 595 students.

Other revenues include one-time unrestricted mandated block grant money totaling $6.4 million.

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 of Business, at Saddleback Valley Unified School District, 25631 Peter A Hartman Way, Mission Viejo, California, 92691, or e-mail at starrj@svusd.org.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 155,777,643	$ 838,553	$ 156,616,196
Receivables	29,161,400	322,963	29,484,363
Internal balances	56,036	(56,036)	-
Prepaid expenses	329,688	625	330,313
Stores inventories	348,362	-	348,362
Capital assets			
Land and construction in process	61,981,190	-	61,981,190
Other capital assets	522,217,809	574,625	522,792,434
Less: accumulated depreciation	(222,148,066)	(488,959)	(222,637,025)
Total Capital Assets	362,050,933	85,666	362,136,599
Total Assets	547,724,062	1,191,771	548,915,833
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	4,240,856	-	4,240,856
Deferred outflows of resources related to pensions	51,559,683	315,299	51,874,982
Total Deferred Outflows of Resources	55,800,539	315,299	56,115,838
LIABILITIES			
Accounts payable	21,106,863	364,360	21,471,223
Accrued interest payable	2,460,587	-	2,460,587
Unearned revenue	1,048,869	473,823	1,522,692
Long-term obligations:			
Current portion of long-term obligations other than pensions	11,484,174	-	11,484,174
Noncurrent portion of long-term obligations other than pensions	173,403,214	-	173,403,214
Total Long-Term Obligations	184,887,388	-	184,887,388
Aggregate net pension liability	222,815,110	1,124,939	223,940,049
Total Liabilities	432,318,817	1,963,122	434,281,939
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	44,053,322	295,437	44,348,759
NET POSITION			
Net investment in capital assets	$ 227,231,074	$ 85,666	$ 227,316,740
Restricted for:			
Debt service	23,775,092	-	23,775,092
Capital projects	20,402,801	-	20,402,801
Educational programs	6,748,239	-	6,748,239
Other activities	16,525,339	-	16,525,339
Unrestricted	(167,530,083)	(837,155)	(168,367,238)
Total Net Position	$ 127,152,462	$ (751,489)	$ 126,400,973

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	$ 185,270,466	$ 354,784	$ 32,264,203	$ 3,339
Instruction-related activities:				
Supervision of instruction	6,460,498	11,177	2,072,001	-
Instructional library, media, and technology	3,436,838	-	81,259	-
School site administration	16,731,113	3,931	1,086,869	-
Pupil services:				
Home-to-school transportation	5,121,521	-	210,742	-
Food services	6,105,187	2,041,854	3,508,202	-
All other pupil services	13,726,787	30,745	2,483,006	-
Administration:				
Data processing	4,827,817	-	10,113	-
All other administration	7,745,437	90,630	1,264,028	-
Plant services	23,414,908	9,226	19,293	-
Facility acquisition and construction	384,712	-	-	-
Ancillary services	1,501,571	201	37,313	-
Community services	9,093,122	47,927	300,558	-
Enterprise services	65,003	-	-	-
Interest on long-term obligations	6,002,281	-	-	-
Other outgo	8,361,637	724,508	6,155,203	-
Depreciation (unallocated)[1]	16,776,063	-	-	-
Total Governmental Activities	315,024,961	3,314,983	49,492,790	3,339
Business-Type Activities				
Enterprise services	3,742,998	2,588,741	1,097,789	-
Total School District	$ 318,767,959	$ 5,903,724	$ 50,590,579	$ 3,339

General revenues and subventions:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Taxes levied for other specific purposes

Federal and State aid not restricted to specific purposes

Interest and investment earnings

Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning, as Restated

Net Position - Ending

[1]This amount excludes any depreciation that is included in the direct expenses of the various programs

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (152,648,140)	$ -	$ (152,648,140)
(4,377,320)	-	(4,377,320)
(3,355,579)	-	(3,355,579)
(15,640,313)	-	(15,640,313)
(4,910,779)	-	(4,910,779)
(555,131)	-	(555,131)
(11,213,036)	-	(11,213,036)
(4,817,704)	-	(4,817,704)
(6,390,779)	-	(6,390,779)
(23,386,389)	-	(23,386,389)
(384,712)	-	(384,712)
(1,464,057)	-	(1,464,057)
(8,744,637)	-	(8,744,637)
(65,003)	-	(65,003)
(6,002,281)	-	(6,002,281)
(1,481,926)	-	(1,481,926)
(16,776,063)	-	(16,776,063)
(262,213,849)	-	(262,213,849)
-	(56,468)	(56,468)
(262,213,849)	(56,468)	(262,270,317)
158,959,256	-	158,959,256
10,779,691	-	10,779,691
2,146,776	-	2,146,776
83,969,781	-	83,969,781
619,928	-	619,928
19,089,924	740	19,090,664
275,565,356	740	275,566,096
13,351,507	(55,728)	13,295,779
113,800,955	(695,761)	113,105,194
$ 127,152,462	$ (751,489)	$ 126,400,973

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	$73,448,786	$22,763,243	$ 4,162,622	$ 26,645,666	$ 127,020,317
Receivables	13,795,705	304,607	13,860,320	829,458	28,790,090
Due from other funds	1,008,476	-	-	3,659,665	4,668,141
Prepaid expenditures	307,217	-	-	21,811	329,028
Stores inventories	315,203	-	-	33,159	348,362
Total Assets	$88,875,387	$23,067,850	$ 18,022,942	$ 31,189,759	$ 161,155,938
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$15,899,003	$ 4,355	$ -	$ 3,895,477	$ 19,798,835
Due to other funds	831,022	2,900,000	-	968,491	4,699,513
Unearned revenue	81,620	-	-	886,166	967,786
Total Liabilities	16,811,645	2,904,355	-	5,750,134	25,466,134
Fund Balances:					
Nonspendable	742,420	-	-	54,970	797,390
Restricted	6,104,467	20,163,495	18,022,942	12,563,572	56,854,476
Committed	-	-	-	296,669	296,669
Assigned	8,458,833	-	-	12,524,414	20,983,247
Unassigned	56,758,022	-	-	-	56,758,022
Total Fund Balances	72,063,742	20,163,495	18,022,942	25,439,625	135,689,804
Total Liabilities and Fund Balances	$88,875,387	$23,067,850	$ 18,022,942	$ 31,189,759	$ 161,155,938

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balance - Governmental Funds		**$ 135,689,804**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 584,198,999	
Accumulated depreciation is	(222,148,066)	
Net Capital Assets		362,050,933
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		16,851,722
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(2,460,587)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		16,173,334
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) and are included with governmental activities.		4,240,856
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.		9,914,066
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(16,082,643)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		(472,922)
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		(2,703,862)

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, (Continued)
JUNE 30, 2016

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (222,815,110)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	$ 117,270,000	
Premium on issuance of bonds	12,888,218	
Public financing authority bonds	12,314,918	
Compensated absences (vacations)	2,022,299	
Net OPEB obligation	22,256,898	
In addition, the District has issued 'capital appreciation' public financing authority bonds. The accretion of interest on the public financing authority bonds to date is:	6,480,796	
Total Long-Term Obligations		(173,233,129)
Total Net Position - Governmental Activities		**$ 127,152,462**

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units
REVENUES			
Local Control Funding Formula	$ 221,978,717	$ -	$ -
Federal sources	10,604,832	-	-
Other State sources	50,649,826	-	-
Other local sources	4,951,054	4,879,594	381,869
Total Revenues	288,184,429	4,879,594	381,869
EXPENDITURES			
Current			
Instruction	181,424,746	-	-
Instruction-related activities:			
Supervision of instruction	6,252,765	-	-
Instructional library, media, and technology	3,384,810	-	-
School site administration	16,106,205	-	-
Pupil services:			
Home-to-school transportation	5,118,658	-	-
Food services	3,545	-	-
All other pupil services	13,270,558	-	-
Administration:			
Data processing	6,398,439	-	-
All other administration	7,386,103	-	-
Plant services	23,010,643	-	-
Facility acquisition and construction	5,215,232	122,278	-
Ancillary services	1,481,138	-	-
Community services	-	-	-
Other outgo	6,164,687	-	-
Debt service			
Principal	-	-	4,590,000
Interest and other	-	-	610,246
Total Expenditures	275,217,529	122,278	5,200,246
NET CHANGE IN FUND BALANCES	12,966,900	4,757,316	(4,818,377)
Fund Balances - Beginning	59,096,842	15,406,179	22,841,319
Fund Balances - Ending	$ 72,063,742	$ 20,163,495	$ 18,022,942

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

Non-Major Governmental Funds	Total Governmental Funds
$ 500,000	$ 222,478,717
4,329,273	14,934,105
3,000,869	53,650,695
27,610,933	37,823,450
35,441,075	328,886,967
238,256	181,663,002
4,353	6,257,118
-	3,384,810
280,320	16,386,525
-	5,118,658
6,046,147	6,049,692
80,689	13,351,247
-	6,398,439
211,465	7,597,568
59,243	23,069,886
6,427,080	11,764,590
-	1,481,138
8,903,992	8,903,992
2,196,950	8,361,637
4,970,000	9,560,000
5,603,772	6,214,018
35,022,267	315,562,320
418,808	13,324,647
25,020,817	122,365,157
$ 25,439,625	$ 135,689,804

SADDLEBACK VALLEY 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

Total Net Change in Fund Balances - Governmental Funds		**$ 13,324,647**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlay in the period.		
Depreciation expense	$ (16,776,063)	
Capital outlays	13,078,575	
Net Expense Adjustment		(3,697,488)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position but is not recorded in the governmental funds.		(86,992)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). There were no special termination benefits this year. Vacation earned was more than the amounts paid by $21,933.		(21,933)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(2,355,001)
Other postemployment benefits (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:		(3,598,735)
Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium	988,375	
Amortization of deferred charges on refunding	(385,532)	602,843

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
General obligation bonds	$ 4,970,000
Public financing authority bonds	4,590,000
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds decreased by $155,329 and second, $546,435 of additional interest was accreted on the District's public financing authority bonds.	(391,106)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net deficit of the Internal Service Fund is reported with governmental activities.	15,272
Change in Net Position of Governmental Activities	**$ 13,351,507**

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 838,553	$ 28,757,326
Receivables	322,963	371,310
Due from other funds	3,343	89,583
Prepaid expenses	625	660
Total Current Assets	1,165,484	29,218,879
Noncurrent Assets		
Furniture and equipment (net)	85,666	-
Total Assets	1,251,150	29,218,879
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	315,299	-
LIABILITIES		
Current Liabilities		
Accounts payable	364,360	1,308,028
Due to other funds	59,379	2,175
Unearned revenue	473,823	81,083
Current portion of long-term obligations	-	1,784,174
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	9,870,085
Net pension liability	1,124,939	-
Total Liabilities	2,022,501	13,045,545
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	295,437	-
NET POSITION		
Net investment in capital assets	85,666	-
Restricted	-	16,173,334
Unrestricted	(837,155)	-
Total Net Position	$ (751,489)	$ 16,173,334

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	$ 3,675,906	$ 45,500,874
OPERATING EXPENSES		
Payroll costs	2,572,885	313,489
Supplies and materials	248,532	17,700
Facility rental	28,612	-
Other operating cost	895,158	45,316,625
Total Operating Expenses	3,745,187	45,647,814
Operating Loss	(69,281)	(146,940)
NONOPERATING REVENUES		
Interest income	2,929	162,212
Grants	10,624	-
Total Nonoperating Revenues	13,553	162,212
Change in Net Position	(55,728)	15,272
Total Net Position - Beginning, as Restated	(695,761)	16,158,062
Total Net Position - Ending	$ (751,489)	$ 16,173,334

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 2,838,781	$ 45,778,893
Other operating cash receipts	969,045	118,508
Cash payments to other suppliers of goods or services	(190,998)	293,090
Cash payments to employees for services	(2,538,756)	(311,606)
Other operating cash payments	(867,304)	(44,980,427)
Net Cash Provided by Operating Activities	210,768	898,458
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	10,624	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(26,946)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,929	162,212
Net increase in cash and cash equivalents	197,375	1,060,670
Cash and cash equivalents - Beginning	641,178	27,696,656
Cash and cash equivalents - Ending	$ 838,553	$ 28,757,326
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (69,281)	$ (146,940)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	27,279	-
Changes in assets and liabilities:		
Receivables	250,040	370,990
Due from other funds	(3,343)	(4,839)
Prepaid expenditures	575	(660)
Deferred outflows of resources	(223,741)	-
Accounts payable	86,146	311,450
Due to other fund	(8,742)	1,883
Unearned revenue	(114,777)	30,376
Claims liability	-	336,198
Deferred inflows of resources	(9,869)	-
Net pension liability	276,481	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 210,768	$ 898,458

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2016

		Agency Funds
ASSETS		
Deposits and investments	$	10,418,107
Receivables		30,149
Prepaid expenses		129,376
Stores inventories		30,796
Total Assets	$	10,608,428
LIABILITIES		
Accounts payable	$	345,542
Unearned revenue		64,391
Due to student groups		2,976,751
Due to bondholders		7,221,744
Total Liabilities	$	10,608,428

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Saddleback Valley Unified School District (the District) was organized in 1973 under the laws of the State of California. The District operates under a locally elected five-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 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

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, boards, and agencies that are not legally separate from the District. For Saddleback Valley Unified School District, this includes general operations, food service, and student related activities of the District.

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. For financial reporting purposes, the component unit discussed below has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Saddleback Valley Unified School District Public Financing Authority (the Authority) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Authority was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Authority's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Bonds issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Authority.

The District established Community Facilities Districts (CFD) No. 88-1, 88-2, 89-1, 89-2, 89-3, and 89-4 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition, and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

Other Related Entities

Charter School The District has an approved Charter for Ralph A. Gates Elementary School (Charter No. 0157) pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the District's financial statements. The Charter School is not operated by a separate governing board and is considered a component unit of the District. The Charter School receives State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

Basis of Presentation Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues, and expenditures of $126,209, $126,207, $1,501,668 and $1,375,554, respectively.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Debt Service Fund for Blended Component Units This fund is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under Generally Accepted Accounting Principles (GAAP).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Special Education Pass-Through Fund The Special Education Pass-Through Fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is 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).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

County School Facilities Fund The County School Facilities Fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State School Facilities Fund (Proposition 1D) 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.).

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

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units 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 The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Proprietary Funds 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 local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the community services program of the District.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates health and welfare, property and liability, and workers' compensation programs accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. 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.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District, and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District allocates indirect expenses to functions in the *Statement of Activities*, except for depreciation. 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 the 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. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position 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 result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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 is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California 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 districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a 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 before the eligibility requirements are met 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.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2016, 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 the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental and agency funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the fiduciary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. 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, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; furniture, equipment, and vehicles, 5 to 20 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are represented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. 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 resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

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 governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

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

Bond Premiums

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

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The 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.

Net Position

Net position represents the difference between assets and liabilities. Net position net of 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $67,451,471 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for community service program fees and to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service, that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

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 and business-type activities column of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type activities.

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.

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 1st 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 budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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 of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	$ 155,777,643
Business-type activities	838,553
Fiduciary funds	10,418,107
Total Deposits and Investments	$ 167,034,303

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	$ 3,839,656
Cash in revolving	2,788,388
Investments	160,406,259
Total Deposits and Investments	$ 167,034,303

Policies and Practices

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

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

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Amount Reported	Average Maturity in Days/ Maturity Date
Orange County Treasury Investment Pool	$ 149,021,893	339 days
Federated Treasury Obligations Fund	6,332,593	42 days
AIG Matched Funding Corporation Investment Agreement	1,278,094	09/01/20
Bayerische Investment Agreement	825,186	09/01/17
Societe Generale Investment Agreement	2,948,493	09/01/20
Total	$ 160,406,259	

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. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Treasury Investment Pool is not required to be rated, nor has it been rated as of June 30, 2016. The investment in Federated Treasury Obligations has been rated Aaa-mf by Moody's Investor Service as of June 30, 2016. The investment in AIG Matched Funding Corporation Investment Agreement has been rated BaaI by Moody's Investor Service as of June 30, 2016. The investment in Bayerische Investment Agreement has been rated Aaa by Moody's Investor Service as of June 30, 2016. The investment in Societe Generale Investment Agreement has been rated A-2 by Moody's Investor Service as of June 30, 2016.

Concentration of Credit Risk

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

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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. 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 of $4,774,317 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in AIG Matching Funding Corporation Investment Agreement of $1,278,094, Bayerische Investment Agreement of $825,186, and Societe Generale Investment Agreement of $2,948,493, the District has a custodial credit risk exposure of $5,051,777 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, 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 in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

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, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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 reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized **-** Investments in the 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 are as follows at June 30, 2016:

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs	Uncategorized
Orange County Treasury Investment Pool	$ 149,021,893	$ -	$ 149,021,893
Federated Treasury Obligations Fund	6,332,593	6,332,593	-
AIG Matched Funding Corporation Investment Agreement	1,278,094	1,278,094	-
Bayerische Investment Agreement	825,186	825,186	-
Societe Generale Investment Agreement	2,948,493	2,948,493	-
Total	$ 160,406,259	$ 11,384,366	$ 149,021,893

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Internal Servcie Fund	Total Governmental Activities
Federal Government						
Categorical aid	$ 3,109,724	$ -	$ -	$ 463,222	$ -	$ 3,572,946
State Government						
LCFF principal apportionment	4,580,459	-	-	-	-	4,580,459
Categorical aid	605,601	-	-	15,885	-	621,486
Lottery	3,215,830	-	-	-	-	3,215,830
Special education	630,800	-	-	175,554	-	806,354
Local Government						
Interest	54,166	13,912	-	17,349	8,784	94,211
Regional occupational program (ROP)	510,488	-	-	-	-	510,488
Other Local Sources	1,088,637	290,695	13,860,320	157,448	362,526	15,759,626
Total	$ 13,795,705	$ 304,607	$ 13,860,320	$ 829,458	$ 371,310	$ 29,161,400

	Enterprise Fund Community Services Fund	Fiduciary Funds
Federal Government		
Categorical aid	$ -	$ -
State Government		
LCFF principal apportionment	-	-
Categorical aid	-	-
Lottery	-	-
Special education	-	-
Local Government		
Interest	-	-
Regional occupational program (ROP)	-	-
Other Local Sources	322,963	30,149
Total	$ 322,963	$ 30,149

The $13,860,320 included above in the Debt Service Fund for Blended Component Units will be paid to the public financing authority bonds (PFA) from special taxes on parcels of taxable property within the CFD used to pay the principal and interest on the bonds. The payments will continue through the life of the refinanced bonds.

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 39,487,653	$ -	$ -	$ 39,487,653
Construction in progress	19,198,631	4,327,730	1,032,824	22,493,537
Total Capital Assets Not Being Depreciated	58,686,284	4,327,730	1,032,824	61,981,190
Capital Assets Being Depreciated:				
Land improvements	56,762,750	1,035,645	-	57,798,395
Buildings and improvements	430,732,712	4,444,000	284,116	434,892,596
Furniture and equipment	26,173,414	4,304,024	950,620	29,526,818
Total Capital Assets Being Depreciated	513,668,876	9,783,669	1,234,736	522,217,809
Total Capital Assets	572,355,160	14,111,399	2,267,560	584,198,999
Less Accumulated Depreciation:				
Land improvements	22,868,800	2,486,657	-	25,355,457
Buildings and improvements	164,223,288	13,015,705	214,683	177,024,310
Furniture and equipment	19,427,659	1,273,701	933,061	19,768,299
Total Accumulated Depreciation	206,519,747	16,776,063	1,147,744	222,148,066
Governmental Activities Capital Assets, Net	$ 365,835,413	$ (2,664,664)	$ 1,119,816	$ 362,050,933
Business-Type Activities				
Capital Assets Being Depreciated:				
Buildings and improvements	$ 500,000	$ -	$ -	$ 500,000
Furniture and equipment	65,479	26,946	17,800	74,625
Total Capital Assets Being Depreciated	565,479	26,946	17,800	574,625
Less Accumulated Depreciation:				
Buildings and improvements	428,431	25,287	-	453,718
Furniture and equipment	51,049	1,992	17,800	35,241
Total Accumulated Depreciation	479,480	27,279	17,800	488,959
Business-Type Activities Capital Assets, Net	$ 85,999	$ (333)	$ -	$ 85,666

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

Governmental Activities	
Unallocated	$ 16,776,063
Business-Type Activities	
Enterprise	$ 27,279

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds, the non-major enterprise fund, and the internal service fund are as follows:

	Due From					
Due To	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Enterprise Fund Community Services Fund	Internal Service Fund	Total
General Fund	$ -	$ -	$ 954,700	$ 53,776	$ -	$ 1,008,476
Non-Major Governmental Funds	759,665	2,900,000	-	-	-	3,659,665
Enterprise Fund Community Services Fund	1,168	-	-	-	2,175	3,343
Internal Service Fund	70,189	-	13,791	5,603	-	89,583
Total	$ 831,022	$ 2,900,000	$ 968,491	$ 59,379	$ 2,175	$ 4,761,067

A balance of $674,344 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of $280,144 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

The balance of $53,776 due to the General Fund from the Community Services Enterprise Fund resulted from indirect costs paid.

A balance of $520,609 due to the Special Reserve Capital Projects Non-Major Governmental Fund from the General Fund resulted from reclassification of revenue for redevelopment funds.

The balance of $70,189 due to the Internal Service Fund from the General Fund resulted from insurance premiums for health and welfare.

The balance of $2,900,000 due to the Special Reserve Capital Outlay Projects Non-Major Governmental Fund from the Capital Facilities Fund resulted from an agreement with developer for funding of school repairs.

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	$ 3,511,608	$ -	$ 43,114	$ -	$ 3,554,722
Salaries and benefits	10,223,801	-	1,203,007	27,400	11,454,208
Books and supplies	-	-	-	-	-
Construction	50,888	-	2,032,120	-	2,083,008
Services and other operating payables	2,112,706	4,355	617,236	1,280,628	4,014,925
Total	$ 15,899,003	$ 4,355	$ 3,895,477	$ 1,308,028	$ 21,106,863

	Enterprise Fund Community Services Fund	Fiduciary Funds
Vendor payables	$ 7,908	$ -
Salaries and benefits	246,017	-
Books and supplies	-	-
Construction	-	-
Services and other operating payables	110,435	345,542
Total	$ 364,360	$ 345,542

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Fund Community Services Fund	Fiduciary Funds
State categorical aid	$ 10,097	$ -	$ -	$ 10,097	$ -	$ -
Other local	71,523	886,166	81,083	1,038,772	473,823	64,391
Total	$ 81,620	$ 886,166	$ 81,083	$ 1,048,869	$ 473,823	$ 64,391

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	$ 122,240,000	$ -	$ 4,970,000	$ 117,270,000	$ 5,305,000
Premium on issuance	13,876,593	-	988,375	12,888,218	-
Public Financing Authority Bonds	22,839,279	546,435	4,590,000	18,795,714	4,395,000
Compensated absences	2,000,366	21,933	-	2,022,299	-
Other postemployment benefits (OPEB)	18,658,163	8,949,644	5,350,909	22,256,898	-
Claims liability	11,318,061	26,524,159	26,187,961	11,654,259	1,784,174
	$ 190,932,462	$ 36,042,171	$ 42,087,245	$ 184,887,388	$ 11,484,174

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the public financing authority bonds are made in the Debt Service Fund for Blended Component Units. The accrued vacation will be paid by the fund for which the employees worked. Other postemployment benefits are generally paid by the General Fund. The claims liability is paid from the Internal Service Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Redeemed	Bonds Outstanding June 30, 2016
01/24/07	08/01/30	3.5-5.0%	$ 60,000,000	$ 42,290,000	$ 1,850,000	$ 40,440,000
05/09/13	08/01/29	2.0-5.0%	71,865,000	70,350,000	2,170,000	68,180,000
09/26/13	08/01/29	2.0-5.0%	10,000,000	9,600,000	950,000	8,650,000
				$ 122,240,000	$ 4,970,000	$ 117,270,000

2004 Election General Obligation Bonds, Series 2007A

On January 24, 2007, the District issued the $60,000,000 2004 Election General Obligation Bonds, Series 2007A. The 2007 Series A were issued as current interest bonds, and have a final maturity to occur on August 1, 2030. Interest yields on the bonds range from of 3.50 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. At June 30, 2016, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2007A was $40,440,000. Unamortized premium received on issuance of the bonds amounted to $1,156,532 as of June 30, 2016.

2011 General Obligation Refunding Bonds

On May 9, 2013, the District issued the $71,865,000 2011 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest yields on the bonds range from of 2.00 to 5.00 percent. The net proceeds of $84,632,985 (representing the principal amount of $71,865,000 plus premium on issuance of $13,296,488 minus cost of issuance of $528,503) from the issuance were used to advance refund a portion of the District's 2004 Election General Obligation Bonds, Series 2004A, with the final prepayment to occurring August 1, 2013

At June 30, 2016, the principal balance outstanding of the 2011 General Obligation Refunding Bonds was $68,180,000. Unamortized premium received on issuance of the bonds amounted to $10,803,397 as of June 30, 2016.

2004 Election General Obligation Bonds, Series 2013A

On September 26, 2013, the District issued the $10,000,000 2004 Election General Obligation Bonds, Series 2013A. The 2013 Series A were issued current interest bonds, and have a final maturity to occur on August 1, 2029. Interest yields on the bonds range from of 2.00 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. At June 30, 2016, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2013A was $8,650,000. Unamortized premium received on issuance of the bonds amounted to $928,289 as of June 30, 2016.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Current Interest	Total
2017	$ 5,305,000	$ 5,430,631	$ 10,735,631
2018	4,835,000	5,258,931	10,093,931
2019	5,240,000	5,061,206	10,301,206
2020	5,720,000	4,820,706	10,540,706
2021	6,230,000	4,559,356	10,789,356
2022-2026	40,270,000	17,510,728	57,780,728
2027-2031	49,670,000	5,458,175	55,128,175
Total	$ 117,270,000	$ 48,099,733	$ 165,369,733

Public Financing Authority Bonds

The Public Financing Authority (PFA) was created to obtain economies of scale by refinancing the Community Facilities Districts (CFD) debt. PFA 95 refinanced the debt for CFD 88-2, 89-1, and 89-4. PFA 96 refinanced the debt for CFD 88-1, 89-2 and 89-3. PFA 98 refinanced the debt for CFD 88-1, 89-2, 89-3 and 89-4.

The outstanding debt incurred through bonds issued in connection with the PFA at June 30, 2016, is as follows:

Issue Reference	Original Issue	PFAs Outstanding July 1, 2015	Accreted	Redeemed	PFAs Outstanding June 30, 2016
PFA 95	$ 16,265,000	$ 2,610,000	$ -	$ 975,000	$ 1,635,000
PFA 96	29,484,918	14,039,279	546,435	2,375,000	12,210,714
PFA 98	13,705,000	6,190,000	-	1,240,000	4,950,000
		$ 22,839,279	$ 546,435	$ 4,590,000	$ 18,795,714

The annual requirements to amortize the bonds issued in connection with the PFA outstanding as of June 30, 2016, are as follows:

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Interest	Total
2017	$ 4,395,000	$ -	$ 357,185	$ 4,752,185
2018	4,142,369	232,631	191,590	4,566,590
2019	3,440,748	384,252	127,418	3,952,418
2020	3,417,891	537,109	78,850	4,033,850
2021	3,399,706	685,294	-	4,085,000
Total	$ 18,795,714	$ 1,839,286	$ 755,043	$ 21,390,043

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2016, amounted to $2,022,299.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was $9,305,152, and contributions made by the District during the year were $5,350,909. Interest on the net OPEB obligation and adjustments to the annual required contribution were $839,617 and $(1,195,125), respectively, which resulted in an increase to the net OPEB obligation of $3,598,735. As of June 30, 2016, the net OPEB obligation was $22,256,898. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable 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 workers' compensation, and health and welfare claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2016, amount to $11,654,259, using a discount factor of 1.5 percent.

NOTE 10 – NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $13,555,320 as of June 30, 2016, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 11 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Unit	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 120,000	$ -	$ -	$ -	$ 120,000
Prepaid expenditures	307,217	-	-	21,811	329,028
Stores inventories	315,203	-	-	33,159	348,362
Total Nonspendable	742,420	-	-	54,970	797,390
Restricted					
Legally restricted programs	6,104,467	-	-	643,772	6,748,239
Cafeteria program	-	-	-	352,005	352,005
Capital projects	-	20,163,495	-	3,355,058	23,518,553
Debt services	-	-	18,022,942	8,212,737	26,235,679
Total Restricted	6,104,467	20,163,495	18,022,942	12,563,572	56,854,476
Committed					
Capital projects	-	-	-	296,669	296,669
Assigned					
Adult education program	-	-	-	309,245	309,245
Child development	-	-	-	2,357,827	2,357,827
Deferred maintenance	126,207	-	-	-	126,207
Capital projects	-	-	-	9,857,342	9,857,342
Other program balances	8,332,626	-	-	-	8,332,626
Total Assigned	8,458,833	-	-	12,524,414	20,983,247
Unassigned					
Reserve for economic uncertainties	13,692,028	-	-	-	13,692,028
Remaining unassigned	43,065,994	-	-	-	43,065,994
Total Unassigned	56,758,022	-	-	-	56,758,022
Total	$ 72,063,742	$ 20,163,495	$ 18,022,942	$ 25,439,625	$ 135,689,804

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Saddleback Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 295 retirees and beneficiaries currently receiving benefits and 1,894 active plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (SVEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed $5,350,909 to the Plan, all of which was used for current premiums (approximately 100 percent of total premiums).

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 obligation to the Plan:

Annual required contribution	$ 9,305,152
Interest on net OPEB obligation	839,617
Adjustment to annual required contribution	(1,195,125)
Annual OPEB cost (expense)	8,949,644
Contributions made	(5,350,909)
Increase in net OPEB obligation	3,598,735
Net OPEB obligation, beginning of year	18,658,163
Net OPEB obligation, end of year	$ 22,256,898

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$ 7,154,409	$ 4,336,416	61%	$ 16,256,124
2015	7,086,738	4,684,699	66%	18,658,163
2016	8,949,644	5,350,909	60%	22,256,898

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
September 1, 2015	$ -	$ 80,016,636	$ 80,016,636	0%	$ 158,493,391	50%

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 the 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.

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.

In the September 1, 2015, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial ten percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 22 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a $1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to $5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 16 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2014 to June 30, 2016:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2014	$ 2,367,186	$ 8,450,000	$ -	$ 10,817,186
Claims and changes in estimates	21,237,997	3,123,820	1,267,044	25,628,861
Claims payments	(21,532,122)	(2,328,820)	(1,267,044)	(25,127,986)
Liability Balance, June 30, 2015	2,073,061	9,245,000	-	11,318,061
Claims and changes in estimates	23,396,676	1,784,174	1,343,309	26,524,159
Claims payments	(23,060,478)	(1,784,174)	(1,343,309)	(26,187,961)
Liability Balance, June 30, 2016	$ 2,409,259	$ 9,245,000	$ -	$ 11,654,259
Assets available to pay claims at June 30, 2016	$ 14,118,259	$ 14,790,642	$ 309,900	$ 29,218,801

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 179,014,809	$ 36,355,928	$ 31,688,684	$ 15,299,970
CalPERS	44,925,240	15,519,054	12,660,075	4,014,907
Total	$ 223,940,049	$ 51,874,982	$ 44,348,759	$ 19,314,877

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

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

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $12,692,739.

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:

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	179,014,809
State's proportionate share of the net pension liability associated with the District		94,679,100
Total	$	273,693,909

The net pension liability was measured as of 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 and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.2659 percent and 0.2506 percent, resulting in a net increase in the proportionate share of 0.0153 percent.

For the year ended June 30, 2016, the District recognized pension expense of $15,299,970. In addition, the District recognized pension expense and revenue of $7,325,525 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:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Pension contributions subsequent to measurement date	$	12,692,739	$	-
Net change in proportionate share of net pension liability		9,558,500		-
Difference between projected and actual earnings on pension plan investments		14,104,689		28,697,304
Differences between expected and actual experience in the measurement of the total pension liability		-		2,991,380
Total	$	36,355,928	$	31,688,684

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (6,039,596)
2018	(6,039,596)
2019	(6,039,596)
2020	3,526,173
Total	$ (14,592,615)

The deferred outflows/ (inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ 1,094,520
2018	1,094,520
2019	1,094,520
2020	1,094,520
2021	1,094,520
Thereafter	1,094,520
Total	$ 6,567,120

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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 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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the 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 is based on Teachers' Retirement Board of the California State Teachers' Retirement System (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:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
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%

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 the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 270,298,428
Current discount rate (7.60%)	179,014,809
1% increase (8.60%)	103,150,756

<u>California Public Employees Retirement System (CalPERS)</u>

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were $4,215,832.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $44,925,240. The net pension liability was measured as of 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. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.3048 percent and 0.2928 percent, resulting in a net increase in the proportionate share of 0.0120 percent.

For the year ended June 30, 2016, the District recognized pension expense of $4,014,907. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,215,832	$ -
Net change in proportionate share of net pension liability	1,357,187	982,972
Difference between projected and actual earnings on pension plan investments	7,378,492	8,916,771
Differences between expected and actual experience in the measurement of the total pension liability	2,567,543	-
Changes of assumptions	-	2,760,332
Total	$ 15,519,054	$ 12,660,075

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (1,127,634)
2018	(1,127,634)
2019	(1,127,634)
2020	1,844,623
Total	$ (1,538,279)

The deferred outflows/ (inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement periods is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (89,971)
2018	(89,969)
2019	361,366
Total	$ 181,426

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 73,119,570
Current discount rate (7.65%)	44,925,240
1% increase (8.65%)	21,479,770

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $7,999,376 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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.

Litigation

The District is involved in various litigations 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.

Construction Commitments

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

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
District Office - Remodeling Project	$ 566,749	12/31/16
Mission Viejo High School - Field Renovations	192,375	12/31/16
Cielo Vista Elementary School - Modernization	131,056	03/01/17
Trabuco Hills High School - Modernization	49,749	03/01/17
Trabuco Mesa Elementary School - Asphalt Modernization	177,305	03/01/17
Trabuco Hills High School - Track and Field Replacement	244,308	04/01/17
Energy Conservation	2,961,065	10/01/17
Energy Management System Upgrade	142,230	09/01/18
	$ 4,464,837	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage. The District participates in the Coastline Regional Occupational Program (CROP) for the occupational training for high school students and adults residing within the District boundaries. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2016, the District made payments of $1,815,774 and $101,532 to ASCIP and SELF, respectively, for property and liability coverage, and excess liability workers' compensation coverage.

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES

The District restated its beginning balance for net pension liability and related items to more accurately reflect the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the enterprise fund. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position - Governmental Activities

Net Position - Beginning	$ 112,738,749
Inclusion of net pension liability from the adoption of GASB Statement No. 68	848,458
Inclusion of deferred inflows of resources from the adoption of GASB Statement No. 68	305,306
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	(91,558)
Net Position - Beginning as Restated	$ 113,800,955

Statement of Net Position - Business-Type Activities and Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds

Net Position - Beginning	$ 366,445
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(848,458)
Inclusion of deferred inflows of resources from the adoption of GASB Statement No. 68	(305,306)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	91,558
Net Position - Beginning as Restated	$ (695,761)

NOTE 18 - SUBSEQUENT EVENTS

On August 2, 2016, the District issued the 2016 General Obligation Refunding Bonds and General Obligation Bonds, Election of 2004, Series 2016A, in the amount of $33,140,000 and $10,000,000, respectively. The 2016 General Obligation Refunding Bonds were issued for the purpose of refunding on an advance basis, a portion of the District's outstanding General Obligation Bonds, Election of 2004, Series 2007A. The General Obligation Bonds, Election of 2004, Series 2016A were issued to finance the repair, upgrading, acquisition, construction and equipping of District sites and facilities. The bonds have a final maturity date to occur on August 1, 2030 with interest yields ranging between 2.00 to 4.00 percent.

REQUIRED SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 220,585,372	$ 220,337,457	$ 221,978,717	$ 1,641,260
Federal sources	9,710,875	10,698,305	10,604,832	(93,473)
Other State sources	41,415,021	51,718,214	50,649,826	(1,068,388)
Other local sources	2,787,021	4,541,939	4,951,054	409,115
Total Revenues [1]	274,498,289	287,295,915	288,184,429	888,514
EXPENDITURES				
Current				
Certificated salaries	122,450,023	124,566,898	125,048,258	(481,360)
Classified salaries	34,466,519	35,933,223	35,025,607	907,616
Employee benefits	59,889,543	68,751,104	67,503,756	1,247,348
Books and supplies	10,834,884	12,092,560	11,629,954	462,606
Services and operating expenditures	28,397,714	24,003,543	22,852,017	1,151,526
Other outgo	6,115,128	8,822,509	5,953,223	2,869,286
Capital outlay	6,093,226	5,914,902	7,204,714	(1,289,812)
Total Expenditures [1]	268,247,037	280,084,739	275,217,529	4,867,210
NET CHANGE IN FUND BALANCES	6,251,252	7,211,176	12,966,900	5,755,724
Fund Balances - Beginning	59,096,842	59,096,842	59,096,842	-
Fund Balances - Ending	$ 65,348,094	$ 66,308,018	$ 72,063,742	$ 5,755,724

[1] On behalf payments of $7,999,376 are included in the final budget and actual revenues and expenditures, but have not been included in the original budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, however is not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
May 1, 2011	$ -	$ 69,499,969	$ 69,499,969	0%	$ 141,776,020	49%
June 1, 2013	-	61,231,696	61,231,696	0%	156,340,484	39%
September 1, 2015	-	80,016,636	80,016,636	0%	158,493,391	50%

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.2659%	0.2506%
District's proportionate share of the net pension liability	$ 179,014,809	$ 146,436,112
State's proportionate share of the net pension liability associated with the District	94,679,100	88,424,447
Total	$ 273,693,909	$ 234,860,559
District's covered - employee payroll	$ 121,024,291	$ 112,077,239
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	147.92%	130.66%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.3048%	0.2928%
District's proportionate share of the net pension liability	$ 44,925,240	$ 33,241,819
District's covered - employee payroll	$ 32,888,913	$ 30,426,737
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	136.60%	109.25%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
Contractually required contribution	$ 12,692,739	$ 10,746,957
Contributions in relation to the contractually required contribution	(12,692,739)	(10,746,957)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 118,292,069	$ 121,024,291
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 4,215,832	$ 3,871,354
Contributions in relation to the contractually required contribution	(4,215,832)	(3,871,354)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 35,585,650	$ 32,888,913
Contributions as a percentage of covered - employee payroll	11.847%	11.771%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either, CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected	84.010	14329	$ 2,328,690
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	15,262
Title II, Part A - Improving Teacher Quality	84.367	14341	800,966
Title III, Immigrant and Limited English Proficiency Program Cluster:			
Title III, Immigrant Education Program	84.365	14346	29,094
Title III, Limited English Proficiency	84.365	10084	296,510
Total Title III, Immigrant and Limited English Proficiency Program Cluster			325,604
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	4,737,657
Local Assistance Private Schools ISP	84.027	10115	49,624
Federal Preschool	84.173	13430	132,297
Preschool Local Entitlement	84.027A	13682	282,490
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	321,548
Preschool Staff Development	84.173A	13431	3,795
Quality Assurance and Focused Monitoring, Part B, Section 611	84.027	13693	47,124
Subtotal Special Education (IDEA) Cluster			5,574,535
Passed through Saddleback Valley Unified School District to Laguna Beach Unified School District:			
Local Assistance	84.027	13379	411,706
Federal Preschool	84.173	13430	11,722
Preschool Local Entitlement	84.027A	13682	25,031
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	28,475
Preschool Staff Development	84.173A	13431	135
Subtotal Special Education (IDEA) Cluster			477,069
Early Intervention Grants	84.181	23761	30,148
Carl D. Perkins Vocational and Technical Education Act Secondary Education	84.048	14894	185,068
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	612,006
Total U.S. Department of Education			10,349,348

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	$ 2,770,254
Especially Needy Breakfast Program	10.553	13390	575,521
Basic Breakfast Program	10.553	13390	24,211
Commodities	10.555	13389	476,732
Total U.S. Department of Agriculture			3,846,718
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medical Assistance Program			
Medi-Cal Billing Option	93.778	10013	382,675
Medical Administrative Activities	93.778	10060	142,082
Total U.S. Department of Health and Human Services			524,757
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant - Child Care, City of Lake Forest	14.218	[1]	3,544
Community Development Block Grant - Child Care, City of Mission Viejo	14.218	[1]	1,942
Total U.S. Department of Housing and Urban Development			5,486
Total Expenditures of Federal Awards			$ 14,726,309

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

The Saddleback Valley Unified School District was organized in July 1, 1973, and consists of an area comprising approximately 93 square miles. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ginny Fay Aitkens	President	2016
Dolores Winchell	Vice President	2018
Dennis Walsh	Clerk	2018
Amanda Morrell	Member	2016
Susie R. Swartz	Member	2016

ADMINISTRATION

Clint Harwick, Ed.D.	Superintendent
Geri Partida	Assistant Superintendent, Business Services
Laura Ott	Assistant Superintendent, Educational Services
Terry Stanfill	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,088.59	7,095.53
Fourth through sixth	5,799.53	5,799.17
Seventh and eighth	4,293.83	4,289.86
Ninth through twelfth	9,368.05	9,317.79
Total Regular ADA	26,550.00	26,502.35
Extended Year Special Education		
Transitional kindergarten through third	21.03	21.03
Fourth through sixth	10.66	10.66
Seventh and eighth	4.19	4.19
Ninth through twelfth	11.30	11.30
Total Extended Year Special Education	47.18	47.18
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	6.05	6.21
Fourth through sixth	3.97	3.92
Seventh and eighth	6.38	6.36
Ninth through twelfth	9.01	9.57
Total Special Education, Nonpublic, Nonsectarian Schools	25.41	26.06
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.41	0.41
Fourth through sixth	0.87	0.87
Seventh and eighth	0.76	0.76
Ninth through twelfth	1.95	1.95
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.99	3.99
Total ADA	26,626.58	26,579.58
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	614.60	614.71
Fourth through sixth	389.87	389.58
Total Regular ADA	1,004.47	1,004.29
Classroom Based ADA		
Transitional kindergarten through third	614.60	614.71
Fourth through sixth	389.87	389.58
Total Classroom Based ADA	1,004.47	1,004.29

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,400	180	-	Complied
Grade 2		50,400	180	-	Complied
Grade 3		50,400	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,000	180	-	Complied
Grade 5		54,000	180	-	Complied
Grade 6		54,000	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		59,282	180	-	Complied
Grade 8		59,282	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		69,950	180	-	Complied
Grade 10		69,950	180	-	Complied
Grade 11		69,950	180	-	Complied
Grade 12		69,950	180	-	Complied

Gates Charter School

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,569	180	-	Complied
Grade 2		50,569	180	-	Complied
Grade 3		50,569	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,169	180	-	Complied
Grade 5		54,169	180	-	Complied
Grade 6		54,169	180	-	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 [1]	2016	2015	2014
GENERAL FUND [4]				
Revenues	$ 276,613,845	$ 286,682,761	$ 252,899,544	$ 241,693,196
Expenditures	282,564,419	273,841,975	260,836,173	229,076,923
Other uses and transfers out	-	-	-	586,391
Total Expenditures and Other Uses	282,564,419	273,841,975	260,836,173	229,663,314
INCREASE (DECREASE) IN FUND BALANCE	$ (5,950,574)	$ 12,840,786	$ (7,936,629)	$ 12,029,882
ENDING FUND BALANCE	$ 65,986,961	$ 71,937,535	$ 59,096,749	$ 67,033,378
AVAILABLE RESERVES [2]	$ 51,625,198	$ 56,758,022	$ 51,809,561	$ 57,580,267
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	18.27%	20.73%	20.36%	25.76%
LONG-TERM OBLIGATIONS	N/A	$ 184,887,388	$ 190,932,462	$ 205,966,550
K-12 AVERAGE DAILY ATTENDANCE AT P-2	26,932	27,631	28,046	28,719

The General Fund balance has increased by $4,904,157 over the past two years. The fiscal year 2016-2017 budget projects a decrease of $5,950,574 (8.3 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have decreased by $21,079,162 over the past two years.

Average daily attendance has decreased by 1,088 over the past two years. An additional decline of 699 ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

[3] On behalf payments of $6,321,937 and $6,186,79 have been excluded from the calculation of available reserves for the fiscal years ending June 30 2015 and June 30, 2014.

[4] General Fund amounts do not include activity related to the consolidation of the Fund 14, the Deferred Maintenance Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016

Name of Charter School	Included in Audit Report
Gates Charter School (0157)	Yes

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
ASSETS					
Deposits and investments	$ -	$ 999,063	$ 4,338,610	$ 823,806	$ 3,761,282
Receivables	428,579	1,640	157,786	227,039	2,421
Due from other funds	155,931	1,664	610	80,851	-
Prepaid expenses	-	-	15,267	583	5,961
Stores inventories	-	-	-	33,159	-
Total Assets	$ 584,510	$ 1,002,367	$ 4,512,273	$ 1,165,438	$ 3,769,664
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 584,510	$ 41,579	$ 720,486	$ 351,648	$ 647,801
Due to other funds	-	701	683,148	284,492	150
Unearned revenue	-	7,070	735,545	143,551	-
Total Liabilities	584,510	49,350	2,139,179	779,691	647,951
Fund Balances:					
Nonspendable	-	-	15,267	33,742	5,961
Restricted	-	643,772	-	352,005	3,115,752
Committed	-	-	-	-	-
Assigned	-	309,245	2,357,827	-	-
Total Fund Balances	-	953,017	2,373,094	385,747	3,121,713
Total Liabilities and Fund Balances	$ 584,510	$ 1,002,367	$ 4,512,273	$ 1,165,438	$ 3,769,664

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 239,161	$ 7,832,619	$ 438,388	$ 8,212,737	$ 26,645,666
149	5,002	6,842	-	829,458
-	3,420,609	-	-	3,659,665
-	-	-	-	21,811
-	-	-	-	33,159
$ 239,310	$ 11,258,230	$ 445,230	$ 8,212,737	$ 31,189,759
$ 4	$ 1,400,888	$ 148,561	$ -	$ 3,895,477
-	-	-	-	968,491
-	-	-	-	886,166
4	1,400,888	148,561	-	5,750,134
-	-	-	-	54,970
239,306	-	-	8,212,737	12,563,572
-	-	296,669	-	296,669
-	9,857,342	-	-	12,524,414
239,306	9,857,342	296,669	8,212,737	25,439,625
$ 239,310	$ 11,258,230	$ 445,230	$ 8,212,737	$ 31,189,759

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
REVENUES					
Local Control Funding Formula	$ -	$ 500,000	$ -	$ -	$ -
Federal sources	477,069	-	5,486	3,846,718	-
Other State sources	1,719,881	926,962	4,494	258,005	-
Other local sources	-	89,694	9,408,878	2,155,991	34,003
Total Revenues	2,196,950	1,516,656	9,418,858	6,260,714	34,003
EXPENDITURES					
Current					
Instruction	-	238,256	-	-	-
Instruction-related activities:					
Supervision of instruction	-	4,353	-	-	-
School site administration	-	280,320	-	-	-
Pupil services:					
Food services	-	-	-	6,046,147	-
All other pupil services	-	80,689	-	-	-
Administration:					
All other administration	-	-	-	211,465	-
Plant services	-	5,237	23,537	24,953	-
Facility acquisition and construction	-	-	590,743	-	2,475,071
Community services	-	-	8,903,992	-	-
Other outgo	2,196,950	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	2,196,950	608,855	9,518,272	6,282,565	2,475,071
NET CHANGE IN FUND BALANCES	-	907,801	(99,414)	(21,851)	(2,441,068)
Fund Balances - Beginning	-	45,216	2,472,508	407,598	5,562,781
Fund Balances - Ending	$ -	$ 953,017	$ 2,373,094	$ 385,747	$ 3,121,713

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ 500,000
-	-	-	-	4,329,273
-	-	-	91,527	3,000,869
3,338	5,100,430	103,995	10,714,604	27,610,933
3,338	5,100,430	103,995	10,806,131	35,441,075
-	-	-	-	238,256
-	-	-	-	4,353
-	-	-	-	280,320
-	-	-	-	6,046,147
-	-	-	-	80,689
-	-	-	-	211,465
-	5,516	-	-	59,243
7,538	3,169,923	183,805	-	6,427,080
-	-	-	-	8,903,992
-	-	-	-	2,196,950
-	-	-	4,970,000	4,970,000
166	-	-	5,603,606	5,603,772
7,704	3,175,439	183,805	10,573,606	35,022,267
(4,366)	1,924,991	(79,810)	232,525	418,808
243,672	7,932,351	376,479	7,980,212	25,020,817
$ 239,306	$ 9,857,342	$ 296,669	$ 8,212,737	$ 25,439,625

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 District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that have been recorded in the current period that has not been expended as of June 30, 2016. These unspent balances are reported as legally restricted balances in the General Fund.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 14,934,105
Medi-Cal Billing Option	93.778	(207,796)
Total Schedule of Expenditures of Federal Awards		$ 14,726,309

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.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of 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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S 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*

Governing Board
Saddleback Valley Unified School District
Mission Viejo, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Saddleback Valley Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2016.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District restated its beginning balance for net pension liability to more accurately reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for its enterprise fund. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Saddleback Valley 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 Saddleback Valley Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Saddleback Valley 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 District'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.

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

We noted certain matters that we reported to management of Saddleback Valley Unified School District in a separate letter dated December 2, 2016.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 2, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

We have audited Saddleback Valley Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Saddleback Valley Unified School District's major Federal programs for the year ended June 30, 2016. Saddleback Valley 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 the 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 Saddleback Valley 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 Saddleback Valley 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 for each major Federal program. However, our audit does not provide a legal determination of Saddleback Valley Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Saddleback Valley 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 Saddleback Valley 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 Saddleback Valley 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 Saddleback Valley 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 2, 2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on State Compliance

We have audited Saddleback Valley Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Saddleback Valley Unified School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Saddleback Valley Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Saddleback Valley 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 opinions. Our audit does not provide a legal determination of Saddleback Valley Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Saddleback Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

We did not perform any related procedures for the Independent Study because ADA for the program was below the materiality threshold required for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have Middle or Early College High Schools; therefore, we did not perform any procedures related to the Middle or Early College High Schools.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study – Course Based Program; therefore, we did not perform any procedures related to the Independent Study – Course Based Program.

The District does not offer these programs applicable to its Charter School; therefore, we did not perform any procedures for the programs noted above.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 2, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None Reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, 84.173A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

In planning and performing our audit of the financial statements of Saddleback Valley Unified School District (the District), for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 2, 2016 on the government-wide financial statements of the District.

FIXED ASSETS

Observation

Financial Statements prepared in accordance with GASB Statements 34 must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress." While the District does have an adequate method of tracking and monitoring its capital assets activities, reconciliation between the items scanned at various locations and the items reported in the fixed asset module is not performed. The District's capital assets reported on the government-wide statements can easily be subject to misstatements.

Recommendation

We recommend the District enforce the current inventory policy requiring personnel to perform a fixed asset inventory and reconcile the items with the reported assets in the fixed asset module.

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ASSOCIATED STUDENT BODY (ASB)

Serrano Intermediate School

Observations

During our testing of ASB funds, we noted the following exceptions:

1. The ASB is not consistent in receiving deposit slips from clubs or supporting documentation. In addition, the ASB currently enters deposit information into the accounting system on a date following the deposit.

2. Purchase request forms were not present, thus indicating no prior approvals for the disbursements. Also, proof of items being received is not evident due to a lack of signature and date on the corresponding invoice.

Recommendations

1. Depending on the level of activity, clubs should use a tally sheet or preferably, a receipt book in order to account for monies (as is recommended in FCMAT Chapter 13). The ASB should issue receipts from a receipt book to properly account for all monies being received from the clubs. As a further recommendation, all cash counts should be verified as having been dual counted by the inclusion of dual signatures on the receipts and deposit slip. All deposit information should be entered into the accounting system prior to making the deposit. This is to ensure that all bank deposits are accounted for timely.

2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available. The ASB should maintain proper documentation of expenditures including invoices and receipts. ASB should ensure that all disbursement requests are supported by adequate invoices prior to the checks being issued. This will identify and prevent potential misappropriation of ASB funds.

Trabuco Hills High School

Observations

During our testing over ASB funds, we noted the following exceptions:

1. Pre-numbered receipts are not used for individual club deposits. Thus, we were unable to ensure all monies were deposited timely and in order of receipt and collection for such transactions. We noted four of 61 deposits selected for testing were not deposited in a timely manner. The delay in deposit ranged from approximately nine to 12 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

2. The revenue potential forms did not indicate the approval date. Two of the three fundraiser/revenue potentials tested did not include administrative (principal) approval and/or activities director's approval.

Recommendations

1. The ASB should issue receipts whenever it receives money or checks for any events or sales. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

2. The ASB should ensure all fundraiser requests include the date which it was approved in order to ensure that it was reviewed for allowability and reasonability prior to the event taking place.

Silverado High School

Observations

During our testing over ASB funds, we noted the following exceptions:

1. Receipts are not issued for checks received; therefore, we were unable to verify all checks received were deposited into the bank account. In addition, four of 17 deposits tested were not deposited in a timely manner. The delay in deposit ranged from approximately 14 to 17 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

2. Revenue potential forms are not used to document the fundraising activity.

3. Nine of 12 disbursements tested were not approved prior to the transactions taking place. One of the transactions received approval after the purchase was made and the other eight did not have a purchase request form. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Governing Board
Saddleback Valley Unified School District

Recommendations

1. The ASB should issue receipts whenever it receives money or checks for any events or sales. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

2. All revenue potential forms must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected and actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales receipted to monies deposited.

3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel. This would allow the reviewing administrator to determine if the proposed activities are appropriate and if sufficient funding are available to finance the activities or the purchases.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 2, 2016